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MALI

SELECTED ISSUES

May 9, 2023

Approved By
African Department

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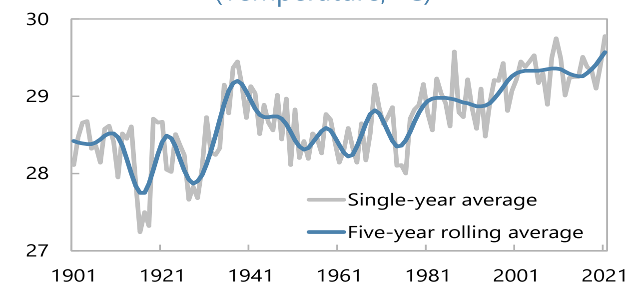
CLIMATE VULNERABILITIES AND FOOD INSECURITY IN MALI[1]

Mali is extremely vulnerable to climate change and the country is already facing acute climate-related challenges from higher temperatures and more frequent extreme weather events. The impact of climate change has also contributed to a rise in food insecurity, with almost a quarter of the population expected to be either facing food insecurity or at risk of doing so by mid-2023. That is already having a hugely damaging effect on Mali's economy and action is needed without delay to avoid a further increase in food insecurity.

A. Current Challenges

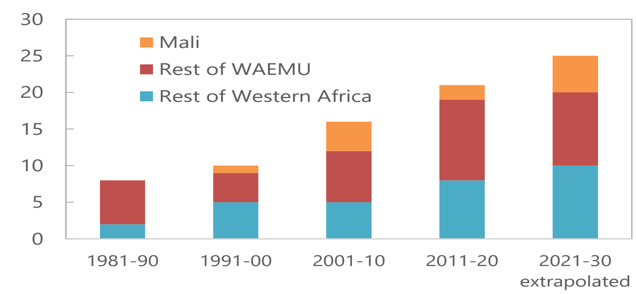
1. **Climate change has already had a profound effect on Mali.** Over recent decades, average temperatures have risen. Whereas the average temperature in Mali was around 28½˚C between 1950 and 1980, between 2000 and 2020 it averaged 29½˚C. 2021 was the hottest year on record at over 29¾˚C (Figure 1). Mali has also suffered from more frequent climate-related natural disasters including droughts and floods, as have other countries across Western Africa (Figure 2).

Figure 1. Average Surface Temperature in Mali
(Temperature, °C)



Source: World Bank Climate Change Knowledge Portal.

Figure 2. Climatological Disasters by Decade
(Number of Climate-related Events)



Source: CRED.

2. **Mali is extremely vulnerable to climate shocks because of its heavy reliance on agriculture.** Food and cotton production constitute around a third of GDP in Mali and almost 80 percent of livelihoods depend on agrarian and pastoralist activities that are highly affected by rainfall variability.

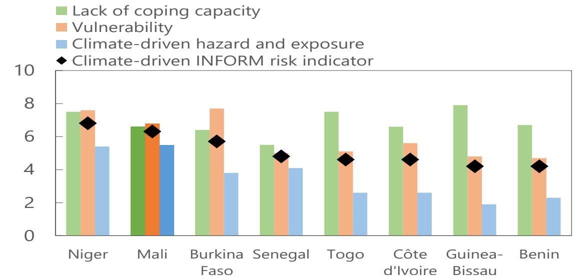
3. **Climate change is already affecting agricultural production in Mali.** Research from across developing countries suggests that a temperature increase of 1˚C is associated with a 3 percentage point reduction in agricultural output (Dell, Jones, and Oklen, 2012). Analysis based on sub-Saharan Africa also shows that monthly economic activity in the region decreases by 1 percentage point if the average temperature is 0.5˚C above the long-run average (IMF, 2020). In Mali, the risk from climate change appears even higher than in other sub-Saharan African countries.

[1] Prepared by Luc Tucker.

Climate change is estimated to reduce agricultural productivity by over 40 percent in Mali, which is one of the highest estimated impacts globally (Ortiz-Bobea and others, 2021). Additional variability in the water supply alongside increased demand would create further stress for the agricultural sector (WRI, 2019). A summary measure of climate-related risk shows that Mali faces one of the highest levels of risk of all the WAEMU countries (Figure 3). The risk assessment reflects the likelihood of challenging weather events such as flooding and droughts as well as human risks such as conflict.

4. As the disruption caused by climate change has been rising in Mali over recent years, food insecurity has also been increasing. The share of the population that is undernourished rose from just over 3 percent in 2017 to almost 10 percent in 2020, the latest year for which data are available (FAO, 2022). This pickup marked a reversal of the previous downward trend and contrasted with the experience of most other countries in the WAEMU. The increase may be linked to the numerous challenges facing Mali as a Fragile and Conflict Affected State (see Country Engagement Strategy for more details). These challenges include widespread local conflicts and insecurity which have hampered humanitarian access leading to increased population displacement and vulnerability (WFP, 2022).

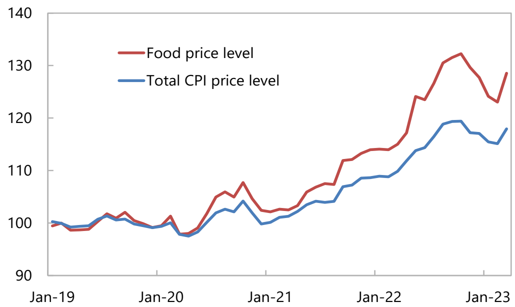
Figure 3. Climate-Related INFORM Risk
(Index Score)



Source: UNDP.

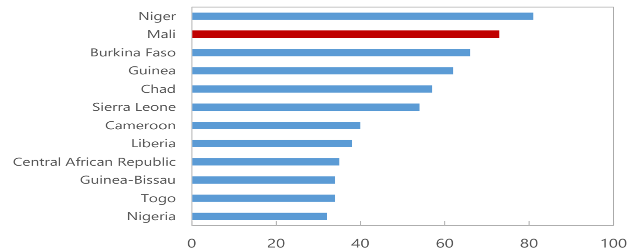
5. Since 2020, the share of the population facing food insecurity has increased further. Mali has also been facing COVID-19-related supply bottlenecks, sanctions restricting food imports, and the war in Ukraine which has severely affected global food supplies. As a result of these combined shocks, food prices in Mali in late 2022 were around 30 percent above their 2019 average (Figure 4). Prices have remained elevated in early 2023. Food items now account for just under 60 percent of consumer spending in Mali and according to the latest data about three quarters of the population have insufficient food consumption (Figure 5). Many of these people are facing a particularly desperate situation. In early 2023, more than 15 percent of the population were estimated to be either facing severe food insecurity (761,000 people) or were at risk of doing so (2.9 million). By mid-2023 that share is projected to rise to 24 percent, with 1.3 million people facing severe food insecurity and a further 4 million people at risk (FSC, 2023).

Figure 4. Price Levels in Mali
(Index Level, 20129= 100)



Source: INSTAT

Figure 5. Prevalence of Insufficient Food Consumption, December 2022 to March 2023
(Share of Population, percent)



Source: WFP

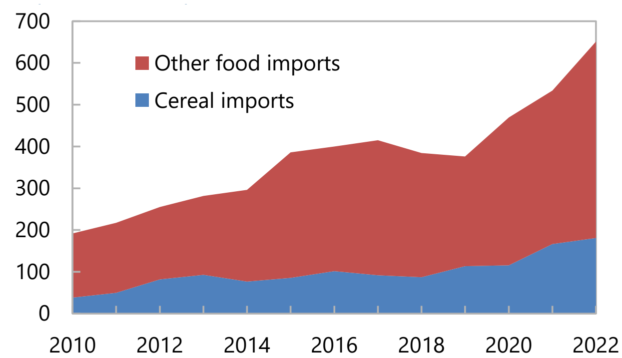
6. **The increasing rate of food insecurity is likely to have long-lasting effects on the population of Mali.** Chronic malnutrition has been shown to cause irreversible cognitive and physical damage (WFP, 2022). For children in particular, reduced food supplies impede development and educational attainment. This could have a particularly outsized effect on Mali, given the age structure of the population, with a median age of 15. Food insecurity can also erode physical capital if households are forced to sell their physical assets in order to buy food. Given the low average incomes in Mali and wider fragility (see Country Engagement Strategy for more details), many households could be forced to sell assets in this way.

7. **In Mali, like other countries in sub-Saharan Africa, the link between climate change and food insecurity is well established.** Analysis based on data from Mali as well as other countries in sub-Sharan Africa shows that food insecurity increases by 5–20 percentage points with each flood or drought (IMF, 2020). A separate model also shows the channels by which that can happen (Baptista and others, 2022). In that model, climate shocks depress agricultural production, such that households are forced to sacrifice productive capital to satisfy their immediate food consumption needs. This further reduces agricultural output. Notwithstanding an increase in food imports, food prices increase in rural and urban areas. Overall, food consumption declines and the number of permanently food insecure households rises, with a long-term scarring effect on growth and productivity.

8. **Climate change is therefore likely to have played some role in the rise in food insecurity since 2018, and the challenges are likely to be even greater going forward.** Regional analysis in Mali shows a significant overlap between the areas affected by insecurity and climate change and those facing food insecurity (IPC, 2023). Political instability, security issues and weak institutions such as in Mali can undermine efforts to build resilience and respond to natural disasters (Navone, 2021). Fiscal space is also limited in Mali and international aid flows have declined significantly. If climate change increases population displacement and aggravates social tensions, that would be expected to further reduce fiscal space, creating a vicious cycle. Rapid population growth will also add to these challenges.

9. The combined effects of climate change and food insecurity have created an urgent balance of payments need related to the global food shock. Mali's food imports have risen rapidly in recent years. The price of imported cereals increased by 5½ percent in 2022, which contributed to an 8 percent rise in total cereal imports. Overall, the value of Mali's total food imports increased by 15 percent in 2022 and were 65 percent higher than in 2019 (Figure 6). Given that food insecurity is already widespread in Mali, higher prices for imported basic necessities create an acute risk of widespread hunger and loss of life.

Figure 6. Food Imports in Mali



Source: INSTAT

B. Reform Priorities

10. Building future resilience to climate change will require effective adaptation strategies in the primary sector. Improving infrastructure for irrigation, as well as providing reliable access to water and electricity, would help to limit the impact of climate-related natural disasters on agricultural production (Selassie, 2021). Investment in seeds, pesticides and fertilizers that are more suited to higher average temperatures or more resilient to extreme weather may also help producers to achieve higher returns. In extreme cases, producers may be encouraged to switch to producing entirely different crops if conditions suggest that it would be beneficial. The switch to climate-smart agriculture would benefit from investment in information technology infrastructure as well as knowledge sharing (CIAT and others, 2020).

11. Climate change is exacerbating already large inequalities in Mali, so it is important to monitor the distributional effects and support those households and businesses most affected. The poor and most vulnerable are especially subject to the adverse impact of climate change. Limited financial buffers, low levels of education and geographic constraints mean that those groups currently have little opportunity to adapt, which increases the likelihood of economic hardship including falls in income and periods of unemployment. Women and girls are particularly exposed because of factors such as restricted social mobility, limited access to resources and constrained participation in decision-making.

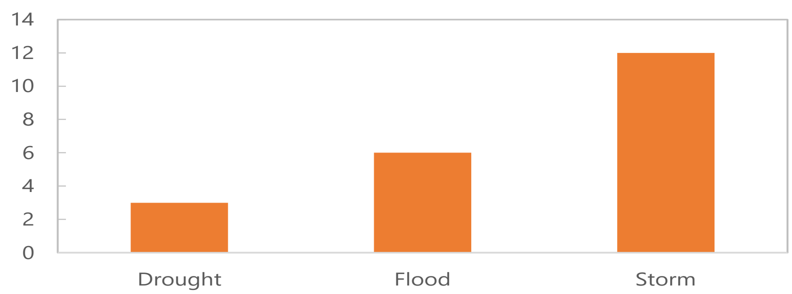
12. Those households most affected by climate change could benefit from targeted support or wider safeguards. Access to social services, health and education could help to reduce the impact of climate-related shocks on the rural population. Insurance mechanisms could also be used to spread risk. This could involve government support in the form of transfers or subsidies in response to climate-related natural disasters. To speed up delivery times, social protection programs can be designed to automatically trigger cash transfer payments as soon as weather shocks materialize.

13. Many of the households most affected by climate change would also benefit from efforts to address food insecurity. Targeted cash transfers could help poor households meet basic nutritional needs. But measures need to be effectively targeted to limit the fiscal impact. The national database of social protection beneficiaries provided by the Unified Social Register (RSU) will help in that regard if it is regularly updated. Reliable payment mechanisms will also be required.

14. It will be important to create sufficient fiscal space to cover the cost of building resilience to climate change. Some forms of adaptation, including improvements to infrastructure, can involve significant up-front costs. These costs can seem prohibitive, particularly given the current pressure on public finances, but research suggests that financing adaptation to climate change, especially through infrastructure spending, is ultimately much more cost effective than providing ex post disaster relief (IMF, 2020).

Figure 7. Post- Disaster Savings Relative to Cost of Building Resilience in Sub-Saharan Africa

(Benefit-to-cost Ratio)



Source: Post-disaster Needs Assessment Centre for Research on the Epidemiology of Disasters, Emergency Events Database; and IMF Staff Calculations.

15. Mali currently faces tighter financing conditions, but there are a number of potential options available for financing climate-related expenditures when conditions allow. Climate financing—for governments, businesses, and households—needs to prioritize climate change adaptation. Funding methods could include: (1) concessional financing, particularly through climate funds; (2) debt instruments that are linked to climate change; (3) international carbon credit schemes; and (4) climate-related insurance schemes (Belianska and others, 2022; IMF, 2023). Combined efforts by the authorities and external lenders could help to increase Mali's access to these types of funding. The accreditation of Mali's climate agency would be an important step in making Mali eligible to receive funds from international partners. Efforts could also be made to lower administration charges where possible and reduce language barriers.

16. Some other countries in sub-Saharan Africa are facing similar issues linked to climate change and food insecurity, so there is scope for mutually beneficial international cooperation. Cross-country insurance programs could help national governments to pool risks and spread the cost of extreme weather events and natural disasters among a larger group. Funding for these schemes could come from bilateral and multilateral donors, as well as financial markets.

Regional trade can also serve as a form of insurance by allowing countries to increase exports in the event of excess harvests or draw in extra imports when food production falls below expectations. This makes it important to avoid protectionist policies or trade embargoes which prevent that. Strengthening international relationships could lead to further donor support and concessional lending linked to climate change and food insecurity.

C. Conclusion

17. With climate change already adding to food insecurity in Mali, there is an urgent need to address these related issues. The country is extremely vulnerable to climate change, and food insecurity is rising. Any further increase in food insecurity has the potential to exacerbate social tensions, with the risk of further conflict. It will also have a lasting adverse impact on economic growth and poverty. There is therefore a pressing need to act without delay. Given the severe climate change and food insecurity challenges faced by Mali, the country stands to benefit more than most from strengthening its international relationships to find mutually beneficial solutions including climate-related funding schemes or cross-country insurance programs.

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FRAGILITY, DEMOGRAPHICS, GENDER INEQUALITY[1]

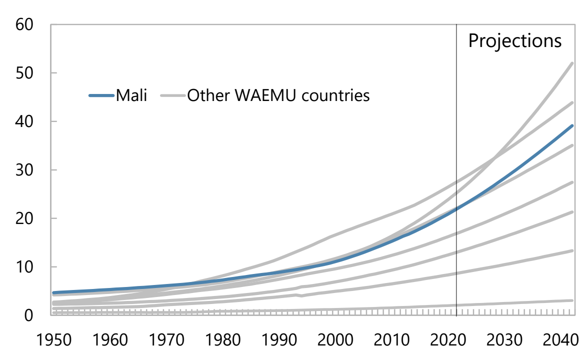
Mali has many characteristics of a fragile and conflict-affected state. Like many other fragile states, Mali has high population growth, which puts pressure on the country's resources, including food supplies. Gender inequality in the country is also high, with women and girls experiencing disadvantages in many aspects of life. These challenges are closely related, so coordinated reforms are required to break the vicious cycle which has left Mali trapped in a state of fragility since 2012.

A. Historical Context and Current Challenges

1. **Mali's classification as a fragile and conflict-affected state (FCS) reflects a number of interrelated factors**. These factors lead to 'structural fragility', which in turn causes persistently weak growth. Widespread food insecurity; low capacity of the state to provide basic services; and a lack of basic infrastructure all act to prevent sustained improvements in living standards. In addition, the political system has been found to be 'fragile to stress', such that the country has been ravaged by frequent bouts of internal and external conflict in recent years. (See the Country Engagement Strategy for a detailed discussion of these different types of fragility.)

2. **Population growth in Mali is among the highest in the world, weighing on already-limited resources.** The fertility rate is estimated at six children per woman on average. Although this fertility rate has been slowly declining since the early 1990s, when it was above 7, it remains extremely high relative to global averages. The population almost doubled from about 10 to 20 million between 2000 and 2020 and is expected to almost double again over the coming 20 years (Figure 1). High population growth leads to pressures on the country's resources, including food supplies. It may also create wider economic pressures if the number of jobs created cannot keep pace with the high population growth. This could lead to a rise in unemployment, force workers to take jobs in the informal sector—already accounting for more than 95 percent of total employment—and increase the risk of social tensions. Changes in the age structure of the population and a rise in the number of people relying on state support for basic needs will increase the dependency ratio and add to pressure on public finances.

Figure 1. Population in Mali and Other WAEMU Countries
(Millions)



Source: UN.

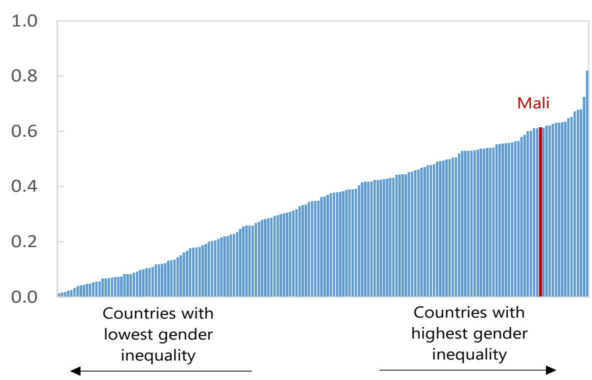
3. **Gender-based inequality in Mali is also extremely high.** Mali is ranked 155th out of the 170 countries included in the 2021 UNDP Gender Inequality Index (Figure 2). Women and girls in

[1] Prepared by Luc Tucker.

Mali continue to experience disadvantages in many aspects of life, including health, justice, and education. Maternal mortality is among the highest in the world. Gender-based violence is also widespread across the country, and women seeking justice following incidents of violence often face social pressures and rights violations. Educational attainment among women is among the lowest in the world, with only around 8 percent of women over 25 having completed lower secondary education. For men over 25, the comparable figure is 15½ percent.

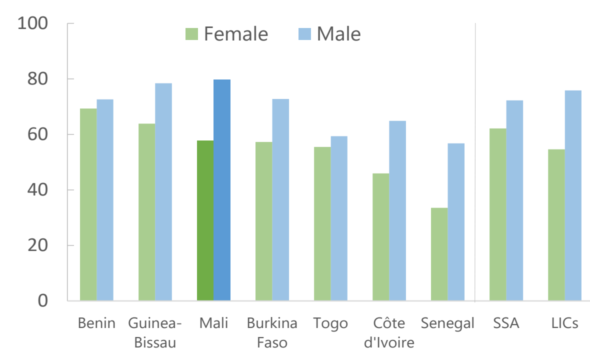
4. As a result of these multi-dimensional and interrelated factors, women are severely underrepresented in the labor force. The gap between male and female labor force participation rates in Mali is the second highest in the WAEMU, which suggests there is scope for significant improvement with potentially large economic benefits (Figure 3). Inequalities are particularly prevalent among skilled jobs.

Figure 2. Gender Inequality Index
(Scale from 0 to 1)



Source: UNDP

Figure 3. Labor Market Participation Rates by Gender
(Percentage of Population Aged 15 and Older)



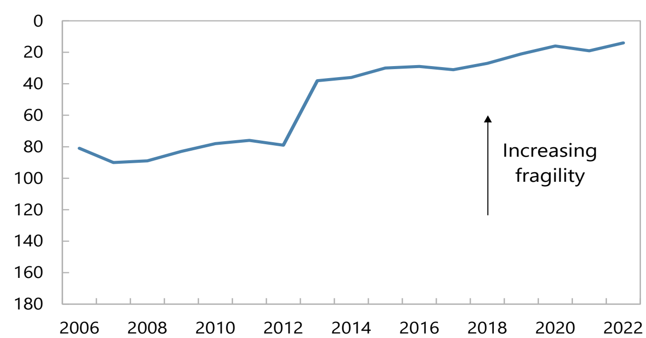
Source: UNDP

5. Women in Mali also hold fewer high-profile public positions than men. Women lag men in political representation, for example. Despite playing a prominent role during electoral campaigns, there are relatively few women attaining leadership positions in politics. The share of female parliamentary representatives is less than 29 percent, although that is higher than the average across sub-Saharan Africa, which is just under 28 percent (IPU, 2023). Women also continue to be under-represented in appointed positions as government officials.

6. Increasing female participation in these public roles offers wide-ranging potential benefits. Participation by women in peace negotiations and constitutional reform processes has been found to increase the likelihood that agreements will be reached and implemented (Dudouet and Schädel, 2021). One study also suggests that those agreements tend to last longer: the probability of a peace agreement lasting at least 15 years is found to be 35 percent higher when women participate (UN Women, 2015). The economic empowerment of women can also contribute to post-conflict recovery and reconstruction.

7. The challenges facing Mali in terms of fragility and conflict, demographics and gender inequality are closely related. Economies and societies where women are most disadvantaged tend to have higher fertility rates, for example, with research showing that there is a close link between low education opportunities for women and the average number of children per female (World Bank, 2018). Gender inequality in Mali is therefore likely to have been an important driver of the wider demographic challenges facing the country. Unequal societies also tend to have low access to family planning services and birth control. High fertility rates in turn affect women's health and productive capacity but also the time they can devote to seeking and undertaking employment, leading to lower growth in GDP per capita. The resulting weak output growth can create the conditions for discontent and ultimately lead to social tensions. In turn, weak growth and heightened tensions can also lead to a further increase in gender inequality, creating a vicious cycle. The frequency of crises and conflicts in fragile contexts further exposes women and girls to forced marriages, unpaid economic participation, and sexual and gender-based violence (OECD, 2022).

Figure 4. Fund for Peace Fragile States Index Ranking



Source: Fund for Peace

8. These feedback loops are consistent with the finding that when a country faces fragility and conflict, it tends to be persistent. This creates the risk of a fragility 'trap' (IEO Report, 2018). When a country falls into fragility, the 'drivers' of that fragility—the shocks—coupled with the 'sources' of fragility—the conditions which make the country vulnerable to stress—lead to adverse outcomes, which in turn leave the country more susceptible to future shocks (see Country Engagement Strategy for a discussion of drivers and sources of fragility in a conceptual framework). According to the Fund for Peace Fragile States Index, Mali's fragility ranking relative to other countries increased sharply in 2012 and has continued to increase steadily since (Figure 4). In the latest index, Mali is ranked 14th out of almost 180 countries in terms of fragility. Sustained policy action is required to overcome the considerable hurdles to exiting the fragility trap. Research suggests that supporting growth, increasing social/education spending, strengthening government effectiveness and increasing political inclusion can be especially beneficial (Akanbi and others, 2021).

B. Reforms Enacted to Date

9. In Mali, reforms to address fragility have included both shorter-term measures to reduce the immediate risk of conflict and medium-term measures which create the conditions for a more stable society. Security and military spending averaged around 5½ percent of GDP in 2021 and 2022, the highest in the Sahel G5 and a significant increase relative to the previous decade when it averaged just over 3 percent. Given the lack of fiscal space—reflecting in part a fall in external support including grants—that higher security spending has come at the expense of other priority spending including public investment and social spending. A credible, transparent, and inclusive election process would help different groups to feel empowered and reduce the risk of future conflict.

10. Successive governments in Mali have created a number of institutional mechanisms to address demographic pressures by improving gender equality. In 1997 the Ministry for the Promotion of Women, Children, and Families (MPFEF) was created to address longstanding systemic biases. These aims were further supported by the National Policy on Promotion and Protection of Children (PNPPE) in 2014 and the National Family Policy (PNF) in 2015. A National Gender Policy was also introduced in 2015 with the aim of improving the representation of women in appointed and elected bodies, including a requirement that the share of either gender in public agencies should not be lower than 30 percent. In 2017, the Ministry for the Promotion of Women, Children, and Families launched the Emergence of Women's Capacities (PRECOFEM) as a forum for information exchange on these topics.

11. The National Action Plan for 2019-2023 also ensures that women are given prominent roles in peacebuilding and reconciliation processes, as well as in post-conflict governance. The plan provides support to women's rights organizations, with a view to empowering and encouraging women at all levels to participate in peacebuilding.

C. Future Priorities and Measures of Success

12. The empowerment of women in Mali can help to unlock the country's growth potential. Further efforts to address gender gaps in education, especially among poorer households, would be particularly beneficial. Other priorities are to establish more secure property rights for women and facilitating access to land and credit.

13. Improvements to the care infrastructure including the social safety net would be expected to support a rise in female participation. Well-designed social protection systems can contribute to poverty reduction and help reduce labor market inequalities. They can also stimulate productive activity and economic growth, as well as creating resilience to crises. Reforms that are likely to have the greatest macroeconomic impact should be prioritized. They include improved access to education for women and girls and could be guided by the need for skills in expanding sectors. Policies could also focus on rural areas, where economic diversification is lowest and where fertility and gender inequality are highest. Women's rights organizations and gender experts should also be involved in the design and implementation of these reforms.

14. Donors and international partners could do more to help address gender inequalities in response to fragility and conflict. International assistance could be further targeted towards improving gender equality and additional funding could be offered conditional on the successful implementation of reforms. An improvement in diplomatic relations with international partners would increase the likelihood of Mali receiving support grants and funding more generally, which could help to address fragility, demographic challenges and gender inequality.

15. Given the interrelated nature of fragility, demographics and gender inequality, reforms should be conducted in coordination. Well-designed packages of interventions could help on multiple fronts. Efforts to widen education opportunities combined with strengthening of the social safety net could not only reduce conflict, but also help in empowering women and increasing female labor force participation.

D. Conclusion

16. Mali has been trapped in a state of fragility since 2012, with high population growth and gender inequality both playing a role that fragility. A number of reforms have been enacted to date which aim to address these issues, but further efforts are needed. These could include the empowerment of women, improvements to the care infrastructure including the social safety net and improved collaboration with international partners. The challenges posed by fragility, demographics and gender inequality are closely related, so coordinated reforms are required to break the vicious cycle.

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THE PUBLIC SECTOR WAGE BILL[1]

Mali's wage bill has soared to levels not seen since the early 1990s. This may cause considerable opportunity costs—limiting fiscal space and potentially adding to inflationary pressures—as well as adversely affect medium-term debt sustainability as it weighs heavily on the primary deficit. This SIP investigates the extent and drivers of the recent wage increases and their fiscal and economic consequences. It concludes that across-the board salary freezes may help wage growth moderation in the short term but are politically difficult to implement. Structural reforms to strengthen wage bill management are critical to preserving medium-term fiscal sustainability.

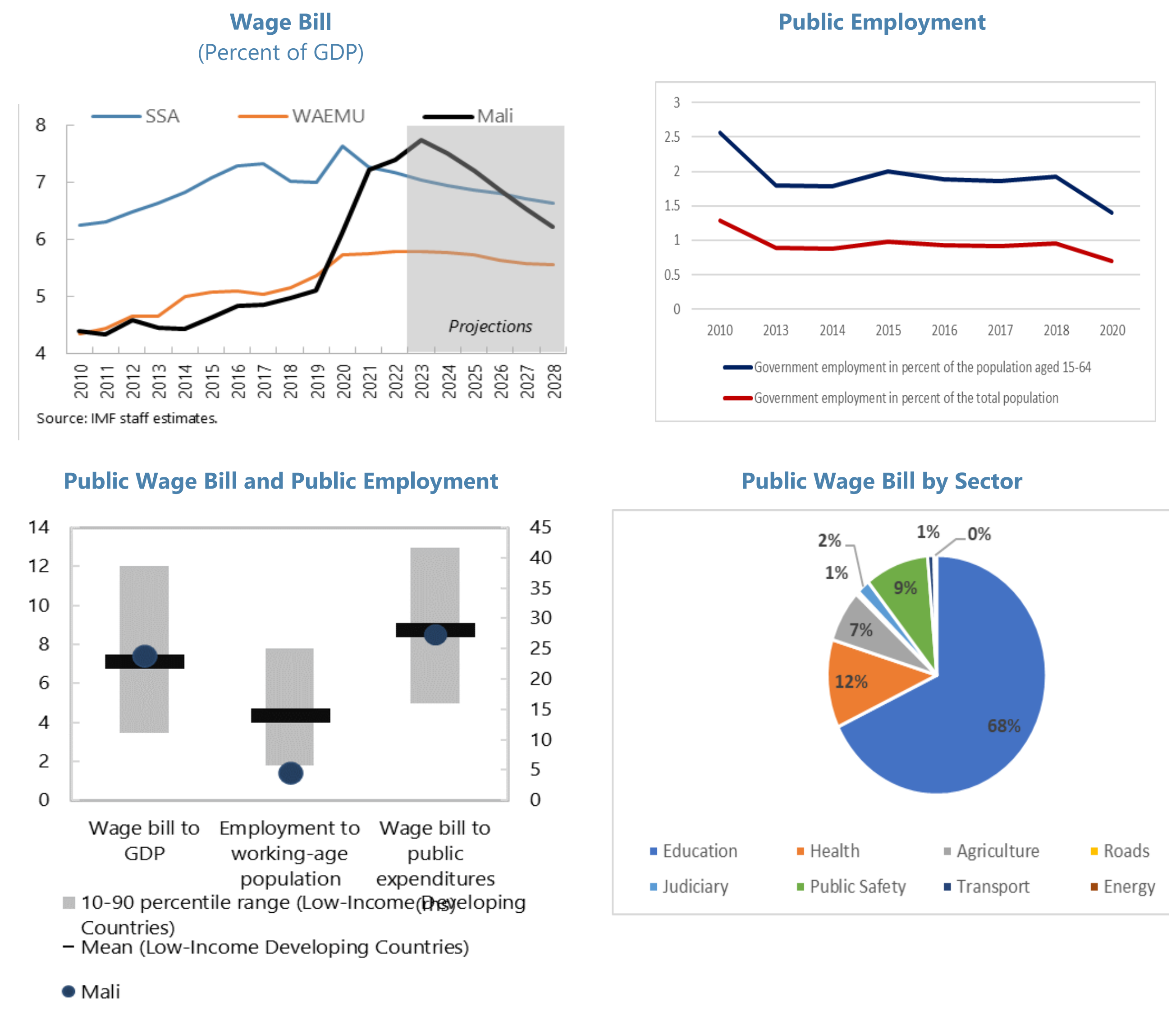
A. Evolution of the Wage Bill and Determining Factors

1. **Mali's wage bill has been rising for decades, with its share of GDP reaching historical and regional highs.** The wage bill rose from 4.4 percent of GDP in 2010 to 5.1 percent of GDP in 2019, before surging to 7.9 percent of GDP in 2022, a level not seen since the early 1990s. While the country's wage bill as a share of GDP has been historically lower than that of its regional peers, the recent jump, since 2019, has placed it above the averages in countries in the West African Economic and Monetary Union (WAEMU) and sub-Saharan Africa (SSA)—5.8 percent and 7.2 percent, respectively. The share of the wage bill pertaining to local governments has not played a major role in the wage bill increase. By contrast, the central government component of the wage bill increased by 22.6 percent between 2021-22. The dynamics of public wages has little to do with employee skills and performance, as civil servants benefit from automatic progression mechanisms.

2. **The sharp rise in wage bill ratios is weighing heavily on the fiscal outlook and potentially adds to inflation pressures.** The wage bill accounts for 44.7 percent of current expenditure and 55.2 percent of tax revenue as of 2022.[1] Mali's wage bill to tax revenue ratio is higher than the WAEMU and SSA averages (44.7 percent and 51.3 percent, respectively). The country has not met the WAEMU 35 percent ceiling on the wage bill to tax revenue ratio since 2019. High wage expenditure relative to current expenditure restricts fiscal space for priority capital and social spending and challenges fiscal plans. Also, cross-country evidence suggests that if sustained, an exploding wage bill could put upward pressure on consumer price inflation, especially when wage growth exceeds productivity growth (e.g., Alvarez et al. 2023, Mihaljek and Saxena, 2010). While the wage bill ratio to GDP is projected to decline steadily from 2023 on account of faster economic growth, it is expected to remain well above WAEMU and SSA averages until 2025.

[1] Prepared by Youssouf Kiendrebeogo (FAD)

Figure 1. Wage Bill Dynamics in Mali



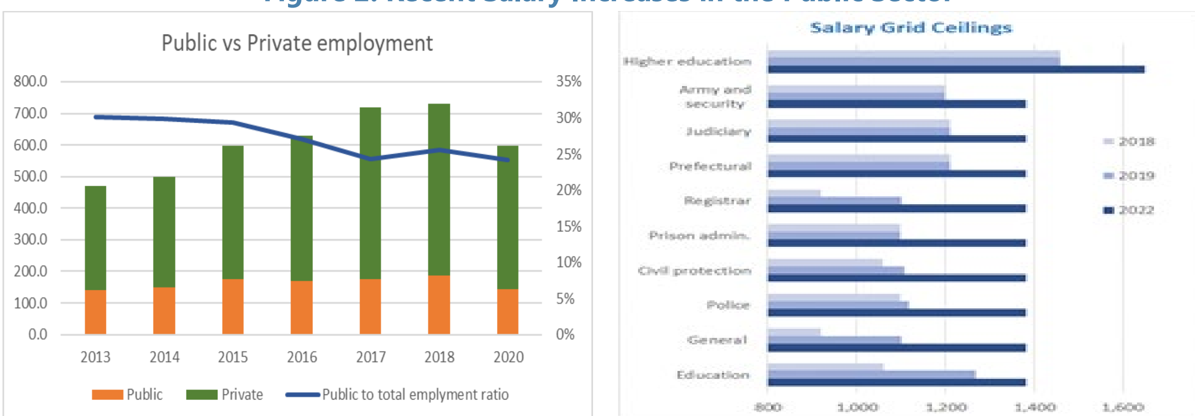
Sources: Malian authorities and FAD Expenditure Assessment Tool

3. Average compensation has played a major role in the wage bill surge, as public sector employment has been declining as a ratio of the working-age population. Public employment as a ratio to the working-age population has declined by around 1.2 percentage point since 2010. (Figure 1). Recruitment in priority areas—especially security and education—has recently increased in absolute terms, by 18.9 percent between 2019-22.[2] But the ratio of government employment to the working–age population, at 1.9 percent, remains one of the lowest among LICs (4.65 percent on average). Furthermore, public employment has recently slowed down compared to private employment, with the ratio of public to total employment slipping from 43.2 percent in 2013 to

[2] These numbers are expressed in net terms and do not include defense recruitment. The security sector has the largest increase in recruitment.

32 percent in 2020 (Figure 2). Higher public sector wage bill reflects both material increases in base pay and employee allowances. All segments of the public sector recorded an increase in salary grid ceiling between 2019 and 2022, with the average wage index increasing by 222 points. Civil servants in the Prison Administration (284 points), Registrar (282 points), and General (282 points) sectors had the largest increases between 2019-22. But the education sector accounts for the lion share of the public wage bill, with higher education professors earning the highest salaries. The public sector wage premium has historically been substantial. For instance, employment survey data for 1991 show that, on average, wages were 31.9 percent higher in the public sector than in the private sector (Lachaud, 1994).[3] The results of a 2015 census also suggest that a considerable number of 'ghost' workers have contributed to inflating the wage bill.[4]

Figure 2. Recent Salary Increases in the Public Sector



Sources: Malian Authorities and ILO Statistics on Employment

4. Demands for higher wages from civil servants have led to ad-hoc wage negotiations and salary increases across several sectors. Ad-hoc wage hikes are at times provided outside the usual budget process, increasing uncertainty to the forecasts of wage expenditure. An increase in the retirement age from 62 to 65 in 2019 contributed to pressures from trade unions and youth associations to increase salaries and recruitments[5]. The government responded by first signing a deal with the National Trade Union in August 2019, granting a 20 percent salary increase to general civil servants. This triggered a series of protests and strikes from teachers' unions, asking for the same salary increase. As a result, teacher salaries were increased by over 33 percent in 2020, placing them among the highest paid civil servants. Other sectors have subsequently expressed demands for the harmonization of the salary grid to bring all public wages to the same level as in the education sector. As a result, all categories of civil servants were granted a 25 percent salary increase in June 2021. The government then committed to recruiting 8,600 staff per year over 2021-2026 and agreed to take steps to harmonize bonuses and allowances. This harmonization induced a rise of CFAF 157 billion (9.1 percent of tax revenue) in the wage bill in 2022. A social conference was held

[3] More recent data on the public wage premium are not available for Mali.

[4] Ghost workers are typically public sector retirees or departed employees who are unduly being paid.

[5] This pension reform led to very little retirements in the public sector between 2019-21.

from October 17-22, 2022, the first in the country's history, to discuss the public wage setting mechanism with the purpose of achieving a social pact on public wage setting in the next five years.[6]

B. The Need for Immediate and Longer-Term Reforms

5. The immediate reform challenge is to avoid further ad-hoc wage increases, and rationalize bonuses and allowances, but this could be politically sensitive. A nominal pay freeze has the potential to moderate both average compensation and the public wage premium. It could be combined with targeted competitive compensation and performance-based bonuses and allowances to ensure adequate staffing in priority sectors.[7] While across-the-board pay freezes could generate between 1-2 percentage points of GDP reductions in the wage bill immediately, as seen in Côte d'Ivoire and Senegal, some country case studies have suggested that they are not necessarily effective in containing the wage bill in the medium term (IMF, 2016). This is because these freezes can hamper public sector labor markets by setting back the provision of adequate staffing in priority sectors and potentially distort the wage structure by generating demands for higher allowances and bonuses, as was the case in Côte d'Ivoire and Senegal. In the case of Mali, an across-the-board wage freeze may be inconsistent with the agreement reached during the social conference, ultimately leading to social unrest in an already-fragile environment. Other possible reforms towards ensuring stabilizing wage ratios include restricting public sector wage to rise by less than inflation, nominal GDP, tax revenue or private sector wages. The previous ECF program also considered ways to ensure that any wage bill increase is accompanied by an equivalent increase in revenues through specific tax policy measures. For instance, tax reform that increases the tax to GDP ratio by 1ppt would generate a drop of the wage bill to revenue ratio of nearly 0.7ppt, all else equal. While this would help to stabilize the wage bill to tax revenue ratio, budget execution issues may complicate implementation.

6. Over the longer term, structural reforms to stabilize nominal wage growth and strengthen wage bill management are critical for fiscal sustainability. Structural wage reforms could include institutional and social arrangements to ensure the control, oversight, and transparency of the wage setting mechanism.[8] Furthermore, enhancing payment-related digitization and PFM and integrating wage decision-making in the budgetary framework may help improve fiscal sustainability. Cross-country evidence shows that such arrangements tend to improve the efficiency of wage formation and hiring processes (IMF, 2014). There is also evidence that reforms which place tighter controls on bonuses and allowances can lead to large falls in public sector wage spending. Egypt, for instance, was able to reduce its wage bill by nearly 3.5 percentage points of GDP between 2014-19, by setting up tighter controls on bonuses and allowances. In the case of

[6] The conference gathered nearly 500 participants from the government, unions, and private sector. Participants agreed on 139 recommendations, whose implementation is not expected to have a major fiscal implication.

[7] Wage bill moderation measures should be well-targeted and sector-specific. In LICs, some wages should be set in such a way to attract and motivate staff.

[8] However, weak institutional capacity is a key challenge complicating the implementation of such structural reforms. IMF Technical Assistance would be useful in many of these reform areas.

Mali, such structural measures should be based on the outcomes of the social conference. The agreement reached during the conference could (i) pave the way for an effective wage bill management, notably through the adoption of a social stability pact, (ii) harmonize and rationalize allowances and bonuses, and (iii) develop a national wage bill policy/strategy for civil servants.[9] The completion of the planned wage bill study is a critical milestone to understand more comprehensively the drivers of wage bill growth and the available policy options.

C. Conclusions and Policy Recommendations

7. In recent years, the wage bill has increased substantially and now exceeds the WAEMU norm. Average compensation level has been a key driver of the recent wage bill increase, resulting in a public sector wage bill to tax revenue ratio of 55 percent, far exceeding the WAEMU's 35 percent ceiling. In particular, the sharp rise in the wage bill ratio since 2019 coincided with salary increases resulting from ad hoc salary negotiations with civil servant unions. By contrast, public employment as a ratio to the working-age population has been declining.

8. Pay freezes may be effective in the short run but difficult to maintain, thus calling for structural measures that work over the medium term. While across-the board salary freezes may help wage growth moderation in the short term, they would be politically difficult to implement in the current context. Structural reforms to strengthen wage bill management are critical to preserving medium-term fiscal sustainability.

[9] Côte d'Ivoire has recently adopted a medium-term wage bill strategy with a pathway to improve wage bill management over the medium term.

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GOVERNANCE DIAGNOSTIC[1]

This SIP provides an overview of the governance diagnostic mission conducted in early 2021 by experts from the IMF's Fiscal Affairs and Legal Departments, along three main pillars—the rule of law, tax and customs administration, and public financial management. The SIP assesses progress made, identifies key weaknesses, and a list of measures to guide immediate and future reforms.

A. Background

1. **After its appointment in October 2020, the transitional government put a strong emphasis on good governance.** Many years of domestic armed conflict, terrorist insurgencies, political instability, and economic turmoil have had a significant toll on the country and impeded reform progress. Strengthening governance and stepping up the fight against corruption are instrumental to restoring peace and security in Mali. The authorities made important commitments related to strengthening rule of law and justice under the 2019-2022 ECF program. The governance diagnostic mission conducted in early 2021 assessed progress made, identified key weaknesses, and prepared a comprehensive list of measures to guide immediate and future reforms. The Article IV mission in March 2023 took stock of the progress since the 2021 governance diagnostic.

2. **The governance diagnostic focused on three main pillars: rule of law, tax and customs administration and public financial management.** These priorities intersected with the key elements included in the country's Strategic Framework for Economic Recovery and Sustainable Development (CREDD), with a particular attention given to vulnerabilities to corruption. Based on the recommendations, the authorities have developed an action plan to guide next steps and to serve as a basis for more effective and extensive cooperation within the government and between the authorities and the international community.

B. Rule of Law and Impartial Justice

3. **Strengthening the rule of law, through increased judicial and legal transparency and exemplarity in managing the State, is key for strengthening governance in Mali (pillar 1).** According to the 2021 diagnostic, this would bring about rapid gains in good governance without adding significant pressure to the country's administrative capacities. Recommendations were made in three areas: (i) improving the anti-corruption legal framework, (ii) strengthening the rule of law, and (iii) anti-money laundering and combating the financing of terrorism (AML/CFT).

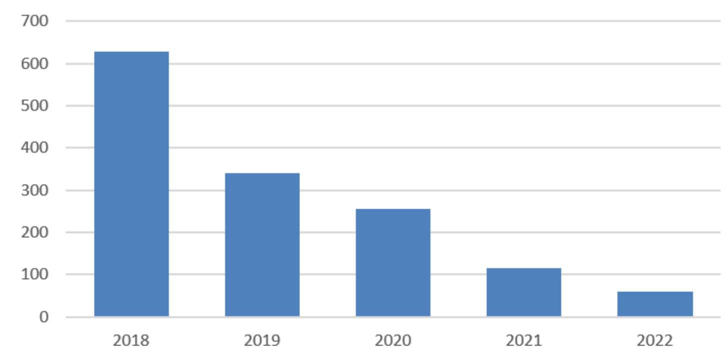
4. **Strengthening the asset declaration framework, including by empowering the Office Central de Lutte contre l'Enrichissement Illicite (OCLEI), remains essential for making progress in anti-corruption reforms.** Some key legislative acts are already in place, but their implementation and the enforcement of penalties remains weak. OCLEI —the key agency in the asset declaration

[1] Prepared by Peter Kovacs.

field—reported that the compliance rate has declined in recent years (chart). Despite non-compliance penalties under the law, there have been no sanctions used since OCLEI was founded in 2017. Lack of OCLEI's power to order the seizure or freeze assets suspected to be the result of illicit enrichment were among the key deficiencies established by the diagnostic mission that impeded the agency from putting into effect its anti-corruption mandate. Therefore, the mission recommended that the OCLEI's capacities and means be reinforced through specialized training to its staff and giving it the powers relevant to carry through its responsibilities. As an immediate action, the mission recommended that senior members of the Government submit their asset declarations as an example, while OCLEI regularly publishes the percentage of compliance among senior state officials.

5. As of March 2023, progress to address these recommendations remains limited. OCLEI's capacity and ability to apply sanctions have not improved despite declining compliance with the asset declaration requirements. The government is currently working on a comprehensive anti-corruption strategy, which could serve as a guiding document for a more effective asset-declaration framework. However, there is no timeline for the completion of the strategy and OCLEI is not directly involved in its development.

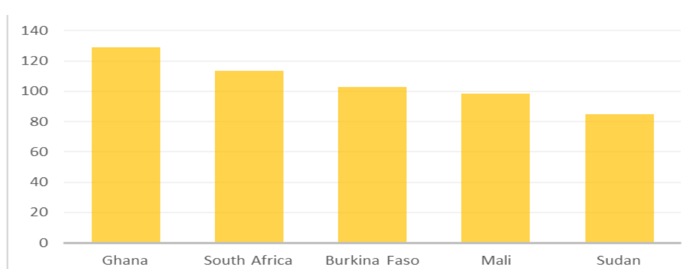
Figure 1. Submitted Asset Declarations
(Number of declarations per year)



Source: OCLEI

6. As one of the largest gold producers in Africa, Mali remains exposed to high risks of corruption in its mining industry. The country has been a member of the Extractive Industries Transparency Initiative (EITI) since 2007, and steps have been made towards better governance. However, multiple challenges remain. Mining contracts are not published, and very limited information is available to the public about mining operations generally. The results of audits conducted by the Bureau du Vérificateur Général (BVG) raised questions about lack of oversight of the mining sector. Reforms should focus on making mining contracts and licences and investigating alleged financial and other irregularities in the sector as detected by the BVG. Results of such investigations should also be

Figure 2. Gold Production in Africa, 2021
(Tons)



Source: World Gold Council

published. Making public procurement and the beneficial ownership of companies awarded public contracts more transparent would substantially reduce the risk of corruption. The Direction Générale des Marchés Publics has been working on a website that now publishes information on public procurements above a certain threshold. Data on beneficial ownership is more difficult to obtain, but some progress has been made on collecting information on beneficial owners of companies awarded COVID-19 related contracts.

7. **Mali also faces significant AML/CFT risks given lack of transparency, ineffective risk assessment, supervision, and absence of sanctions.** As of March 2023, the country remains on the Financial Action Task Force (FATF) gray list of countries under increased monitoring and the development of an Action Plan with time bound deliverables. Lack of transparency in extractive sectors significantly increases the AML/CFT risks. Among the challenges highlighted by the mission are weak reporting of suspicious transactions, quality of reporting, uncertainty with respect to the responsible body for investigating suspicious activities, lack of coordination between law enforcement bodies as well as their lacking capacity to effectively trace and confiscate assets. Progress in resolving AML/CFT deficiencies has been constrained due to the military coup in 2020 and the COVID-19 pandemic as well as limited resources and weak institutional capacity.

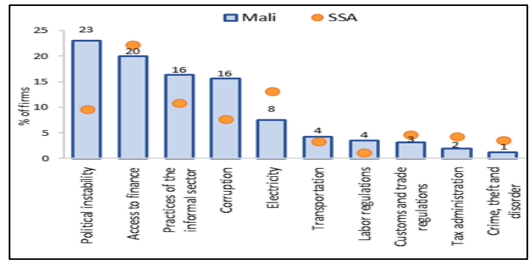
8. **Despite the weaknesses, the authorities have taken steps to address FATF recommendations in recent years.** As one of the first measures to improve the situation, authorities, jointly with the World Bank, have developed a National Risk Assessment (NRA), which helped identify the most exposed sectors. An awareness and training program has been designed to disseminate the results of the NRA. Of the 27 measures covered by the FATF Action Plan, four were addressed, 19 partially addressed and four were not addressed. The four measures not addressed so far include sector-level risk assessment exercises (most importantly the mining sector), the introduction of effective sanctions for the violation of AML/CFT rules, addressing the gaps in the AML/CFT regulation and the dissemination of UN sanctions lists to enable their implementation. The supervision of non-financial entities also remains a weakness. Upcoming FATF reviews in May 2023 and September 2023 will be important in Mali’s efforts to be removed from the gray list.

C. Tax and Customs Administration

9. **Streamlining of tax and customs administrations (pillar 2) would contribute substantially to improved governance, and at the same time generate additional revenues and improve the business environment.** The governance diagnostic found that multiple tax exemptions outside the existing general fiscal regime and their manual management impedes traceability of such benefits and creates opportunities for corruption. This non-transparent process is beyond parliamentary control and enables direct negotiations between large groups of the sectors concerned and the government. Other challenges include complex and discriminatory rules for calculating certain taxes, lack of effective appeal mechanisms that create imbalances between users’ rights and administrators’ powers, and lack of inclusiveness in the process of drafting and adopting tax and customs legislation. The limited use of existing IT tools to implement an automated risk management system (to improve the planning and selectivity of tax and customs

audits) prevents fair treatment of importers and taxpayers in the context where dispute resolution mechanisms are not impartial.

Figure 3. Constraints to Businesses



Source: World Bank, Staff Calculations

10. Integrity and accountability frameworks within tax and customs administrations must be bolstered. The mission emphasized the need to develop a National Integrity Framework that will ensure respect for integrity and prevent corruption as well as other integrity-related violations within tax and customs administrations. Current internal control structures remain ineffective, while obsolete procedures and relatively poor computer skills prevent advance detection of deviant conduct despite available technologies. There is a need to build internal auditors' capacities and increase internal control offices' resources to detect cases of corruption and enhance the internal control system.

D. Public Financial Management

11. Strengthening supervision of SOEs was among the key areas identified by the 2021 diagnostic mission to improve public financial management (pillar 3). Based on an analysis of the recent BVG reports, state owned enterprises and corporations account for close to 87 percent of all losses observed in public finances. The government has not been able to achieve financial sustainability and effective operation of large SOEs. The mission emphasized the need to prioritize supervision over SOEs as work is already underway in this area with support from the World Bank. Other measures should include improving transparency of SOEs by publishing their annual financial statements and audit reports where applicable. An SOE monitoring unit has been set up within the Ministry of Finance that signed performance contracts with major SOEs.

12. Progress in digitalization will support reforms both in tax and customs administration and public financial management. Modernization of the content of tax and customs administration websites can be an essential tool of the digital communication strategy to improve user information, public awareness, access, enhanced transparency, and business climate. The lack of direct interconnection between the tax and customs management systems and the Treasury information system prevents effective and accurate accounting between revenue collection agencies and the Treasury. Paper-based procedures remain widespread. The Customs Code continues to consider paper-based declarations and procedures to be the norm, with electronic declaration to be an option. On the expenditure side, paper-based work is considered to be complex and creates risks related to loss and falsification of documents. Accelerating digitalization of procedures in public finance management was among key priorities recommended by the diagnostic mission, including prioritizing the completion of interconnection between various systems and computerizing procurement procedures.

THE IMPORTANCE AND DRIVERS OF STOCK-FLOW ADJUSTMENTS IN MALI[1]

Stock-flow adjustments—extra-budgetary and below-the-line operations that do not reflect standard spending and revenue—have added 9 percentage points to the debt-to-GDP ratio in Mali over the past decade. That is just under a third of the total increase in public debt over that period. Despite their importance, there is little understanding of the causes of stock-flow adjustments. A number of actions could be taken to either reduce the occurrence of stock-flow adjustments or to increase transparency and monitoring which would assist fiscal policy decision-making.

A. Background on Debt Dynamics and Stock Flow Adjustments in Mali

1. **Public debt in Mali has been trending upwards for some time.** The debt to GDP ratio doubled over the past decade to reach 52.5 percent in 2022. The increase in domestic debt was especially striking over that period, rising to 25.2 percent of GDP in 2022 from below 5 percent in 2013. External debt also increased to27.3 percent of GDP in 2022, from 21½ percent. These trends contributed to the shift away from highly concessional multilateral and bilateral borrowing to more expensive and shorter-term market-based debt.

2. **The rise in public debt has been particularly marked over recent years, during which Mali has faced multiple shocks.** They include regional and global sanctions, the COVID-19 pandemic and its scarring effects, the fallout of the war in Ukraine as well as increasingly frequent extreme weather events, all of which have amplified longstanding economic and social challenges. Mali has also been affected by domestic problems, including insecurity and political instability.

3. **Part of the rise in public debt in Mali is due to 'Stock-flow adjustments' (SFAs).** These SFAs represent any extra-budgetary and below-the-line operations that do not reflect standard spending and revenue. Although they are not captured in the normal budget envelope, they need to be financed. When these SFAs are positive, debt therefore increases at a faster pace than dictated by the fiscal deficit. In such cases, the fiscal deficit does not provide a full representation of a country's financing needs.

B. Possible Causes of Stock-Flow Adjustments

4. **In general, there are several possible reasons for the disconnect between the fiscal deficit and the change in public debt, i.e., the presence of non-zero SFAs.** Possible factors include:

- **Differences in institutional coverage** between fiscal accounts and debt statistics.

[1] Prepared by Peter Kovacs and Luc Tucker.

- **Using cash and accrual accounting simultaneously for different transactions**, which creates a disconnect between the cash-based debt and the accruals-based deficit.
- **Asset valuation effects**, for example, if exchange rate movements create a disconnect between external borrowing and the change in the external debt stock measured in local currency.
- **Changes in financial assets** as a result of privatizations or accumulation/depletion of government deposits.
- **Extra-budgetary and off-budget funds**, which can lead to public borrowing that is outside the central government budget.
- **Contingent liabilities including government guarantees**, which have no equivalent in the fiscal deficit until they are called and generate a financing need. These could include recapitalizations of banks or State-Owned Enterprises.

5. Understanding the causes of SFAs and reducing their occurrence help to ensure debt sustainability. Data limitations often make this process difficult, however. Since it is often not possible to identify the different drivers of observed SFAs or predict their potential future size, it is difficult for governments to set fiscal policy in a way that ensures debt sustainability.

C. The Size of Stock-Flow Adjustments in Mali and the Impact on Public Debt

6. SFAs have varied markedly in Mali over the past decade, but they have added to public debt over the period as a whole. In 2014, SFAs amounted to -2.5 percent of GDP. The headline deficit in that year was 2.9 percent of GDP, but the effective fiscal deficit including the SFA was just 0.4 percent of GDP. Conversely, in 2019 and 2020 SFAs were positive, at more than 3 percent of GDP. While the headline deficits were 1.7 percent and 5.4 percent of GDP respectively in those years, the effective fiscal deficits including the SFAs were 5 percent and 8.4 percent of GDP respectively. On average over the past decade, SFAs have been positive, at just under 1 percent of GDP.[2]

7. While it is not straightforward to identify the causes of SFAs, one potential reason for higher SFAs since 2016 could be the change in the debt database. In some cases, that has meant that disbursements on external loans have been collected and recorded after the year in which the loans are made, which increases the outstanding debt in those later years. This could have been further accentuated if COVID-19 restrictions caused difficulties in communicating with donors and collecting and reporting debt data on time.

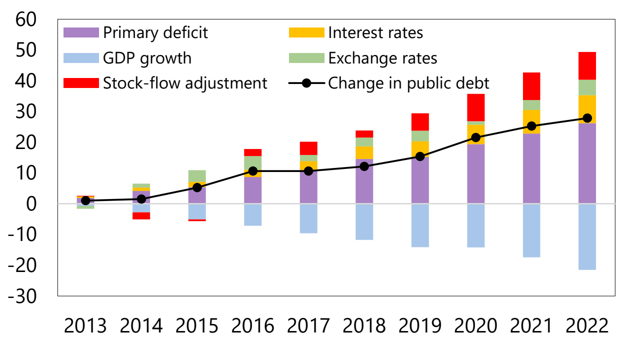
8. The rise in public debt in Mali has been mostly due to persistent primary fiscal deficits, but the impact of SFAs has also been significant. Of the 28 percentage point increase in the debt-to-GDP ratio over the past decade, SFAs have contributed 9 percentage points, or just under a third (Figure 1). The role of SFAs has been even more significant in recent years. Since 2018, SFAs

[2] Other estimates of this historical average cited in the Staff Report and Debt Sustainability Assessment correspond to staff estimates based on previous vintages of the data for the ten years to 2021.

have contributed 7 percentage points to the 16 percentage point rise in the public debt to GDP ratio, which is more than 40 percent of the total increase.

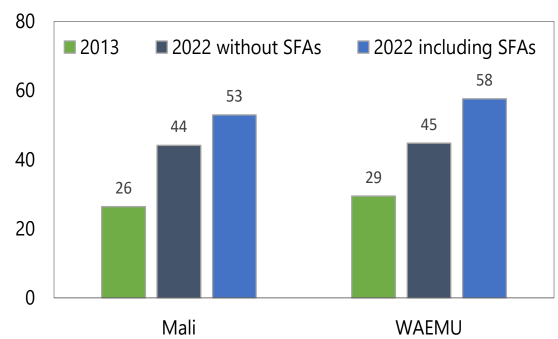
9. SFAs have also been large across a number of sub-Saharan African countries and particularly in the WAEMU region. The median SFA averaged 1.1 percent of GDP across sub-Saharan Africa (SSA) over 2013-2019, for example.[3] During the pandemic, the median SFA across SSA was even larger, averaging 1.5 percent of GDP. In the WAEMU region, some countries have reported sizable SFAs, although there is large heterogeneity across countries. In Guinea-Bissau and Senegal, for example, SFAs have added 20 percentage points to public debt ratios over the ten years to 2022, but in Burkina Faso and Niger they have added 5 percentage points or less. Over the WAEMU region as a whole, SFAs have added 13 percentage points to public debt ratios over the period (Figure 2). WAEMU countries with initially higher debt accumulated more SFAs over time, which suggests that if Mali's public debt ratio continues to rise, SFAs could pose a greater risk to the public finances in future.

Figure 1. Contributions to Cumulative Changes in Public Debt as Share of GDP, 2013–22
(Percentage Points)



Source: World Economic Outlook Database and IMF Staff Calculations

Figure 2. The Impact of Stock-Flow Adjustments on Public Debt Between 2013 and 2022
(Percent of GDP)



Source: World Economic Outlook Database and IMF Staff Calculations

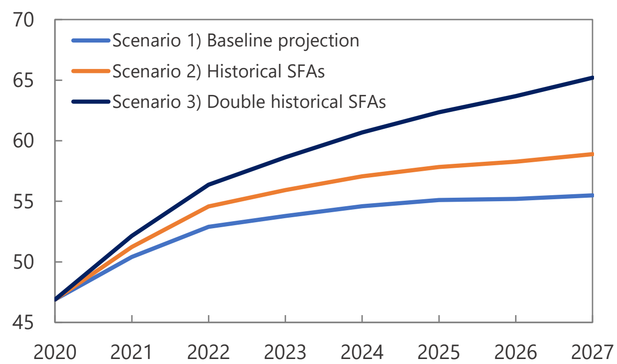
10. Debt Dynamics under Alternative Assumptions About stock-flow adjustments. Two scenarios can be used to show the likely path of public debt in Mali if future SFAs are in line with historical averages, or if they are larger than in the past. While the baseline public debt projection for Mali assumes zero SFAs, it is possible to create two alternative scenarios, in which 1) SFAs remain at their historical average (0.9 percent of GDP) and 2) SFAs are double their historical average (1.8 percent of GDP). These scenarios both assume that the fiscal deficit will return to the 3-percent WEAMU ceiling by 2026, in line with the baseline projection.

11. The scenarios demonstrate that SFAs could put public debt on an upward trajectory, both in Mali and across the WAEMU as a whole. Under the first scenario, the debt to GDP ratio in

[3] WAEMU Selected Issues Paper (January 19, 2023): [Revamping the WAEMU Fiscal Framework](#).

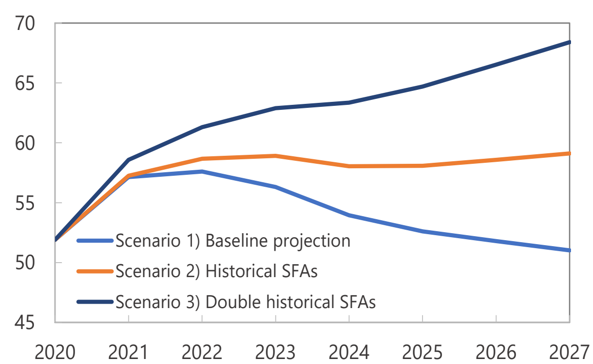
Mali would be 3.5 percentage points higher in 2027 than in the baseline projection, reaching close to 60 percent of GDP (Figure 3). If SFAs were to increase to twice the historical average, debt would be over 65 percent of GDP, close to the 70 percent debt ceiling of the WAEMU region by 2027. Across the WAEMU region as a whole, if SFAs were to be double their historical average the debt to GDP ratio would be expected to rise over the medium term, compared with the baseline forecast where it falls back (Figure 4).

Figure 3. Mali Debt Dynamics Scenarios
(Percent of GDP)



Source: IMF Staff Calculations and projections.

Figure 4. WAEMU Debt Dynamics Scenarios
(Percent of GDP)



Source: IMF Staff Calculations and projections.

D. Implications and Recommendations

12. Stock-flow adjustments have contributed significantly to debt accumulation in Mali and other countries in the WAEMU region face similar challenges. Despite their importance, there is little understanding of the causes of SFAs due to data limitations and a lack of systematic monitoring and reporting. Understanding the sources of SFAs and incorporating potential SFAs in fiscal policy decisions is crucial for ensuring debt sustainability.

13. In addition, given the size of SFAs and heterogeneity across countries in the WAEMU region, the fiscal deficit offers highly incomplete information on fiscal discipline by member countries. A deficit target which only takes into account above-the-line fiscal policy in the region results in an unequal treatment across countries. For example, one country could be deemed to be complying with fiscal rules despite large SFAs, whereas another could be deemed as having failed to meet the rules because they have a larger deficit, but with a smaller SFA, even if those countries see an identical change in their public debt ratios from one year to the next. If SFAs are not monitored and controlled, it could therefore have major implications on the credibility and effectiveness of the WAEMU fiscal rules.

14. There are several actions that can be taken to reduce the occurrence of SFAs, or improve monitoring:

- ***Authorities should identify and report all drivers of debt accumulation***, including below-the-line and extra-budgetary operations. They should for instance introduce a systematic reconciliation of fiscal and debt accounts, preferably by linking the fiscal- and debt-recording systems.
- ***Accounting standards and practices could be improved and harmonized across the region***. This could include the full, region-wide implementation of GFSM 2001/14, in line with the WAEMU Directive on fiscal statistics. It is important to apply consistent institutional coverage in various transactions above and below the line. The wider use of accrual accounting could also help to ensure that transactions are treated in a consistent way.
- ***Government guarantees and other fiscal risks should be tracked and systematically reported***. This also implies a stronger oversight of State-Owned Enterprises (SOEs), including limitations on quasi-fiscal operations.
- ***SFAs should be accounted for when preparing budgets and medium-term fiscal frameworks***. This would increase the credibility of fiscal strategies.
- ***The authorities need to prevent the accumulation of expenditure arrears*** and prepare settlement plans to reduce past arrears.

15. Finally, it is important to note that it is not enough to reduce SFAs to achieve debt sustainability in Mali. Since the fiscal deficit is a larger contributor to debt than in other WAEMU countries, significant fiscal consolidation remains critical to put debt on a declining path. Failing to do this would lead to continually increasing debt vulnerabilities.

E. Conclusion

16. SFAs have added significantly to the increase in Mali's public debt over the past decade, but there remains little understanding or systematic monitoring of their causes. Scenario analysis shows that if SFAs are in line with their past average in Mali and the authorities follow their current fiscal plans, public debt would be expected to increase over the medium term, reaching close to 60 percent of GDP by 2027. A number of actions could be taken to reduce the occurrence of stock-flow adjustments by ensuring that spending is recorded as part of the fiscal deficit wherever possible. Increasing transparency and monitoring would also be beneficial.