Mali: Economic Update

Strengthening Financial Resilience of Pastoralists to Drought
PREFACE

• This report is part of the Bank's regular macroeconomic monitoring exercise and aims to inform client countries and development partners the recent economic developments in the country.

• The report, produced on an annual basis, describes and analyzes recent trends in the Malian economy and then propose policy options for improving the country's socioeconomic performance.

• For each edition, the report includes a macro-poverty chapter covering recent developments and prospects, including the impact of recent events (sanctions, war in Ukraine, prices of basic necessities, climate change) and a second chapter covering a special theme to reflect current priorities and challenges. The theme chosen for the 2023 edition is motivated by the context of food insecurity and the importance of the food-producing agricultural sector.

The 2023 report was edited and coordinated by Daniel Pajank. Chapter 1, covering macroeconomic and poverty developments, was prepared by Xun Yan, Eliakim Kakpo and Yele Maweki Batana, with contributions on highlights from the Climate and Development Report (CCDR) for Sahel countries provided by Yue Man Lee and Michael Evers. Chapter 2, on building financial resilience to drought, was prepared by John Luke Plevin, Qhelile Ndlovu, Rishi Raithatha, with contributions from Thibault Bouessel du Bourg and Felix Lung. The report was prepared under the overall direction of Clara Ana De Sousa (Country Director), Theo Thomas (Sector Director), Fulbert Tchana Tchana (Program Coordinator) and Yue Man Lee (Lead Economist).
PRESENTATION

1. Macroeconomic and Poverty: Recent Developments and Outlook

2. Building Financial Resilience to Drought

3. Policy Recommendations
MACROECONOMIC AND POVERTY TRENDS
1.1 Growth remains resilient amid multiple crises, including food inflation.

- Economic growth was driven by the agricultural rebound and the resilience of the mining sector from the supply side, net exports and private consumption on the demand side.

- Despite ECOWAS sanctions and the war in Ukraine, the economy has proved resilient, with GDP growth estimated at around 2% in 2022. Inflation accelerated in 2022.
1.2 external position slightly strengthened by lower imports.

- The deterioration in the terms of trade was mitigated by lower import demand in 2022, and the current account deficit contracted to 7% of GDP.
1.3 High public spending has pushed up public debt stock...

- Public spending was high in 2022 to meet socio-economic and security needs. Public debt has risen accordingly, but the risk of indebtedness is moderate.
1.3 ...at a time when financing is becoming increasingly difficult.

- To contain the inflationary crisis. Monetary policy was normalized and less accommodating, resulting in higher interest rates and refinancing costs for public debt.
1.4 Economic credits and external competitiveness

- Concentration of credit to the economy in trade and transport and improved competitiveness in 2022 due to the appreciation of the US dollar.
1.5 Poverty increased in 2022

- Extreme poverty ($2.15 threshold) has risen by 3.2 percentage points (ppts) in 2022 due to high inflation and a declining per capita income.
- Income growth risks of turning negative on average over 2018-22 for all household deciles, but even lower for the poorest.
1.6 Growth is not sufficiently inclusive, with most of the poor working in the agricultural sector...

- The poor are concentrated in the agricultural sector. Despite the agricultural rebound in 2022, poverty has increased due to food inflation. The poorest households experienced the sharpest income declines.
1.7 Medium-term outlook

• The economy should gradually converge towards its growth potential in 2025, but downside risks remain in 2023-2024.

• The fiscal deficit should gradually converge towards the WAEMU convergence criterion of 3% of GDP.

• It is expected that higher tax revenue will be mobilized from new measures (new tax code, standardized invoices, etc.), according to Multiannual Budgetary and Economic Programming Document (MBEPD).

• The current account deficit should gradually decline, driven by exports.
STRENGTHENING FINANCIAL RESILIENCE AGAINST DROUGHT
Financial inclusion in Mali is growing

- According to the Findex Index, 44% of adults in Mali have a transaction account and 13% have taken out a loan.
- Digital payments have increased, but insurance services account for a small share

#### Access to formal financial institution

<table>
<thead>
<tr>
<th></th>
<th>Burkina Faso</th>
<th>Chad</th>
<th>Mali</th>
<th>Niger</th>
<th>SAHEL</th>
<th>BENIN</th>
<th>CAMEROON</th>
<th>SSA</th>
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<tbody>
<tr>
<td>Borrowed any money from a formal financial institution or using a mobile money account (% age 15+)</td>
<td>9%</td>
<td>10%</td>
<td>13%</td>
<td>4%</td>
<td>9%</td>
<td>11%</td>
<td>11%</td>
<td>12%</td>
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#### Access to digital payment

<table>
<thead>
<tr>
<th></th>
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<th>Mali</th>
<th>Niger</th>
<th>SAHEL</th>
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<tbody>
<tr>
<td>Made or received a digital payment (% age 15+)</td>
<td>39%</td>
<td>19%</td>
<td>31%</td>
<td>13%</td>
<td>25.75%</td>
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<td></td>
<td>33%</td>
<td>18%</td>
<td>38%</td>
<td>10%</td>
<td>24.75%</td>
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<td>2017</td>
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<td>2021</td>
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<td>2021</td>
<td>2022</td>
<td>2021</td>
<td>2022</td>
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Financial protection against drought is important for Mali

• Between 1970 and 2020, Mali experienced 26 floods and 9 droughts. The latter had a greater impact, affecting over 14 million people.

Drought affects the livestock sector, one of the most important sectors in Mali

<table>
<thead>
<tr>
<th>Importance of the livestock sector:</th>
<th>Importance to pastoralists in Mali:</th>
<th>Consequences of drought:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The livestock sector accounts for 40% of primary sector GDP and around 15% of national GDP.</td>
<td>Geographical distribution of stockbreeders and agro-pastoralists in arid and semi-arid zones in the north and south of the country.</td>
<td>Reduced forage and water availability, impact on livestock productivity and loss of income and wealth.</td>
</tr>
<tr>
<td>Mali has the second-largest livestock population in ECOWAS, with around 60.1 million heads in 2019.</td>
<td>Vulnerability of livestock farmers: overexposure to natural disasters, reduced ability to cope with shocks and recover.</td>
<td>Major food crises caused by drought.</td>
</tr>
</tbody>
</table>
Disaster Risk Financing solutions can strengthen pastoralists' financial resilience

• Disaster Risk Financing (DRF) aims to reduce the socio-economic impact of natural shocks (droughts, floods, etc.).

• For governments, DRF is a key element in building financial resilience and improving budget planning.

• DRF can use market-based instruments (insurance, Cat Bond, etc.) or risk retention instruments (contingent funds, budgetary tools, etc.).

• The FRC can be used to protect governments, households, businesses and farmers.
Indexed-based drought risk financing (IBDRF)

- IBDRF is a DRF instrument that uses satellite observations to monitor weather and climate conditions and trigger payments in the event of a natural shock.
- For pastoralists a product has been developed in East Africa using NDVI, an indicator that measures vegetation quality and enables forage levels to be measured.
- Payments are made to farmers if forage levels threaten livestock survival.
# The benefits of IBDRF

<table>
<thead>
<tr>
<th>For breeders</th>
<th>For the private sector</th>
<th>For governments</th>
</tr>
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<tbody>
<tr>
<td>• Prevent the loss of productive assets and reduce economic losses.</td>
<td>• Improving financial education and financial infrastructure.</td>
<td>• Reduced financial exposure to drought events through advance planning.</td>
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<tr>
<td>• Access to faster financial assistance to protect livestock and facilitate better herd management.</td>
<td>• Preparing for IBDRF implementation.</td>
<td>• Rapid responses and more cost-effective financing to mitigate the impact of drought and reduce the need for humanitarian aid.</td>
</tr>
<tr>
<td>• Reduced risk, encouraging pastoralists to make more productive investments.</td>
<td>• Risk reduction, facilitating private investment in pastoral communities and the livestock value chain.</td>
<td></td>
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</table>
International experience: the DRIVE program

- **4 countries:** Djibouti, Ethiopia, Kenya and Somalia. Others are in the process of joining.
- **$360.5 million:** Mobilization of IDA grants, loans and trust funds.
- **2 objectives:** i) to strengthen the financial resilience of livestock farmers in the face of drought, and ii) to improve their inclusion in the livestock value chain.
- **FRC instruments:** bank accounts, savings, index insurance
Feasibility study on IBDRF in Mali

• Study conducted since 2020 by ILRI with funding from GIIF, FRP/USAID
• Socio-economic (potential demand and cost), technical (product design) and operational (institutional framework and distribution channels) feasibility
• Scenario analysis to shed light on different options
1. Socio-economic feasibility

The 2 conditions necessary for the development of an AIEP program have been met:

1. Importance of the livestock sector to the economy: 80% of households involved in livestock farming

2. Significant impact of drought: average annual losses estimated at 4% of production, and up to 20% for extreme events. Drought also leads to recurrent food security crises in pastoral areas.

Drought risk level in Mali
2. Technical feasibility

Between 15% and 25% of the land could be suitable for an IBDRF product:

• 15% of the country's surface area is perfectly suitable (green zones).
• 10% could be suitable, but require further investigation (orange zones: mixed livestock/crop areas)
• Collectively, these areas are home to 63% of the country's livestock.

Technical feasibility of IBDRF product design
3. Operational feasibility

The implementation of IBDRF solutions faces major operational obstacles:

• Weak capacity of the insurance sector: non-life insurance represents 0.32% of national GDP, weak capacity of players, lack of data.

• Low level of financial education: investment needed in awareness-raising, capacity-building and financial inclusion

• Safety risks

• But favorable regulatory environment (CIMA), experience with crop insurance and strong presence of NGOs, IOs and pastoral associations.
An IBDRF program can be adapted to meet the needs and objectives of public policies.

### Option A: protection for commercial breeders
- Micro-level commercial insurance system
- Objective: Develop the insurance market (supply and demand) and improve farmers' productivity (access to credit, inputs, productive investments).
- Public intervention: subsidies to encourage underwriting (50-70% of the premium), development of the environment (data, financial education, investment facilitation, etc.).

### Option B: Protecting vulnerable breeders
- Macro-level social protection program
- Objective: protect the most vulnerable pastoral households and complement the humanitarian response
- Public intervention: substantial subsidies (90-100% of the premium), targeting and registration of beneficiaries, environmental development
3 POLICY RECOMMENDATIONS
<table>
<thead>
<tr>
<th>Objectives</th>
<th>Policy options (with estimated gains)</th>
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<tbody>
<tr>
<td><strong>Feasible to implement in the short-term</strong></td>
<td></td>
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<tr>
<td><strong>Enhancing effective and targeted social spending to the most vulnerable</strong></td>
<td>Increase the coverage and targeting mechanism of the social programs, particularly the program of emergency cash transfers introduced in the context of the pandemic, to provide income to the poorest households. The government should continue identifying eligible beneficiaries in remote rural areas.</td>
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<td><strong>Mainstreaming disaster-risk financing in Mali’s development agenda</strong></td>
<td>Conduct a stakeholder dialogue to define the policy priorities and objectives of IBDRFI. This dialogue could be anchored to the 2021-25 National Plan for Drought and involve multiple ministries, insurers, regulators, pastoral associations, international organizations, and relevant development institutions</td>
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<td><strong>Improving management of the wage bill</strong></td>
<td>Consider, taking into account the social context, examining wages, bonuses, and the compensation and wage setting policy in the civil service to strengthen efficiency and equity of the wage bill. This could pave the way for a harmonized framework, while reducing the scope of special categories (i.e., bonuses and special advantages).</td>
</tr>
<tr>
<td>Objectives</td>
<td>Public policy options (with estimated gains)</td>
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| **Increasing domestic revenue mobilization**   | • Reduce VAT and customs duty exemptions under the Investment Code and Establishment Agreements outside the mining sector. This could provide up to 0.38 percent of GDP in additional tax revenues.  
• Phase out the petroleum excise (TIPP) exemption on imports in the mining sector as part of a general review of the taxation of this sector. This could generate up to 0.19 percent of GDP of additional tax revenues. |
| **Strengthening public debt management**       | Establish a structural program for the exchange of securities close to their final maturity for securities with longer maturities. This could also help strengthen communication with market participants.                                                                                          |
| **Enhancing stakeholder awareness of index-based disaster risk financing** | Carry out continuous capacity building and awareness raising to improve insurance companies’ knowledge, understanding, and experience of crop and livestock index insurance. This could involve both the private and public sector as well as institutions involved in providing agro-meteorological, extension, and emergency response services. As IBDRFI would be a new solution, public and private sector capacity building could cover the mechanics of insurance, roles and responsibilities, product design, and pricing. |
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