

INTERNATIONAL MONETARY FUND

Governance Diagnostics

Mali

Peter Kovacs

SIP/2023/057

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on May 9, 2023. This paper is also published separately as IMF Country Report No 23/210.

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Governance Diagnostics

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ABSTRACT: 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.

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I. Background

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.

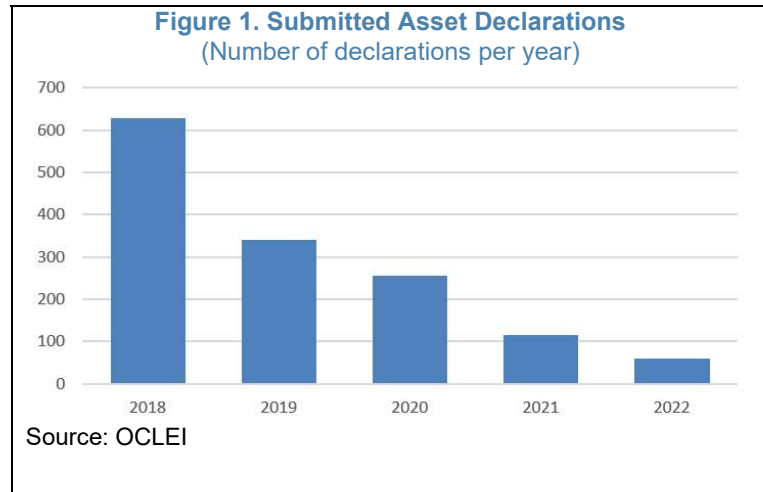
The governance diagnostic focused on three main pillars: rule of law, tax and customs administration and public financial management. These priorities intersected with the key elements included in the country's Strategic Framework for Economic Recovery and Sustainable Development (CREDD), with a particular 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.

II. Rule of Law and Impartial Justice

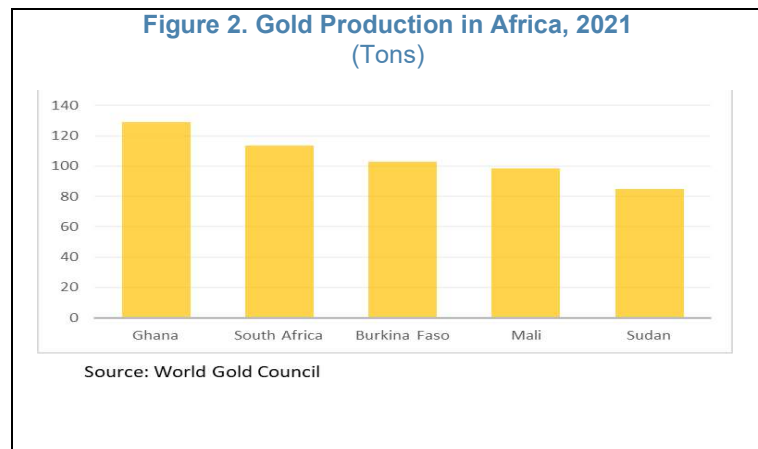
Strengthening the rule of law, through increased judicial and legal transparency and exemplarity in managing the State, is key for strengthening governance in Mali (pillar 1). According to the 2021 diagnostic, this would bring about rapid gains in good governance without adding significant pressure to 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).

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 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.

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.



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 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.

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.

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

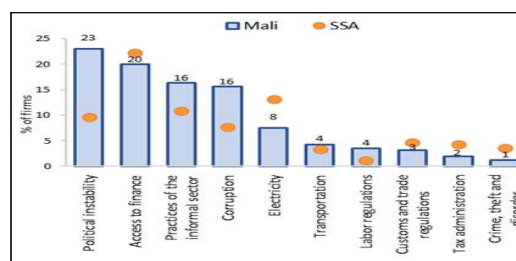
World Bank, have developed a National Risk Assessment (NRA), which helped identify the most exposed sectors. An awareness and training program has been designed to disseminate the results of the NRA. Of the 27 measures covered by the FATF Action Plan, four were addressed, 19 partially addressed and four 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.

III. Tax and Customs Administration

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.

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.

Figure 3. Constraints to Businesses



Source: World Bank, Staff Calculations

IV. Public Financial Management

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.

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.