Mali Economic Update, April 2022

RESILIENCE IN UNCERTAIN TIMES: RENEWING THE SOCIAL CONTRACT

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RESILIENCE IN UNCERTAIN TIMES: RENEWING THE SOCIAL CONTRACT

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The economic update is a annual report produced in the context of Mali's macroeconomic monitoring. The report aims to inform the public opinion and development partners on recent economic trends, as analyzed by the World Bank, while providing policy options to improve socioeconomic development. Every year, the report also focuses on a special topic, selected to reflect the most pressing challenges. The special topic for the 2022 edition is motivated by the deterioration of the security environment since 2012, which is increasingly affecting Mali's economy particularly agricultural output.

EXECUTIVE SUMMARY

After an economic recession in 2020, Mali's economic recovery in 2021 was weaker than initially projected and poverty continued to increase. Real GDP contracted by 1.2 percent in 2020 due to the COVID-19 pandemic, the August 2020 institutional change, and a mediocre agricultural campaign. The expected recovery in 2021 was cut short by another institutional change in May 2021, the expansion of violence to the Center, and the continued knock-on effects of the 2020 agricultural campaign[2]. Real GDP grew by 3.1 percent in 2021 which was just above the population growth rate estimated at 3 percent. **As a result, per capita GDP stagnated in 2021** and the national poverty rate remained at 44.4 percent with an additional 50,000 people in extreme poverty.

Growth in 2021 was mainly supported by a rebound in consumption and an expansion of services in a context of growing inflationary pressures and intensifying food insecurity. Public consumption remained buoyant in 2021, driven by the rising wage bill and the extension into 2021 of several supportive fiscal measures in the COVID-19 response policy package. Private consumption benefited from the same fiscal measures and private investment also showed signs of resilience, particularly in residential construction. The recovery in cotton exports in 2021 was offset by a decrease in gold exports. At the same time, imports recovered in 2021 alongside domestic demand. On the supply side, the recovery was led by services consistent with the relaxation of containment measures. Manufacturing experienced a modest rebound. Food agriculture continued to decline in 2021 adding to inflation pressures and contributing to the current food insecurity crisis. In 2021, 1.3 million people, experienced an increased level of acute food insecurity representing the highest level recorded since 2015. Inflation rose to 4 percent in 2021, pushed by foodstuffs (5.2 percent) particularly cereal (8.9 percent).

The fiscal deficit decreased but remained high in 2021 and public debt continued to increase. The fiscal deficit declined to 4.7 percent of GDP in 2021 and was contained by the limited access to external concessional financing as a result of the two institutional changes as well as the authorities' commitments under the IMF's ECF program. Revenue and expenditure expanded by about 1.2 percent and 0.8 percent of GDP respectively in 2021. Fiscal revenues were boosted by higher indirect tax collections, including on international trade with the recovery of

2 See the 2021 Economic Update (World Bank (2021b) for more details: https://openknowledge.worldbank.org/handle/10986/36063

imports, and the phasing-out of several COVID-19 related tax relief measures introduced in 2020. Expenditure also increases mainly on account of wage bill hikes to dampen social tensions, continued COVID-19 related spending, and higher tax expenditures to contain food prices. The deficit was financed predominantly through new bond issuances on the regional market, as external sources of finance dried up with the retrenchment of donor support. Mali's stock of total public debt increased by 4.6 percentage points of GDP to reach 52 percent of GDP at end-2021. More than 80 percent of the new debt was contracted domestically on the regional market. The country remains at a moderate risk of debt distress (WBG-IMF Joint DSA, February 2021).

The banking sector remained sound and credit to the economy continued to expand in 2021. As of September 2021, the share of non-performing loans (NPLs) in total loans was unchanged at 10.4 percent as compared to 2020. The banking sector had among the strongest capital buffers in the WAEMU region and overall adequate liquidity cushions when the pandemic hit, but pockets of vulnerability have been intensified by the pandemic. Credit to the economy maintained a growth rate of 4.3 percent (4.4 percent in 2020) and concentrated in sectors particularly affected by the pandemic (as of June 2021, 45.3 percent of the bank loans went to retail and wholesale trade, restaurants, and hotels).

With heavy ECOWAS and WAEMU sanctions in place since January 2022, Mali's economic prospects for 2022 have been lowered and are subject to significant downside risks. The postponement of the elections scheduled for February 2022 in the transitional charter for a period of up to 5 years led the ECOWAS and WAEMU to re-introduce new regional sanctions on January 9, 2022, including the suspension of commercial transactions with the exceptions of essential goods (food, pharmaceuticals, petroleum products and electricity), the suspension of financial transactions, including access to the regional money and capital market, the freeze of public assets in the Central Bank and commercial banks, and the suspension of regional financial assistance, mainly from the ECOWAS Bank for Investment and Development (EBID) and West African Development Bank (WADB). No agreement had been reached by the end of March 2022 between the transitional government and ECOWAS on the election timetable. If the sanctions are lifted early in the second quarter of 2022, economic growth could still stay in positive territory in 2022 with real GDP growth around 3 percent - 2 percentage points lower than what it was projected to be without sanctions. However, if the sanctions were to last two quarters or longer, the Malian economy is likely to fall back into recession in 2022 and the medium-term outlook would also be compromised.

Mali is dealing with a situation of increased fragility, conflict, and violence (FCV) that is inflicting a growing toll on the economy. Since 2012, both the frequency and lethality of violent events have surged. Fatalities have increased close to four-fold and the number of violent events surged nearly six-fold. Violence has also spread out from the northern to the agricultural central regions, particularly Mopti and Ségou, and, more recently, to the southern region's main economic centers. It is estimated that the crisis costed the equivalent of 23 percent of GDP between 2012 and 2018, mainly due to depressed confidence and forgone private investments, estimated at US$5.3 billion, including US$3.2 billion of FDI. On the supply side, services (particularly telecommunications, trade, and public services) as well as agriculture have been the most significantly affected the conflict.

Growing fragility, conflict, and violence is adversely affecting local government finances and severely impacting basic service delivery and infrastructure, hampering the decentralization process. Armed attacks have had the effects of reducing local public revenues, at times on a prolonged basis. As a result, local service delivery has been severely disrupted. Attacks by various armed groups have also resulted in damage to infrastructure, further obstructing access to public services. In the Kidal region, the immunization rate has fallen to less than 1 percent. Deterioration in education and other basis services led to a ten-percentage point reduction in Mali's multidimensional poverty.

Development policies, as laid out in the Strategic Framework for Economic Recovery and Sustainable Development (CREDD 2019-2023) need to focus on addressing the root causes of fragility, conflict, and violence. These include: (i) shortcomings in service delivery and governance that have eroded confidence towards institutions over years; (ii) poorly regulated competition over natural resources that are increasingly scarce and under demographic pressure; (iii) significant weaknesses in the security and justice sectors; and (iv) a succession of unresolved subnational conflicts that perpetuate cycles of violence. Addressing these drivers of conflict requires supporting a more inclusive management of natural resources, prioritizing prevention of conflict expansion through the strengthening of a positive state presence in fragile areas, accelerating the deployment of institutions outside capital cities and strengthening local capacity, and reducing corruption and building trust and confidence in the state-citizen relationship.

Summary Table 1 Policy options to strengthen macro-fiscal sustainability and reduce poverty and fragility risks

Area	Objective	Actions
Chapter 1: Creating fiscal space to meet rising security and social needs and protecting the poor and vulnerable	Improve domestic revenue mobilization	• Continue the deployment of the electronic tax payment system and extend it to all large and medium-sized firms by the end of 2022.
	Improve public financial (cash) management	• Expand the Treasury's Single Account's (TSA) coverage from around 15 public entities covered at end 2021 to include all 125 public entities identified by the TSA implementation commission by end 2022.
	Improve management of the wage bill	• As a first step towards controlling the wage bill, the Ministry of Finance should undertake an in-depth study of wages, bonuses, and the compensation and wage setting policy in the civil service to strengthen efficiency, equity of the wage bill while preserving fiscal sustainability. This will pave the way for a harmonized framework, while reducing the scope of special categories.
	Improve food security and reduce food poverty	• If the authorities maintain food export restrictions as part of the response to rising food price inflation, the Ministry of Agriculture should make this policy transparent and based on existing early warning signals. • 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.

Area	Objective	Actions
Chapter 2: Building the foundations for a renewed social contract	Address spatial inequalities	• Rebalance public investment towards underserved territories • Increase access to quality health and education services in rural areas to reduce access disparities with cities.
	Reinforce a positive state presence in conflict-affected and fragile areas	• Increase efforts to deploy human and financial resources outside of the capital. • Develop a proximity or mobile judicial institution particularly in rural isolated areas, with a focus on ensuring equality of treatment for all under the law. • Identify in coordination with all stakeholders, the cattle grazing and transhumance areas to reduce conflict risks between farmers and pastoralists.
	Address violent conflicts in the border areas	• Set up joint fora with border municipalities in Burkina Faso and Cote d'Ivoire, extended to traditional leaders, to strengthen collaboration and create a platform of discussion with defense and security forces.
	Combat corruption and enhance transparency	• Strengthen transparency, the legal framework and the effective application of laws is necessary to combat corruption.

1 MACROECONOMIC AND POVERTY DEVELOPMENTS

1.1 Recent economic and poverty developments

Real sector

The institutional change of May 2021, which is a continuation of the one of August 18, 2020, the insecurity which is increasingly affecting food production strongholds in the Center and continued disruptions to international trade led to a limited recovery in 2021.

Real GDP growth experienced a limited recovery in 2021, underperforming initial projections. Mali entered a recession in 2020 (-1.2 percent GDP growth), as a result of the pandemic, an unsuccessful cotton campaign, and the institutional change in August 2020. Economic growth recovered at a modest rate (3.1 percent, or 0.1 percent in per capita terms) in 2021, underperforming initial projections. This reflects the 2021 institutional change, the knock-on effects from the 2020 unsuccessful agricultural campaign, an expansion of violence to the Center, inadequate rainfalls, persistent disruptions to global trade and the easing of international gold prices after the high growth levels of 2019-2020. The subdued recovery was mainly led by services, consistent with the relaxation of containment measures, and a strong rebound of export (cotton) agriculture, reflecting higher farmgate prices and the introduction of various financing tools to farmers. Food agriculture production continued to decline in 2021 adding to inflation pressures, which rose to 4 percent in 2021, pushed by foodstuffs (5.2 percent) particularly cereal (8.9 percent). In contrast, manufacturing experienced a modest rebound as a result of lower textile production, in relation to the limited 2020 cotton production. As a result, per capita GDP stagnated in 2021 and the national poverty rate stabilized remained at 44.4 percent with an additional 50,000 people in extreme poverty.

The service sector recovered in 2021 but was slowed by lasting effects of the pandemic. Private services particularly in the hospitality and trade sub-sectors were severely affected by the health crisis and associated containment measures in 2020. However, most service activities recovered in 2021 including trade, transport and telecommunications highlighting the easing of international trade perturbations and the suspension of border closure measures in the region. However, the hospitality sector continued its contraction in 2021, hard-hit by the lingering effects of the pandemic on international travels, the political uncertainty caused by the May 2021 institutional change, as well as short-lived containment measures introduced early 2021 to slow the local outbreak of the COVID-19 delta variant. Most other services including, education, health and firm services also rebounded in 2021, as a result of the overall economic recovery.

Overall, agricultural production rebounded in 2021, led by cotton production, and despite growing insecurity in food production strongholds. This is mainly due to a strong recovery of cotton production in 2021 (10.4 percent relative to 2019) following the drop in 2020. The exceptional upturn in the production of the country's second largest export reflects a combination of an adequate rain season, an agreement between the Ministry of Agriculture and producer associations to raise the farmgate price, and the establishment of two financial instruments to support farmers equipment and priority needs. In contrast, despite the large-scale distribution of subsidized seeds to farmers, food agriculture contracted further in 2021 due to several factors: (i) farmers shifting to cotton as a result of the higher farmgate prices, (ii) reduced access to inputs due to trade disruptions and (iii) growing insecurity in productive strongholds which also limited farmers' access to the fields and constrained availability of inputs. Meanwhile, livestock production decelerated its growth in 2021, and continues to increasingly bear the cost of insurgent attacks in the North.

Manufacturing continued to shrink in 2021 due to input shortages and an easing in the growth of international gold prices. The extremely low cotton production in 2020, and regional import disruptions led to a sharp contraction of textile manufacturing, which relies heavily on domestic cotton input. At the same time, the limited food agricultural production in 2020, combined with persistent perturbations to supply networks both globally and in the region, created significant shortages of critical food commodity inputs, thereby limiting the output of agrifood processing. Gold mining is estimated to have also declined (-2.5 percent y/y) in 2021 reflecting the easing of international gold price growth (GEP projections of 1.4 percent y/y increase in 2021) and persistent insecurity affecting artisanal mining. In contrast, construction rebounded in 2021 as private residential investment recovered from the lows of 2020.

The weak recovery in 2021 was nonetheless supported by a rebound of both private and public spending. The pandemic, associated effects and the government's response led to a sharp decline in private and public investment in 2020. Public consumption continued to surge in 2021, after rising in 2020 due to higher social spending to combat the effects of the pandemic. The increase in 2021 was driven by the rising wage bill related to the harmonization of the salary bands and the extension into 2021 of several measures in the COVID-response policy package. This was somehow offset by a decline of non-priority public investment, reflecting the reduced access to external financing and the continued tightening of externally financed public investments as several partners paused their engagements. Meanwhile, private consumption continued to grow in 2021, supported by remittance inflows while private investment rebounded, particularly in residential constructions. The rebound in cotton exports in 2021 was offset by a decrease in gold exports. At the same time, imports recovered in 2021 alongside domestic demand.

Under international trade disruptions linked to the COVID-19 pandemic and insecurity, domestic prices surged in 2021. The inflation rate accelerated to 3.9 percent in 2021 versus 0.5 percent in 2020 and minus 3.0 percent in 2019. This 2021 increase in the inflation rate is mainly due to the rise in the price of "food products, non-alcoholic beverages" (3.9 percent), health products (8.1 percent), products related to communication (3.3 percent), and those of leisure and entertainment (21.5 percent). The contribution of food in the overall price index is 76.9 percent in 2021. Elevated inflation is likely to continue given the poor agricultural campaign in connection with the low rainfall in 2021.

The rise in food prices adds pressure on poverty and food insecurity. Food and non-alcoholic beverages prices rose by 5.2 percent in 2021 against an increase of 2.5 percent in 2020. This rise in food prices is largely due to the increase in the prices of certain food products, see Table 2-1. High food inflation and insecurity disproportionately impact poor and vulnerable households, who spend 46 percent of the budget on food, compared with 31 percent for the non-poor.

Table 1.1 Mali: Inflation for selected food products (2019-2021)

Food products	2019-2020 increase in price (%)	2020-2021 increase in price (%)
Imported rice (kg)	5.7	8.7
Grain millet (100kg)	2.8	8.1
Local rice (kg)	3.8	6.2
Local maize (100kg)	-0.1	18.5
Sorghum (kg)	-0.3	4.2
Beef with bones (kg)	4.0	10.6
Fresh meat sheep (kg)	2.6	10.0
Local chicken (kg)	4.8	3.3
Fresh chicken egg (kg)	18.8	11.8
Guinea Fowl	5.6	5.1
Imported butter (kg)	9.5	2.3
Peanut oil (liter)	-5.1	15.7

Source: *INSTAT, 2022.*

Public finance, public and publicly guaranteed debt

The fiscal deficit declined to 4.7 percent of GDP, despite growing security allocations and further increases to the wage bill. As a result, public debt continued to rise in 2021, with a growing share of expensive domestic debt in the portfolio.

The fiscal deficit declined from 5.4 percent of GDP in 2020 to 4.7 percent of GDP in 2021 despite fiscal pressures to respond to social challenges and insecurity while supporting the recovery. The fiscal deficit rose to 5.4 percent of GDP in 2020 as a result of the economic recession, COVID-19 related spending, and an increased wage bill. The deficit remained high but declined to 4.7 percent in 2021, reflecting the continuation of COVID-related spending, tax expenditure measures to contain food prices and further increases to the wage bill. Public expenditures also increased due to additional election-related outlays[3], and extra military spending in a context of rising insecurity. Meanwhile, fiscal revenues particularly indirect tax collections were boosted by the recovery of imports in 2021, and the ending of several tax relief measures introduced in 2020 to combat the

3 The 2021 Budget execution shows that an amount of CFAF 30 billion (0.3 percent of GDP) was executed on the preparation of elections (initial budget allocation being CFAF 55 billion) despite the absence of the elections (MEF 2022).

economic fallout from the pandemic. Despite the additional spending needs and the retrenchment of grants and donor support, the fiscal deficit was contained in 2021 due to the lack of available financing and authorities' commitments under the IMF's ECF program. The deficit was financed predominantly through new issuances on the regional market, with limited external concessional loans. The SDR allocations (1.3 percent of GDP), on-lent from the BCEAO, were not used to finance the deficit in 2021.[4]

Despite growing insecurity, fiscal revenues rebounded in 2021, responding to the economic recovery, and increased digitalization at the tax office. The economic recession and lower imports led to a sharp contraction of indirect taxes (VAT) and custom revenues in 2020. However, total revenue and grants picked up and reached 22 percent of GDP in 2021. The increase was mainly driven by fiscal revenues (see Annex 1), particularly indirect domestic tax collections, as a result of a reduction in disruptions to international trade and the relaxation of containment measures. Income tax collections, which respond to economic conditions with some lags, recovered slightly, despite growing insecurity eroding agricultural incomes. The strong performance in tax collection is also linked to the extension of electronic tax filing to all large firms in 2021, effective through the deployment of an electronic payment platform in the Standard Integrated Government Tax Administration System (SIGTAS).

Public expenditures continued to increase in 2021, driven by the wage bill and growing security spending. Public spending reached 26.7 percent of GDP in 2021, compared to 25.9 percent of GDP in 2020. Reflecting a series of agreements concluded with the trade unions over 2019-2020, the wage bill which had already increased in 2020 by 1.2 percentage point of GDP, further increased in 2021 by 1.1 percentage point of GDP. Meanwhile, the COVID-19 response package adopted by authorities to contain the social and economic fallout of the pandemic was extended into 2021, with an additional spending of 0.6 percent of GDP. At the same time, security spending continued its rise, in a context of growing insecurity, increasing from 5.2 percent of GDP in 2020 to 6.4 percent of GDP in 2021 equivalent to a 31.4 percent increase. As a result of the current expenditure rise and following the retrenchment of donors since August 2020, capital spending experienced a modest increase of 0.4 percent to 6.7 percent of GDP.

Total public debt accelerated in 2021 due to the enlarged financing needs and the retrenchment of donor support. At end 2021, Mali's stock of total public debt reached 52 percent of GDP; an increase of 4.6 percent of GDP as compared to 2020 (see Annex 1). This increase reflected large financing needs to tackle the pandemic and the security crisis, lower international donors support since the August 2020 institutional change, and rising interest costs on the portfolio of domestic debt. Meanwhile, the shift in the composition of public debt continues with the share of domestic debt increasing as a result of contraction of external donor support since the August 2020 institutional change. External public and publicly guaranteed (PPG) debt reached 29.8 percent of GDP at end 2020 and 30.7 percent of GDP at end 2021. The stock of domestic debt which increased substantially from 6.3 percent of GDP in 2014 to 17.5 percent of GDP in 2020, further accelerated in 2021, reaching 22.0 percent of GDP.

4 The authorities planned to use the extra resources from SDR allocation for debt service and retiring more expensive debt. So far, the resources have not been used.

External sector

The external position weakened by deteriorated terms of trade and rising domestic demand while overall balance of payment remained positive, strengthening the reserves of the regional central bank.

The current account deficit (CAD) in 2021 widened following the terms of trade deterioration and recovered domestic demand. The external position in 2020 was markedly strengthened on the back of favorable terms of trade, as gold (82% of exports in 2020) prices surged and oil (28% of imports in 2020) prices plunged.[5] Combined with retrenched domestic demand, the current account deficit in 2020 reduced to 2.3 percent of GDP in 2020 (from 7.3 percent in 2019). The CAD is projected at 4.3 percent of GDP in 2021, as the recovering global economy drove up oil prices (67.3 percent, annual average) while gold prices stabilized (1.6 percent, annual average). Mercantile exports in 2021 declined by 2.6 percentage points to 24.7 percent of GDP due to a drop in gold production (-2.5 percent in volume and -5.9 percent in value) and despite a cotton export volume rebound (10.9 percent increase relative to 2019). Mercantile imports picked up by 2.3 ppts to 27 percent of GDP, driven mainly by petroleum products (petroleum import bill increased by 41 percent in 2021 compared the 2020 oil bill) as oil prices soared. Remittance inflows are estimated at US$973 million (around 5 percent of GDP), around the same level as in 2020 but 5 percent below the 2018-19 level.[6]

The capital account improved with slightly higher project grants from external development partners. The financial account weakened due to declines in both private and official inflows, as the second institutional change (May 2021) and the uncertain timeline of the democratic transition clouded investment outlook and discouraged lending from external partners. The overall external position in 2021 remained strong (albeit much less than that of 2020), leading to an overall positive balance of payment (1.4 percent of GDP, compared with 4 percent in 2020), and contributing to the accumulation of regional reserves at the BCEAO.

5 The exports are dominated by gold and cotton, representing 78 and 10 percent of total export value (2018-19 average).

6 Remittance inflows (not net remittances) estimates are sourced from KNOMAD (as of November 2021).

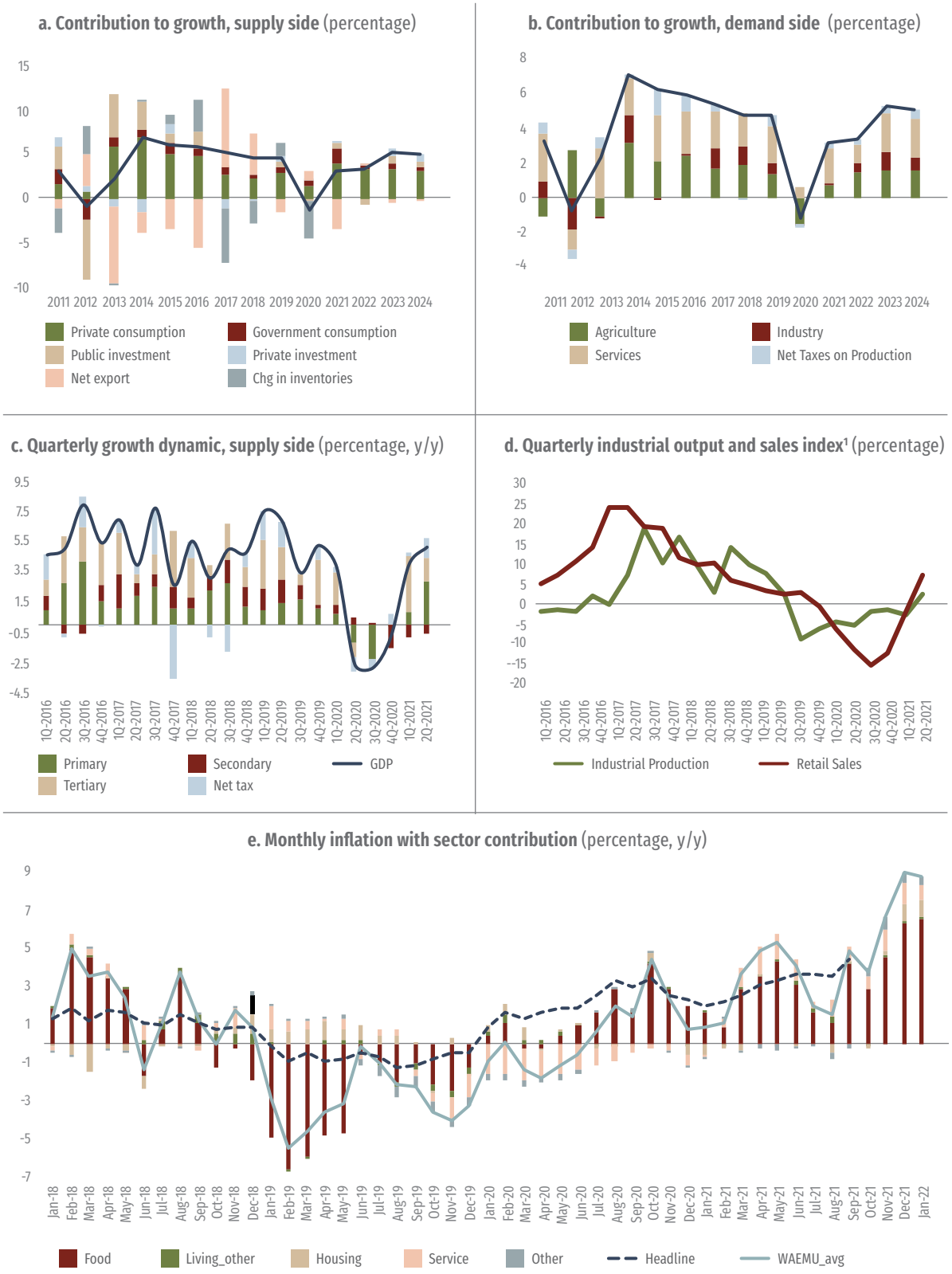
Money and finance

Monetary policy continued to be accommodative to support the region's economic recovery.

Mali's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which extended the accommodative monetary measures introduced in March 2020. BCEAO maintains a peg between the CFA Franc and the Euro. Its reserves reached 5.8 months of imports of goods and services in 2021, with increased exports, the 2021 SDR allocation and portfolio inflows linked to Eurobond issuances. To support the financial sector, the regional central bank continued the special refinancing operation of refinancing the 6-month renewable COVID recovery bonds (which replaced the COVID-19 treasury bills) at a fixed rate of 2 percent. The BCEAO also increased the supply of liquidity to banks and expanded access to the refinancing facility. As such, the BCEAO has been holding fixed-rate auctions at its auction windows since March 2020 and has expanded financing access to 1,700 new firms.

The banking sector remained sound and credit to the economy continued to expand in 2021. As of September 2021, gross non-performing loans (NPLs) of total loans stayed at 10.4 percent, from 10 percent in December 2020 which partly reflected the regulatory forbearance in 2020 (which expired in March 2021) due to the pandemic. The temporary regulatory forbearance on NPL classification and provisioning related to repayment difficulties due to COVID-19 and postponement of debt service falling due may have helped contain the impact of the pandemic on asset quality indicators. The banking sector had among the strongest capital buffers in the WAEMU region and overall adequate liquidity cushions when the pandemic hit, but pockets of vulnerability have been intensified by the pandemic. Asset quality remained relatively weak, and lending is highly concentrated in sectors that could be strongly affected by the pandemic. Credit to the economy maintained a growth rate of 4.3 percent (4.4 percent in 2020) and concentrated in sectors particularly affected by the pandemic (as of June 2021, 45.3 percent of the bank loans went to retail and wholesale trade, restaurants, and hotels).

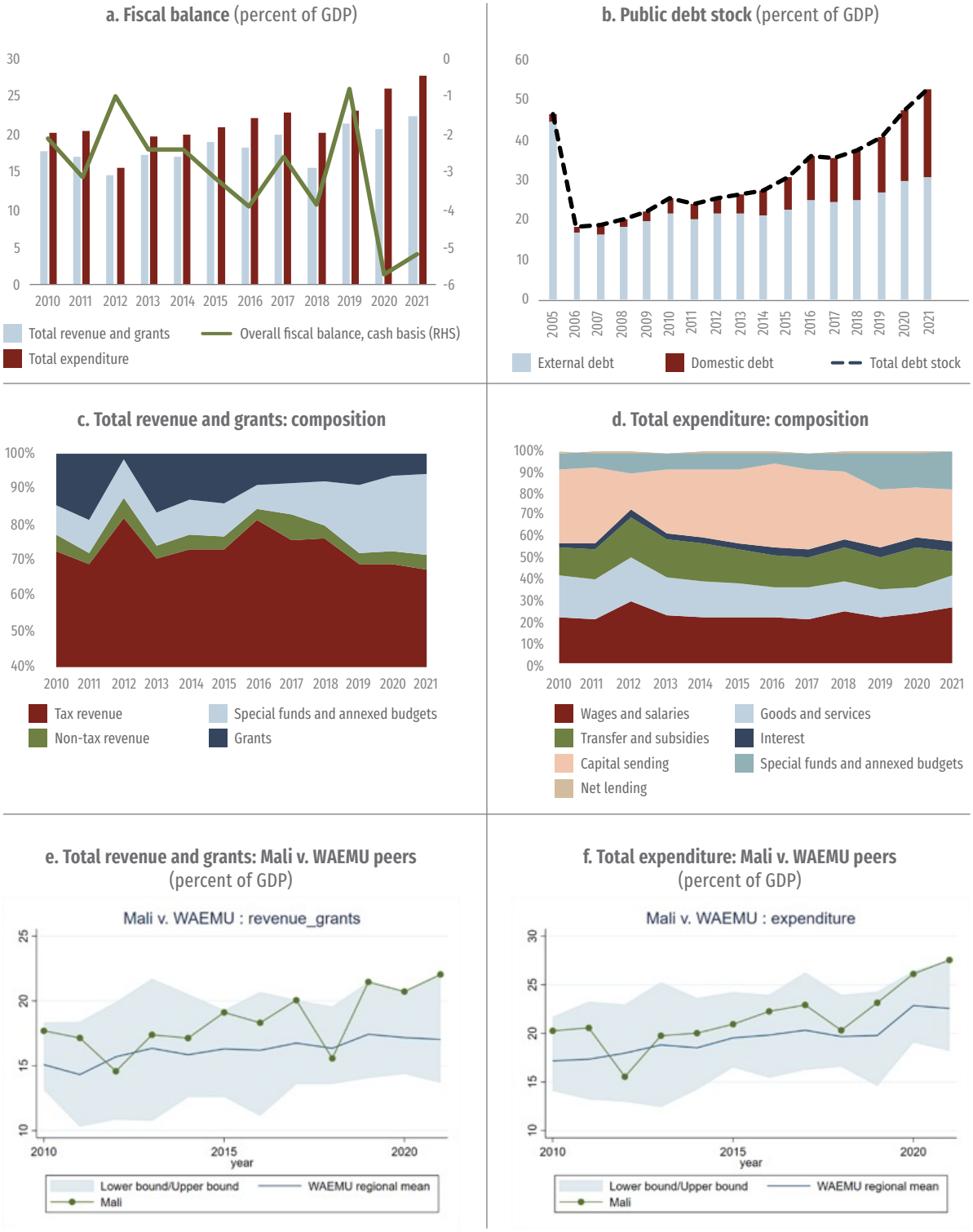
Figure 1.1 Real Sector Development



Source: *INSTAT, BCEAO, WBG and staff calculations.*

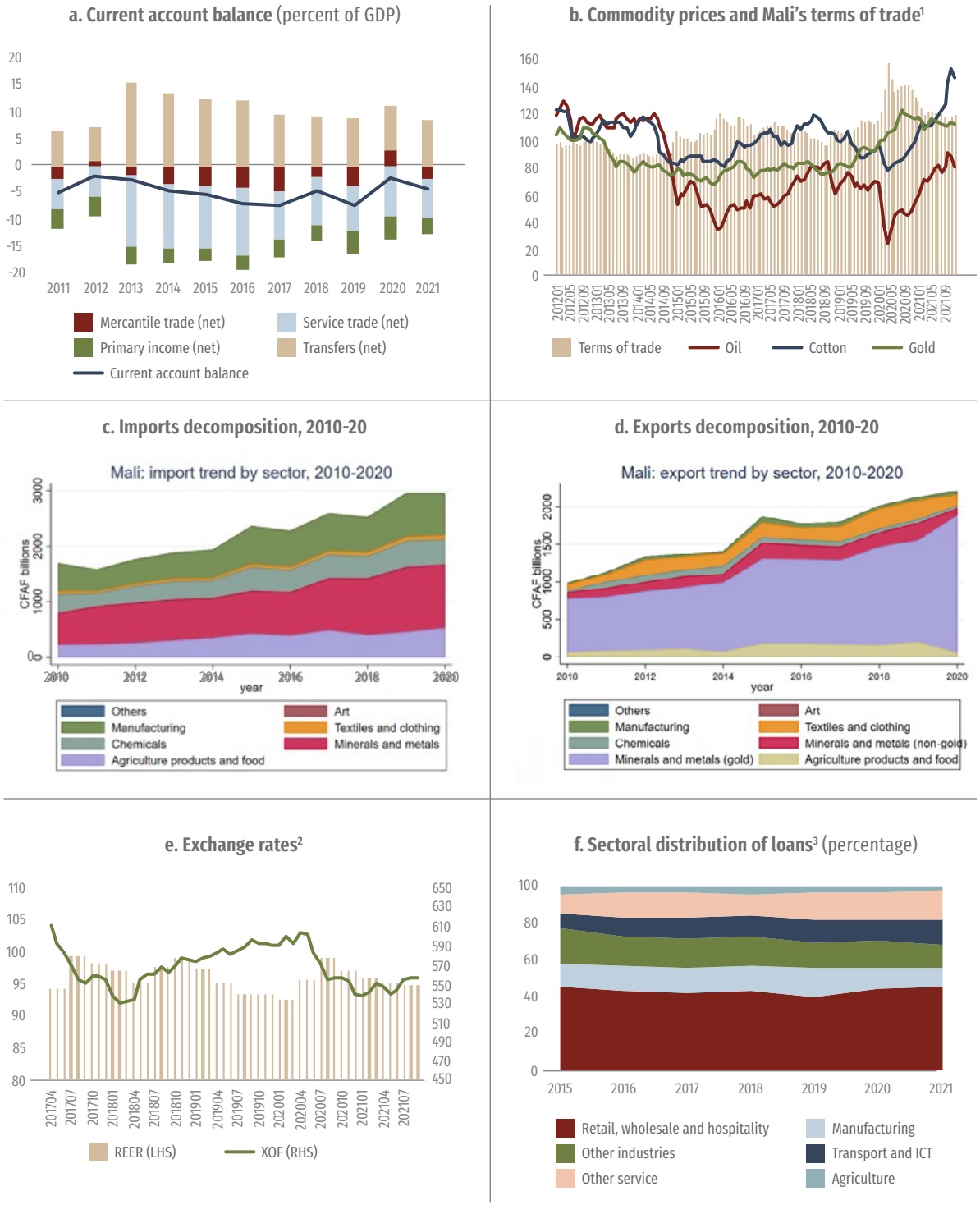
Note(s): *1/ Four-month moving average (4QMA) of quarterly growth (y/y) of industrial output and sales. Both series are indexed (2013=100).*

Figure 1.2 Fiscal Accounts and Debt Stock



Sources: *Malian authorities, IMF, WBG and staff calculations.*

Figure 1.3 External and Monetary Accounts



Source(s): *BCEAO, INSTAT, IMF, WBG and staff calculations.*
Note(s): *1/ Monthly commodity prices and terms of trade, all indexed (2012m6 = 100).*
2/ Index for REER (2013=100), exchange rate is expressed as XOF/USD.
3/ Information of the use private credits as of November 2021.

1.2 Economic outlook and risks

Growth is expected to be modest due to the regional sanctions

On January 9, 2022, ECOWAS and WAEMU imposed new and heavy economic and financial sanctions on Mali.[7] The decision was triggered by the postponement by the transitional government of general elections previously scheduled for February 2022. The sanctions fall under four major categories: (i) the suspension of commercial transactions with the rest of ECOWAS except for essential goods (food, pharmaceuticals, petroleum products and electricity), (ii) the suspension of financial transactions with the region, including access to the money and capital market, (iii) the freeze of public assets being held in the Central Bank and regional commercial banks, and (iv) the suspension of regional financial assistance, mainly from the ECOWAS Bank for Investment and Development (EBID) and West African Development Bank (WADB). To date the sanctions have been generally enforced and mostly binding with the trade sanctions strictly enforced while enforcement of the financial sanctions has been less strict.

If the sanctions are lifted early in the second quarter of 2022, economic growth could still stay in positive territory in 2022. If sanctions are mostly limited to the first quarter of 2022 and the announced mitigation measures by authorities is assumed to cushion the adverse effects of the trade embargo on net exports, real GDP growth could still reach around 3 percent - 2 percentage points lower than what it was projected to be pre-sanctions. On the demand side, the bulk of the lower expected growth is linked to lower public investment (because of limited budget resource) and lower private investment (due to growing uncertainty). In this scenario, which also captures the authorities' response (promoting alternative transit corridors, reshuffling public expenditures by prioritizing essential social functions, establishing new partnerships with customs' units in Guinea and Mauritania, etc.), public and private consumption growth will be relatively less affected by the sanctions. On the supply side, this outlook reflects the sanctions' projected impacts on the construction and service sectors, heavily dependent on regional supply networks. Assuming no further sanctions, growth is expected to recover gradually, reaching 5.2 percent on average over 2023-24. Inflation will continue to increase in 2022 and normalize over the medium-term towards the regional target (2 percent) by 2024.

Conditional on the lifting of sanctions by the beginning of the second quarter, the fiscal deficit is expected to narrow to 4.5 percent of GDP in 2022, before gradually converging to the WAEMU ceiling of 3 percent by 2025. This reflects the fiscal consolidation commitment under the IMF ECF program. Tax revenue is expected to decline in 2022 due to the slow recovery, trade embargo and delayed reforms. Spending is projected to be reprioritized away from non-priority capital investment in 2022 due to the sanctions. The suspension of international financial flows left the country with limited financing options. The financing needs are nevertheless expected to be covered by concessional credits, increased domestic borrowing and resources from the SDR allocation once sanctions are lifted. Following the fiscal consolidation roadmap, the deficit should continue to decline to 3 percent of GDP by 2025, supported by programmed fiscal policy reforms and continued improvement in expenditure efficiency. Public debt will subsequently decline to 48.2 percent of GDP.

7 Upon request from the transitional authorities, A WAEMU court ordered the immediate suspension of the economic and financial sanctions on March 24, 2022, but the decision has not yet been implemented.

The current account deficit (CAD) is projected to stabilize around 4.2 percent of GDP in 2022, before gradually declining. Despite gold prices potentially rising in the near term, the terms of trade are expected to deteriorate in 2022 as oil prices accelerate. Assuming a full resumption of commercial exchange once the sanctions are lifted, import demand will continue to recover leading to a deterioration of the trade balance in 2022. Remittance inflows, which are not being affected by the sanctions, are projected to accelerate in 2022, to absorb some of the economic fallout from the sanctions but should be offset by limited external transfers and grants. The CAD is expected to gradually decrease to 3.5 percent of GDP by 2025 following the easing of oil prices. Meanwhile, with the political uncertainty, external capital and financial inflows are projected to decline in 2022 but expected to slowly pick up over the medium term.

Given the modest total GDP growth and negligible GDP per capita growth, the national poverty rate is expected to stagnate at 44.03 percent in 2022 and the number of poor will likely increase to 9.3 million. For a material reduction in the absolute number of poor, annual real GDP growth would need to be significantly above Mali's high population growth rate (2.9 percent over 2021-2023). Protracted sanctions are likely to reduce employment and incomes for the urban poor engaged in construction, transport, commerce and hospitality. Internally displaced persons and refugees will increasingly flock into Bamako when the government is ill-equipped to mitigate humanitarian crises and support the vulnerable.

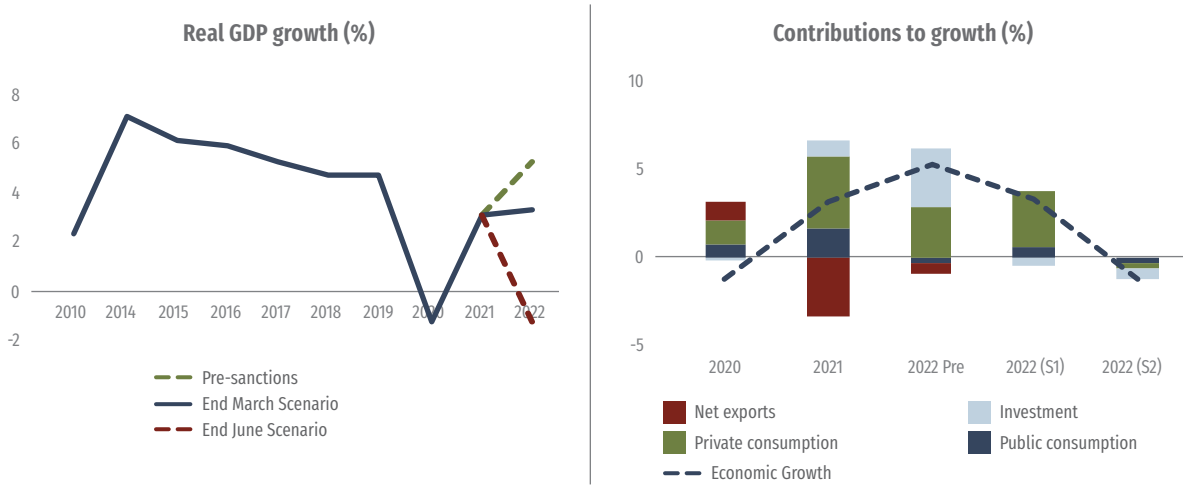
Outlook is subject to significant downside risks

The above outlook is highly uncertain and subject to significant downside risks from protracted sanctions, political uncertainty, rising insecurity, and climatic shocks. In the absence of agreement on the political transition, protracted sanctions will further impede growth prospects in 2022 and beyond. Longer delays in the return to democratic rule would heighten the political uncertainty and dampen private investment including FDI and financial flows and growth. Public finance would be subject to further financing stress and a disorderly fiscal adjustment, including accumulation of domestic and external payment arrears. Meanwhile, rising insecurity continues to disrupt agricultural and pastoral activities in the Northern regions and increasingly agricultural strongholds in the Center region. In 2021, violent incidents accelerated in the country, with growing numbers of reported fatalities. In 2022, new military operations (Keletigui and Maliko) have been launched in an effort to improve security Central Mali. Climatic hazards represent another source of ongoing risk to rainfed agriculture production. With limited irrigation systems in Mali, irregular and insufficient rains affect water availability, contributing to a higher volatility of agricultural output.

Assuming that the sanctions remain in place until end June 2022, it is projected that the economy will enter a recession with GDP growth projected at around -1 percent in 2022. On top of the private and public investment losses mentioned above, private consumption and public consumption will decline relative to 2022. Private consumption will contract by 0.6 percent in 2022 reflecting job losses from large and medium-sized firms as a result of a deterioration of businesses' liquidity position. Remittance inflows which act as a shock absorber to consumption will rise to offset some of the losses but will not be enough to avert a private consumption decline. Public consumption will be reduced as a result of the economic recession, a lasting of the freezing of public assets and a prolonged loss of external financing, which would not be recovered even if the sanctions are lifted later in 2022.

The projected recession in the second scenario would affect agriculture, construction, manufacturing, and retail trade in particular. If extended through end-June, the sanctions would lead to a decline of agricultural value added by disrupting the timely access to critical inputs (seeds, fertilizers, etc.). The agricultural cycle which begins with the onset of rains in May-June requires these inputs to be available for distribution to farmers by end April. Despite muting some of the projected impacts, the alternative sourcing of imports through the Ports of Nouakchott and Conakry will still be more costly and therefore reduce value added in the sector.[8] A longer duration of the sanctions is also expected to further hurt construction, manufacturing, and retail trade as available stocks gradually dissipate, and due to higher costs of intermediate materials, assuming that these could still be imported via the neighboring ports of Nouakchott and Conakry.

Figure 1.4 GDP growth and demand contributions across the scenarios



Source: *World Bank Staff simulations*
Note: *The projections for 2022 are labeled as: Pre (before sanctions), S1 (sanctions end by early Q2) and S2 (sanctions end by Q2).*

Political instability and rising insecurity in Mali have already shown how they weigh on economic activity. Since 2012, the country has witnessed three institutional changes, and a persistent expansion in the scope and lethality of violent attacks. The political instability has fueled uncertainty and affected investments in the private sector and also in the public sector by reducing the fiscal space for non-priority functions. Armed attacks and intercommunal conflicts have hampered agricultural and pastoral activities. This has contributed to the decline in average GDP growth from 4.8 percent during 2005-2011 to 4.4 percent during 2012-2019. Chapter II highlights the recent evolution of the crisis and assesses their impacts on Mali's economy.

8 For instance, the corridor Bamako-Nouakchott (1432 km) is longer than the Bamako-Dakar (1360 km) and Bamako-Abidjan (1153 km) corridors. Plus, differences in road quality and currencies add to transport and transaction costs.

Impact of inflation on poverty

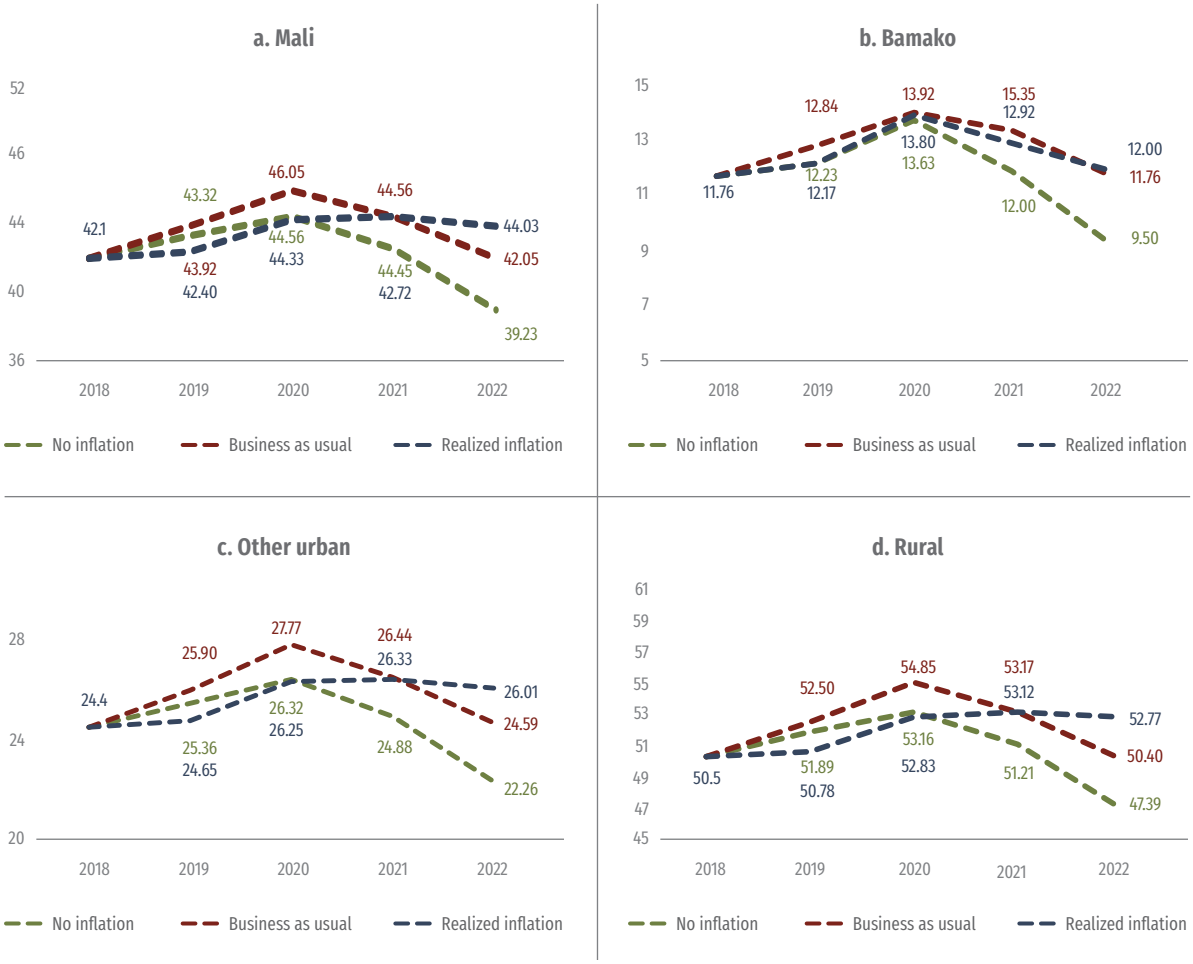
The outlook for poverty reduction will be hampered by higher inflation in 2022. The movement in international commodity prices affects Mali and its population. The country relies on imports (rice) to complement national production, which is concentrated in a few products and faces many disruptions, particularly in the agricultural sector. While the price tends to be relatively stable in the country, the recent changes in international prices has affected the country. Between 2018 and 2022, the consumer price index increased by 0.5 percent in 2020, 3.9 percent in 2021 and is expected to increase by 7 percent in 2022. If no price stabilization measures are envisaged, the annual inflation rate is projected to peak in August and September 2022 at 6.5 percent before falling back to 5.3 percent in December 2022.

A simulation analysis is used to evaluate the impact of inflation on headcount poverty. Using a demand system estimation to account for behavioral responses of households to a given change in food prices, we simulate three different scenarios to assess the impact of inflation on poverty in Mali (Figure 2.5). In the first scenario (no inflation), households experienced the same price as in 2018 during the next 4 years (2019, 2020, 2021, and 2022). In the second scenario (business as usual), inflation in 2019–22 is considered the same as in 2018. In the third scenario (inflation realized), it assumed that household faced the level of inflation that has been realized during each year plus the projection in 2022. For each of these scenarios, it is further assumed that households' income increases at the same rate as the growth rate of the nominal GDP per capita. Given that poverty data are from 2018, the simulation baseline line is 2018.[9]

Inflation negatively impacts households living conditions, particularly the poorest and vulnerable households. In 2022, the gap between the estimated national poverty rate (44.03 percent) for the 7 percent projected inflation scenario is 4.8 percentage points higher than what the poverty rate would be (39.2 percent) if prices had remained the same as in 2018. However, the national poverty rate for the realized inflation and the business-as-usual scenario are likely the same in 2021 and 2022. Indeed, while households experienced large increases in prices, they benefited from the economic growth which allow them to compensate some of their loss of purchasing power due to inflation. The effect of inflation on poverty seems to have been moderate in urban areas compared to rural areas.

9 See Annex 2 for methodological details of the analysis.

Figure 1.5. Impact of inflation on poverty rates (percent of total population)



Source: *World Bank staff calculations using data from EHCVM 2018/2019 and consumer price index (Indice harmonisé des prix à la consummation, IHPC).*

Note: *In the first scenario (no inflation), it is assumed that household face the same price levels as 2018 (the year of the survey) in the next four years (2019, 2020, 2021, and 2022). In the second scenario (business as usual), inflation in 2019, 2020, 2021, and 2022 are considered as the same as inflation in 2018. In the third scenario (inflation realized), it assumed that household faced the level of inflation that has been realized during each year plus the projection in 2022. For each of these scenarios, it is further assumed that households' income increases at the same rate as the growth rate of the nominal GDP per capita.*

Box 1 Revisions to the World Bank Macro-Poverty Outlook key macro-fiscal indicators, including the impact of the Russia-Ukraine War

In Mali, real GDP growth estimates were revised downwards for 2021 (-0.9 percentage points) and 2022 (-1.9 percentage points). Inflation estimates increased for both 2021 and 2022 (+1 and +4.9 percentage points, respectively). The 2021 and 2022 fiscal balances remained unchanged from previous estimates, while the current account balance was revised upward for both years (+0.9 and +0.5 percentage points).

Real GDP growth was revised downward for 2021 and 2022. In 2022, this reflects the expected impact of the regional sanctions, in particular on the construction and service sectors that depend on regional supply networks. 2021 inflation estimates were revised upward reflecting the impact of increasing food prices (+5.2 percent), notably cereals (+8.9 percent). With the Russia-Ukraine War driving up food and energy prices, 2022 inflation figures were revised strongly upward (+4.9 percentage points). The current account deficit projections narrowed slightly in 2022.

Table 1.2 Revisions to Macro-Fiscal Estimates between the World Bank's Macro-Poverty Outlook Fall 2021 (October 2021)[10] and Spring 2022 (upcoming)

Key macro-fiscal indicator	(a) Macro-Poverty Outlook Fall 2021		(b) Macro-Poverty Outlook Spring 2022		(c) Difference *(b) – (a)*	
	2021f	2022f	2021e	2022f	2021	2022
Annual Real GDP growth (%)	4	5.2	3.1	3.3	-0.9	-1.9
Annual Inflation (CPI) (%)	3.0	2.1	4	7	1.0	4.9
Fiscal Balance (% of GDP)	-5.5	-4.5	-5.5	-4.5	0.0	0.0
Current Account Balance (% of GDP)	-5.2	-4.8	-4.3	-4.3	0.9	0.5

10 Fall 2021 Macro-Poverty Outlook https://www.worldbank.org/en/publication/macro-poverty-outlook/mpo_ssa

1.3 Creating fiscal space to meet rising security and social needs and protecting the poor and vulnerable

To mobilize more resources and create the fiscal space needed for growing security and social challenges, the government should accelerate the operationalization of the e-payment platform in SIGTAS and extend it to all large and medium-sized firms, when the ECOWAS sanctions are lifted. In light of the growth and revenue outlook and increasing pressures on social and security spending, revenue mobilization efforts remain of utmost importance. The e-payment platform on SIGTAS was launched for large firms in December 2021, in collaboration with commercial banks but was suspended in January 2022 in response to the ECOWAS sanctions. Authorities should re-introduce electronic tax payments and extend it to all large and medium-sized firms by the end of 2022. This will help strengthen domestic revenue mobilization and increase fiscal space for crucial social spending.

It is also important to improve public financial management by increasing the coverage of the Treasury's Single Account (TSA), when the BCEAO sanctions are lifted. Public financial management reforms remain critical for improving fiscal outcomes. The TSA implementation commission found in its June 2019 survey that a total of 4,854 public bank accounts with an overall credit balance of CFAF 433 billion (around 4.3 percent of GDP) remain outside of the TSA. Moreover, a substantial part of public entities (about 90 percent of 125) still maintain accounts outside the TSA, with little oversight from line ministries. It is important to gradually expand the TSA coverage to include all public institutions by end 2022 to improve cash management, which will reduce the costs for short-term borrowing particularly from commercial banks.

To control the rising wage bill, the government need to adopt a coherent framework for its management. The wage bill reached 49 percent of tax revenue in 2021—which is well above the WAEMU standard of 35 percent—reflecting in particular the proliferation of special categories of civil servants. To ensure that the wage bill is managed in a manner consistent with safeguarding budget space for priority social and development expenditure, the government should undertake an in-depth study of wages, bonuses, and compensation and the wage setting policy in the civil service to enable a more effective balancing of efficiency and equity considerations while preserving fiscal sustainability. It is also important to highlight the wage bill issue during the general discussions that the government plan to organize with social partners.

To improve food security outcomes and protect the most vulnerable against recurrent price shocks, the government - if they choose to use food export restrictions - should adopt a transparent mechanism drawing on existing early warning signals. In response to the food price inflation of 2021, the government adopted several ad hoc measures including food export bans. Trade restrictions are not the first best option to tackle rising food costs as they carry a short-term objective, are difficult to enforce and risk triggering a dynamic of escalation as trading partners retaliate with similar measures, further pushing up food costs. Despite these inefficiencies, if choosing to use food export bans, the government should implement a mechanism to monitor food grain volumes and set transparent levels which would then trigger restrictions. This requires developing or drawing on existing early warning systems such as the FEWS-NET produced by the FAO in several West African countries.

The government should improve the coverage and targeting of social programs, particularly those introduced as part of the emergency response to the pandemic. There is a need to support Malian households to cope with the price increase (through food distribution or price subsidies), particularly in the context of pervasive food poverty in the country. This will not only allow households to avoid falling into poverty but will also reduce their risk of food insecurity. The current public social assistance programs in Mali are limited, and they often fail to reach the poorest. In the present context of price increase, Malian children are at risk of food insecurity that negatively impacts their human capital accumulation. Improving the coverage and targeting mechanism of the emergency cash program introduced in the context of the pandemic to provide income to the poorest households, will improve fiscal space, reduce food poverty, and protect human capital accumulation for children.

2 SPECIAL TOPIC: BUILDING THE FOUNDATIONS FOR A RENEWED SOCIAL CONTRACT

The Sahel, at large, is struggling with conflict, initially triggered by the rise of violent extremism within the region. This chapter analyzes the impact of this conflict situation on the Malian economy and on poverty. Based on analyses of the causes of conflict and the sources of resilience, it proposes some options on how development policies can contribute to building resilience and strengthening the social contract, alongside other types of interventions across the humanitarian, peace, and development spectrum. It is well recognized that there are a complex set of issues at play and that the implementation of options will be challenging in the face of the political and incentive issues that have contributed to the conflict situation.

2.1 Expansion of conflicts threatens Mali's social contract

Violent conflict has had a devastating impact on Mali's economic expansion, pace of poverty reduction and human development. Compounding effects of conflict, COVID-19, and Mali's vulnerability to external price shocks, has limited progress in monetary poverty reduction over the last 10 years.[11] This section outlines the multi-dimensional impact of conflict and violence on Mali's development.

Recent expansion of conflict

Since 2012, there has been an increase in both the frequency and lethality of violent events in Mali, accompanied by unprecedented levels of social and political fragility (Figure 2.1a and Box 2). This has resulted in fatalities increasing close to four-fold[12] and the number of violent events increasing six-fold. 2020 registered the highest death toll in Mali to date.[13] During the period 2012-21, 42% of total conflict-related fatalities have been attributed to violent extremist groups (VOE), followed by state security forces (28%), while 38% of civilian fatalities have been attributed to local militias, followed by violent extremist groups.[14]

In 2015, there was a regional shift in violence, from the northern areas of the country to the central regions, particularly Mopti and, more recently, Ségou - on average 59% of all reported fatalities between 2015 and 2021 were concentrated in central Mali. This highlights the disproportionately concentrated geographic nature of violence in Mali. This is especially true with regards to civilian fatalities, for which 72% have been concentrated in central Mali since 2015. In comparison, during this time-period, the percentage share of civilian deaths in Northern Mali was 25%. Although violence remains at significantly lower levels in the south of the country, since 2016 there has been an upward trend in both fatalities and violent incidents (Figure 2.1b). 2021 marked the year with the largest number of violent incidents and deaths since 2012, in southern regions (Figure 2.1b).[15]

11 With poverty rates increasing from 45.6% in 2011/12 to 46.7% in 2020/21.

12 3.6 to be precise (ACLED, 2021).

13 The number of reported violent incidents, in 2020, totaled 1,047—a 63% increase relative to 2019 (ACLED, 2021).

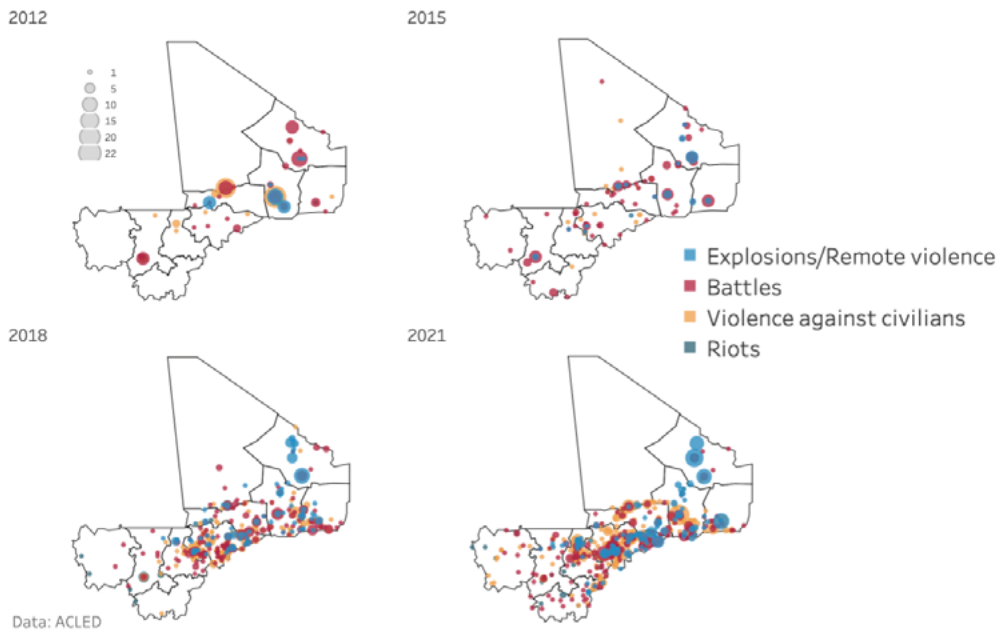
14 ACLED, 2021.

15 2020 also registered larger numbers than in any previous year in the last decade.

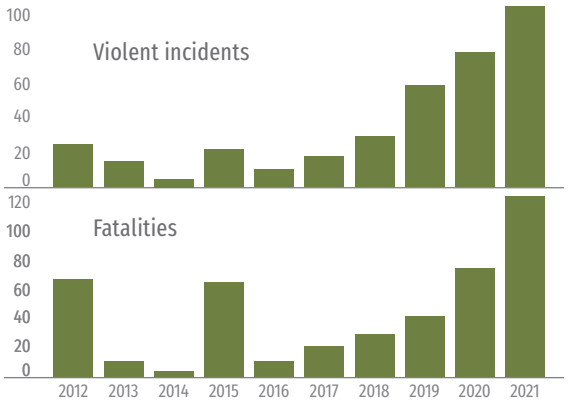
In 2020, the protection of civilians came to the fore in debates surrounding counterinsurgency efforts. This is due to intrinsic reasons, but also due to political reasons linked to the acceptance of continuous warfare and the foreign military presence. This, among other factors, has prompted civil society to mobilize in protest[16] against Malian authorities' handling of the country's protracted crisis.[17] Indeed, there has been a steady annual increase in the combined number of reported protests and riots in Mali since 2012 (Figure 2.1c).[18]

Figure 2.1 Mali: Development of violent events, 2012-2021

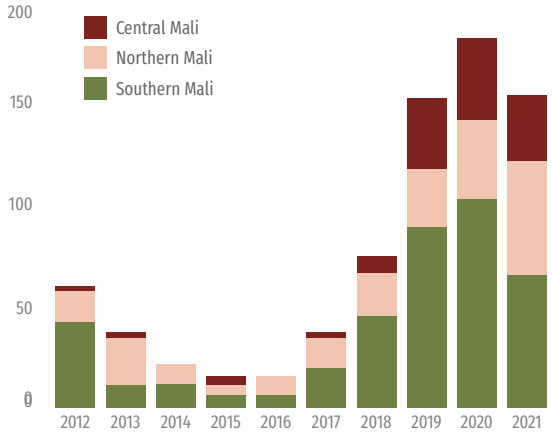
a. Spread of violence events over Mali



b. Conflict-related Fatalities & Violent Incidents in Southern Mali, 2012-21



c. Protests & Riots across Mali, 2012-21



Source: *ACLED (2021).*

16 Primarily urban areas.

17 Bynum et al. 2021.

18 Bamako, Kidal and Mopti registered the largest number of riots and protests in 2021: ACLED.

Box 2 A brief history of the multifaceted crisis in Mali

The multifaceted crisis of 2012 involved a rebellion in the north (led by mostly Tuareg separatists that directly built on earlier uprisings in 2006 and 1990.), a violent extremist insurgency (involving groups affiliated to Al-Qaeda in the Islamic Maghreb (AQIM) and the Movement for Oneness and Jihad in West Africa, MUJAO), and a coup in the capital, Bamako. The 2012 rebellion resulted in the expulsion of the Malian army and state representatives from the northern regions within weeks, triggering institutional and political changes in Bamako in March 2012, by junior officers. This initial crisis was partly resolved through several measures: (i) a military intervention against violent extremist forces in January; (ii) an interim civilian caretaker administration that gave way to an elected civilian president in 2013 (iii); the deployment of the United Nations Multidimensional Integrated Stabilization Mission in Mali (MINUSMA) and (iv) the signing of the 2015 Algiers Accord, which sought to create peace between the Malian government, northern ex-rebel groups, and northern loyalist militias.

However, the measures taken have not yet led to a cessation of violence in the north, particularly given the durability of extremist forces, especially the al-Qaida subsidiary Jama'at Nusrat al-Islam wa-l-Muslimin (JNIM, created 2017 as a coalition of pre-existing units) and the Islamic State in the Greater Sahara (ISGS, created 2015 as a breakaway from an al-Qaida-aligned group). Meanwhile, implementation of the peace accord has seen limited progress thus far. The signatories to the Accord have regularly expressed frustration with one another, and both the Independent Observer on the implementation of the peace accord, the Carter Center, and international partners have been vocal about the slow pace of implementing the Accord.

Directly triggered by events in the North and the subsequent withdrawal of the army from many areas, the crisis in central Mali began in 2015. It started with the insurgency of an AQIM-affiliated group, the Katibat Macina, which expanded influence through a multi-layered campaign of intimidation combined with forms of justice provision and redistribution of resources. The insecurity in the center now involves extremist violence against state authorities, state presence and civilian populations but also increasingly includes multi-sided ethnic conflict involving self-defense militias, particularly between the primarily pastoralist Fulani and the primarily agriculturalist Dogon and Bambara. Inter-communal conflict has appeared dramatically in incidents such as the March 2019 massacre of mostly Fulani civilians in the Mopti Region's villages of Ogassagou and Welingara, an event that contributed to political turmoil in Bamako.

These patterns of insecurity have begun to spread further south, with an increase in violent extremist activities reported in bordering areas of Koulikoro, Kayes, southern Segou and Sikasso regions. Extremist attacks in the South have, thus far, been sporadic; the persistence of current trendlines could nonetheless encourage extremists to perpetrate more violence in southern Mali. The Southern areas of Sikasso and Kayes regions may be particularly vulnerable to insurgent violence as these areas have been repeatedly targeted by the JNIM extremist group. Such geographical expansion of the conflict would impact more productive and densely populated regions of Mali and would hinder State capacity in these regions to collect taxes and deliver basic services, further impoverishing conflict-affected areas, and perpetuating local grievances. It would also have a major impact on forced displacement trends. In early 2022, military operations Keletigui and Maliko were launched to improve security in central Mali.

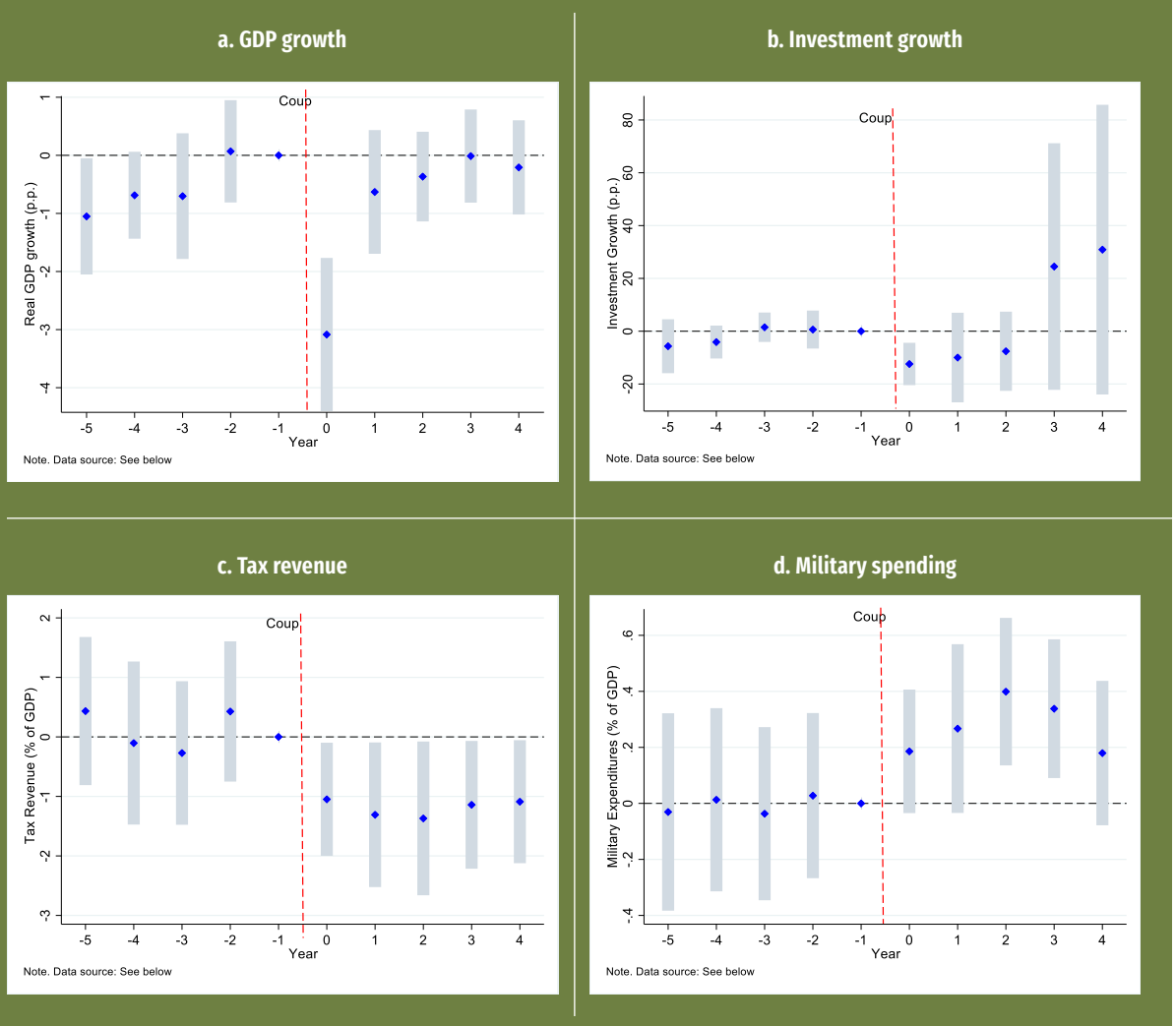
Extreme violence and social discontent led to a period of political instability that started in June 2020. Large popular mobilizations over disputed parliamentary elections and persistent insecurity led to a first institutional and political change on August 18, 2020. It resulted in the seizure of power by a military junta and the subsequent resignation of the President. Following this change, the Constitution was temporarily suspended, and a transition architecture was assembled under the mediation of the Economic Community of West African States (ECOWAS), supported by the rest of the international community. A civilian president and prime minister were appointed. In February 2021, a Transition Government Action Plan, consisting of measures to be completed by the end of the transition, were adopted,[19] followed by the release of an electoral calendar, calling for a constitutional referendum in October 2021, and general elections in February 2022. On May 24, 2021, the Vice President and key leader of the August 2020 events arrested both the sitting President and Prime Minister, who then resigned. On June 7th, 2021, he was sworn in as interim President, and appointed a new Prime Minister. Since then, complicated discussions on the electoral timetable are taking place under the auspices of ECOWAS, which imposed additional sanctions on the country on January 9, 2022. In addition, France and European countries have announced the coordinated withdrawal of French operation Barkhane and European force Takuba from the Malian territory by June 2022.

Box 3 Economic impacts of coups and conflicts: a world view

Based on an event study analysis of a sample of 225 coups across 97 countries over 1950-2021, it is estimated that real GDP growth declines on average by 3 ppts after a coup relative to the previous year (Figure a). The economic impact is mainly linked to a sharp contraction of investment growth, declining by 15 ppts on average (Figure b). However, the effects are short-lived, and both investments and economic growth tend to return to their pre-coup path within two years. Coups contribute to a deterioration of the fiscal framework. Relative to the previous year, tax revenues decline on average by 1.1 ppts of GDP after a coup. This drop lasts through the medium-run, and four years later, the tax to GDP ratio remains 1 ppt below the pre-coup level (Figure c). Coups also lead to military spending rising by 0.2 ppt of GDP in the year of the coup (Figure d), accelerating by 0.4 ppt of GDP within two years later before declining gradually. Conflicts also have a negative impact on economic activity. Recessions during periods of violent conflict are a key reason for the lower growth rates in fragile countries. A recent paper finds that violent conflicts lead to a reduction in annual GDP growth of 2-4% and up to 8.4% if the conflict is severe. [1] It is also estimated that neighbors of high-intensity conflict areas experience a 1.4 ppts annual decline in GDP growth and a 1.7 ppts acceleration in the inflation rate.

19 Strikingly enough, no budgeting or estimated cost is attached to this ambitious Action Plan.

Figure 2.2 Impacts of coups on major economic indicators over time



Source: *WB Staff calculations, Mavriqi (2016), Rother et al. (2016).*

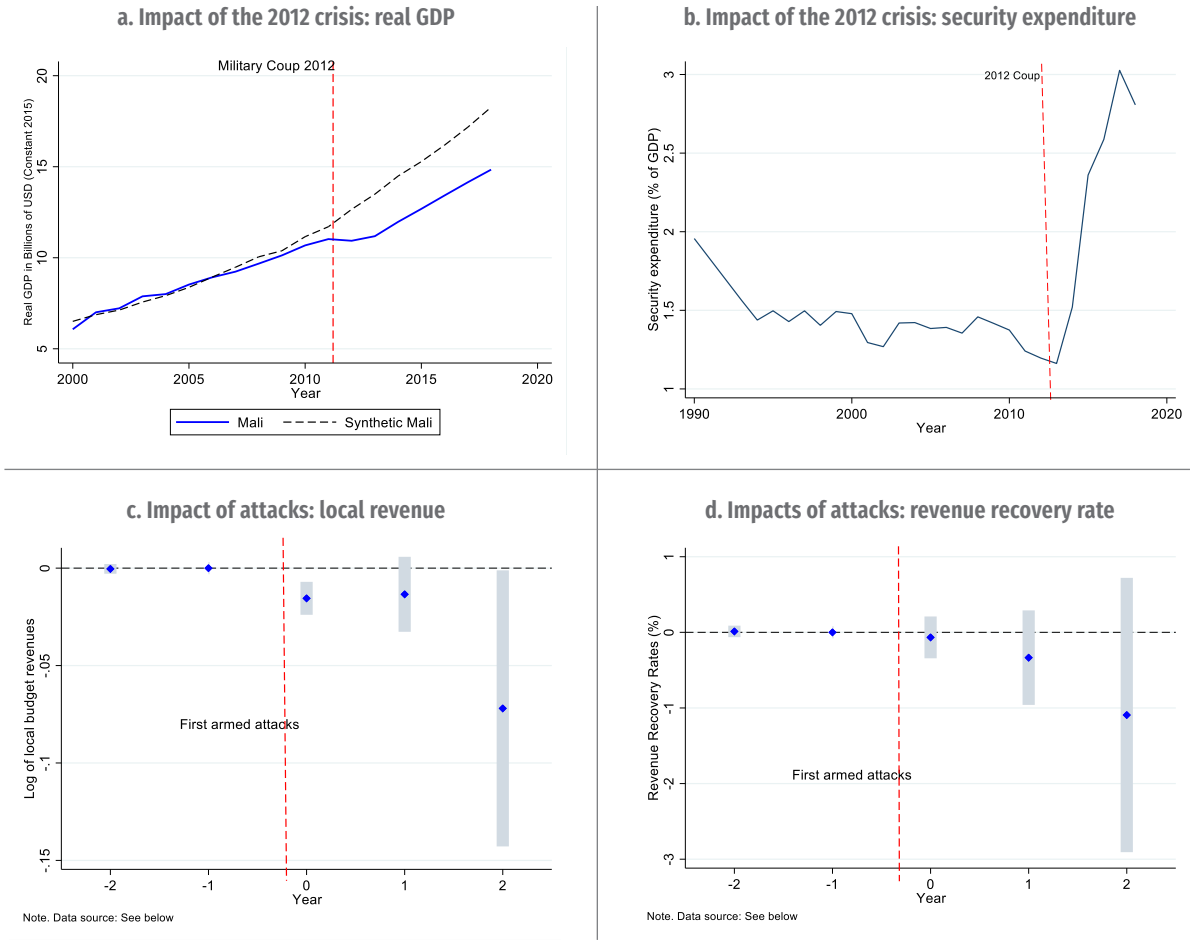
Note: *Graphs A-D describe the impacts of coups on selected economic indicators using an event-study analysis. The regressions include country and year fixed effects. Post-coup estimates are measured relative to the pre-coup year and should be interpreted as deviations of economic outcomes relative to the previous year.*

Economic impact of the intertwined crises of political instability and insecurity

The crisis that erupted in 2012 has had large and comprehensive adverse economic and social effects, especially on growth, social expenditure, and local governance finance:

Mali's insecurity and instability is estimated to have cost 23% of GDP between 2012 and 2018, mainly due to forgone private investments. (Figure 2.3a). The total forgone domestic and foreign investments are approximately estimated at US$5.3 billion over 2012-2017, including an estimated loss of FDI equivalent to US$3.2 billion.[20] These conclusions are also consistent with empirical findings (Box 3).

Figure 2.3 Impact of the 2012 institutional break and conflict on the Malian economy



Source: *Mali commune census and staff calculation. Note: figures a and b replicate the synthetic control analysis of the evolution of Mali's GDP since the coup in 2012 (Mali SCD 2022). Figures c and d are produced with the Mali commune census. The evolution of municipal revenues and revenue recovery rates are measured as deviations of revenue from projections at the beginning of the budget year) in Mali around the outset of armed attacks by insurgent groups.*

20 ECOPA Case Study: Conflict and its Impact on Investment in Mali, July 2019.

Security expenditures have risen sharply as a share of GDP since the onset of the security crisis in 2012, crowding out much need social and investment expenditures. Prior to the crisis in 2011, military spending represented 8.4% of public expenditure, accounting for 2.2% of GDP. However, in the years following the 2012 coup, security spending has gone up to 20% of public expenditure, accounting for more than 3% of the GDP (Figure 2.3a) and crowding out priority development expenditures. This finding is empirically validated (Box 3) and reflects the military take-over and also the adoption of a defense programming law to address growing security challenges.

Growing conflict is increasingly affecting local government finances. Based on a series of commune level census with retrospective information covering the period 2014-2019,[21] it is estimated that an armed attack causes a 5 percent annual decline in a Malian municipality's public revenues relative to the pre-attack period (Figure 2.3c). The effects grow in subsequent years to reach an average of 8 percent revenue loss two years after the attack. This results in a 0.4 ppt decline in a commune's revenue recovery rate in the following year measured as the difference between realized and projected revenues.

Impact on Poverty

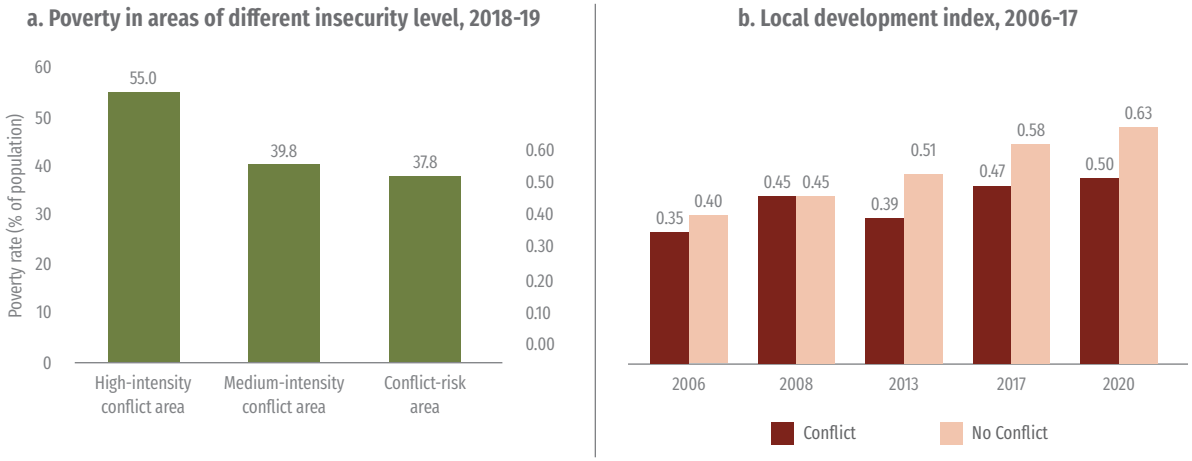
Households in conflict-affected regions remain highly vulnerable to poverty as insecurity has impaired efforts to accelerate structural transformation. This is particularly the case in high-intensity conflict regions, which are already confronted with the highest poverty rates.[22] Despite non-monetary poverty declining along many dimensions, Mali remains one of the world's poorest countries. During 2014-2018, improvements in education and access to essential services led to a ten-percentage point reduction in multidimensional poverty, based on a six-dimensional index. Similarly, the monetary poverty rate fell from about 45.4% in 2011 to about 42.3% in 2019. However, monetary poverty rates increased to 44.4% in 2021 (representing close to a million additional people living in extreme poverty) as a result of the ongoing conflict and the COVID-19 crisis. Regions affected by conflict have been losing non-agricultural jobs, which has likely led to more households (in these regions) relying on subsistence agriculture, which suffers from declining productivity and low incomes. By contrast, regions largely shielded from conflict have continued their structural transformation, reducing their reliance on agriculture, and increasing employment in other sectors with higher productivity.[23]

21 Actualisation du Profil de Pauvreté des Communes, 2017 and 2020 wave.

22 The districts of Bandiagara, Koro, and Douentza were home to more than 50 percent of all poor households in high-intensity conflict areas. In contrast, the poverty rate drops to 39 percent in the medium-intensity conflict regions, with most of the poor living in the districts of Djenne and Niafunke.

23 World Bank (2021c).

Figure 2.4 Impact of Conflict on Poverty and Development



Poorer areas have more conflict-related fatalities. Regions experiencing the greatest number of fatalities had a poverty rate of 55% (equivalent to 1.3 million poor people) in 2018/19, about 13 percentage points higher than the average for Mali (Figure 2.4a). The districts (*Cercles*) of Bandiagara, Koro, and Douentza were home to more than 50% of all poor households in high-intensity conflict areas.[24] The poverty rate falls to 39% (equivalent to 0.8 million poor people) in the medium-intensity conflict regions, with most of the poor living in the districts of Djenne and Niafunke. An additional 3.8 million poor people in Mali are in areas at risk of potential conflict, mainly in the districts of Ségou and Bla.

The conflict has widened disparities in socioeconomic development, leaving municipalities in conflict-affected areas behind. The Observatory for Sustainable Human Development (ODHD) carried out municipality censuses in 2006, 2008, 2013, 2017 and 2020, which allow the construction of a local development index that can be analyzed over time. This composite index summarizes infrastructure indicators such as roads, access to information (radio, television, etc.), health and education facilities, the capacity of local governments, and the presence of economic activities. A difference-in-difference estimation[25] found that the 2012 coup was detrimental to local development (Figure 2.4b). Overall, the conflict lowered the local development index by 9.4%. Municipalities located in the north and center of the country, that are affected by conflict, have experienced the lowest progress in their local development index.

24 Areas with a high intensity of conflicts are defined as having more than 30 violent conflicts during a specified period.

25 A difference-in-difference estimation is an econometric technique that distinguishes the effect of time and location from that of the civil conflict

Impact on human development, food insecurity and service delivery

Conflict coupled with climatic shocks have resulted in an acute humanitarian crisis in Mali, with OCHA reporting 6.3 million people of the 12.9 million affected by Mali's conflicts, in need of humanitarian assistance in 2022.[26] Recent violent attacks have led to a quadrupling of Internally Displaced Peoples (IDPs) during 2020-2021 to reach 401,000 in early 2022.[27] A further 156,000 Malians were forced to seek refuge outside of the country due to conflict and insecurity.[28] The insecurity has further increased the risk of vulnerable Malians in experiencing Gender Based Violence (GBV), specifically among IDPs, who often live in low-security areas. In 2020, the UN reported an increase of 41% of GBV cases reported, related to the conflict, with less than 20% of female survivors having access to protection.[29] The upsurge of violence has created a difficult operating environment for humanitarian actors, further limiting vulnerable communities from getting the assistance they need.

Furthermore, in 2021, 1.3 million people, experienced an increased level of acute food insecurity,[30] representing the highest level recorded since 2015.[31] Regional insecurity, limited trade, climatic conditions, conflict, and high food prices on basic staples foods are all driving food and nutrition insecurity in Mali. Access to pastoral resources in conflict zones remains limited, hindering pastoral mobility.[32] Insecurity limits the circulation of foodstuffs and access to fields for producers in central regions.[33] The intensity of food security varies between rural and urban areas, with 50.5% and 31% of urban and rural households, respectively, being classified as secure.[34] A decrease in cultivated land area was detected for 25% of Mopti localities in 2019,[35] compared to pre-conflict years.[36]

Violence and insecurity have severely impacted service delivery and infrastructure. Nationwide the current rate of immunization stands at 45%;[37] however, in the Kidal region, this number has fallen to less than 1%, due to the devastating impact of service delivery disruptions.[38] Attacks by various armed groups has also resulted in damage to infrastructure, further obstructing access to public services. Further, teacher understaffing in rural areas pre-dated the crisis, however, the security situation in the north and increasingly in the center has aggravated the situation, creating a disproportionate regional balance in education. As of January 24, 2022, there were more than 1,640 schools closed in the North and Center,[39] affecting over 2.9 million children,[40] and, a total of 27% of all schools have had to close, amid ongoing violence (September 2021).[41]

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26 UN OCHA (2022).

27 UNHCR Mali Country Data site; IDPs reported as of January 31, 2022: https://data2.unhcr.org/en/country/mli .

28 UN OCHA, ibid.

29 Source: https://www.unwomen.org/en/news/stories/2018/9/feature-malian-women-call-for-peace .

30 According to the World Food Programme (WFP), acute food insecurity is when a person's inability to consume adequate food puts their lives or livelihoods in immediate danger. It draws on internationally accepted measures of extreme hunger, such as the Integrated Food Security Phase Classification (IPC) and the Cadre Harmonisé.

31 UN OCHA, ibid.

32 Baoua (2021).

33 Mopti, northern Segou and Niger inlands delta

34 World Bank (2021c).

35 According to the World Food Program (WFP).

36 Satellite imagery to support WFP emergency response: May 2020.

37 As of 2021.

38 World Bank (2020b).

39 40 percent of which were in four districts of the central Mopti region: UN OCHA Global Humanitarian Overview 2022

40 UN OCHA, ibid.

41 World Bank (2022).

2.2 What drives conflict in Mali?

The description of the drivers of conflict and sources of resilience below is the result of extensive research and analysis, across various WBG exercises. The key exercises that fed into the development of this analysis include the Risk and Resilience Assessments (RRA) – this includes the 2020 Regional Sahel RRA and the 2021 Mali RRA Update; and the 2021 Prevention and Resilience Allocation (PRA) Eligibility Note. The RRA serves as an internal WBG document, analysis of which is based on (i) a review of available literature, including government and donor reports, academic research papers and other sources of analysis, and (ii) extensive in-country consultations with the government, civil society, private sector, donors, and other key informants. The Sahel Regional RRA was prepared under WBG leadership with contributions from different Sahel Alliance members in close collaboration with G5 Sahel states (including Burkina Faso, Chad, Mali, Mauritania, and Niger). It was complemented by a Mali-specific update in 2021. The PRA eligibility note outlined the government's strategy for mitigating conflict risks and changes in the WBG program that these resources would enable. The PRA is aligned with the 2020-25 WBG FCV Strategy, and the process involved comprehensive dialogue with government, the United Nations (UN), development partners and civil society. Thus, the analysis below has been widely discussed by partners and the Government of Mali through the RRA and PRA processes.

A combination of regional and local factors feed Mali's conflict risks. All Sahel countries, including Burkina Faso, Chad, Mali, Mauritania, and Niger are affected by the current regional conflict. As each country grapples with internal and external conflict drivers, the various types of violent dynamics are increasingly intertwined across the region – extremist violence, clashes between different self-defense groups, inter-communal and intra-communal conflict, banditry, and competition to control smuggling and trafficking routes. This fits with a wider trend in the Sahel region involving a hybridization of affiliations and types of violence.[42]

Mali's conflict situation is driven by four main factors:

i. **Shortcomings in service delivery and governance that have eroded confidence towards institutions over years.** Governance challenges were brought to the forefront by the mid-2020 events, where state institutions faced growing social discontent with the Central Government. The Malian state wrestles with fundamental problems of popular trust and legitimacy. The spatial inequalities in service delivery and the high degree of centralization of the State's human and financial resources in the capital, coupled with the unfinished decentralization process add to popular frustration with the State and contributes to perceptions of exclusion. If Mali's violent conflicts partly stem from a loss of public confidence in state institutions, the conflict itself helps to entrench a vicious cycle where the costs of conflict further hamper the State's ability to finance itself and deliver services. In addition, the perception of corruption has increased in recent years , further eroding the credibility of public institutions. Existing systems of internal and external public finance management (PFM) control are not fully functional, creating opportunities for misappropriation in virtually every sector of the economy and undermining public investment quality (World Bank 2022).

42 World Bank (2020c).

ii. **Poorly regulated competition over natural resources that are increasingly scarce and under pressure from climate change and demographic growth.** None of these factors on its own, or even the factors in combination, suffice to explain the country's current conflicts or its potential for future risks – the current conflicts all have heavily political and historical dimensions that transcend resource competition. Nevertheless, population growth, agricultural development, and climate change all contribute to severe pressures to areas facing current or potential political tensions, and feed and amplify those tensions. Land and water are under pressure from multiple directions, including their intensive use and degradation. As agricultural, pastoral, other production and subsistence systems become more fragile, relations between farmers, herders and fishermen, whose modes of production were previously complementary and interdependent, are increasingly conflictual. Gold mining has also been a source of both opportunities and conflicts.

iii. **Significant weaknesses in the security and justice sectors.** The defense and security forces struggle to project authority across Mali's 1.24 million square kilometers. Renewed efforts to train and reform the Malian armed forces began in 2013. These reforms are, however, a long-term endeavor and are exceptionally difficult to implement at a time when significant pressure is being put on the forces by the rapid spread of conflict. These security challenges go hand in hand with those in the justice sector, which include issues of training and salaries for personnel, perceptions of unfairness among citizens, the overlap and interplay between state and customary judicial systems, and the difficulty of access to courts in parts of the countryside, especially in the north. One consequence of the absence of the security forces and justice from some parts of the country is that it encourages communities to seek protection and develop self-defense, which has in turn fueled intercommunal violence. The State's struggle to effectively project authority has also allowed violent extremists to exercise a type of shadow governance that extends from intimidating and punishing civilians who collaborate with the security forces, to implementing new regulations on land and resource management, to raising taxes, to establishing de facto courts and providing community security against other armed actors.

iv. **A succession of unresolved subnational conflicts that perpetuate cycles of violence.** The 2012 rebellion in northern Mali directly built on earlier uprisings in 2006 and 1990; there are also continuities extending to the first postcolonial rebellion in the area around Kidal in 1963. The lack of implementation of the consecutive peace accords, including the succession of unfinished DDR processes, have directly fed the next crisis. The May/June 2015 Algiers Accord aimed to consolidate peace and a renewed political settlement. However, according to the Carter Center, the entrusted independent observer of the peace accord's implementation, between 2017 and 2020, the percentage of the agreement's provisions that have been implemented increased from 22% to 23% only. Similarly, the conflict in central Mali dates back to 2015, but also reflects deeper issues: it builds on tensions dating back to precolonial land management disputes, colonial and postcolonial resource tensions, and the shocks that the 1990 and 2012 northern Malian rebellions brought to central regions. The withdrawal of many state personnel and security forces during the crisis of 2012 exacerbated these resource-related conflicts. The aggregate effect of these sub-national conflicts is a further erosion of state authority, national cohesion, and economic prospects.

Despite this difficult environment, Mali can also build on key resilience factors to slow the deterioration of the conflict situation. Resilience can be framed as behaviors, capacities, networks, responses, policies or resources that can take many different forms and exist at different levels, such as individual, household, community, societal, institutional or national – or that exist within specific sectors, such as political or economic.[43] These are existing coping capacities that a society has often developed over many years, and is highly context specific; they should be taken as a springboard to build upon and to further strengthen in order to prevent future impacts from FCV. In Mali, resilience factors include: (i) customary and religious authorities, (ii) the Algiers peace accord, (iii) locally constructed ceasefires and inter-communal agreements, (iv) civil society, and (v) the private sector.

2.3 Addressing conflict risks and building resilience in Mali

Although the challenges highlighted above require first and foremost a combination of responses, including primarily political and security ones, development has a role to play in conflict prevention and mitigation strategies.[44] The purpose of this section is to propose some policy options on how development policies, programs, and projects can contribute to the broader peace agenda in Mali, alongside other interventions across the humanitarian-peace-development spectrum. The options presented below propose that States and aid actors in the Sahel place a preventive approach at the heart of their actions, focus more efforts on conflict zones, particularly those areas currently at risk of conflict. The options also respond to the major themes identified in the preceding section.

Development policies should focus on addressing the root causes of conflict, the structural factors underpinning fragility, and adopt a prevention/risk mitigation angle in territories that face short- to medium-term risks of conflict extension. This means supporting a more inclusive management of natural resources, the deployment of institutions outside capital cities, improving the governance of the security sector, reducing corruption, and reducing tensions in the southern regions.

Focusing on prevention and mainstreaming inclusion

Prioritizing the prevention of conflict expansion is a strategic and economic emergency. In the face of the progressive expansion of violence to southern regions, it is urgent to attenuate risks and reduce tensions in those areas. This can be done by taking visible and short- to medium-term impact measures to strengthen a positive state presence, to better regulate access to natural resources, and by taking concrete steps to strengthen security and justice services.

Inclusion should be at the center of development policies. The emergence of violent conflicts in the Sahel is primarily associated with exclusion, inequalities, and concerns about marginalization. Some categories of so-called “floating” populations, whose social or economic status is fragile and whose ties with the State

43 Risk and Resilience Assessment Methodology Note: World Bank, January 2021

44 United Nations and World Bank. 2018. Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict. Washington, DC: World Bank

are weaker – nomadic peoples, minorities, excluded youth – are particularly vulnerable to these risks and to engaging in violence through self-defense groups, rebellions, or violent extremist groups. Inclusion covers both territorial inclusion, which requires correcting imbalances in economic opportunities, access to services, and access to justice and security in different parts of a single country, within a single territorial entity or even the neighborhoods of a single town (urban ghetto phenomenon). It also refers to the inclusion of different groups – notably women and "floating" populations – within a single territory through the adequate targeting of public policies and development projects. This could involve, for example making sure local development policies are protective of both farmers and pastoralist groups livelihoods.

Development policies and the projects that support them should rebalance public action in favor of underserved territories. Most of the areas currently at the heart of conflict in the Sahel are peripheral areas, often cross-border ones, many of which are agro-pastoral or pastoral rural areas. To remedy territorial inequalities sometimes necessitates difficult choices, as the most fragile areas are rarely the most populated, and investments there are costly, with a limited direct impact on poverty rates at the national level. In such a context it is critical to ensure an equitable deployment of institutions and human and financial resource management throughout these territories in order to promote better service delivery at the local level. Given the specific vulnerabilities of border areas, promoting exchanges between border municipalities, through the sharing of information, and by organizing joint municipal council sessions would strengthen cooperation and help prevent escalation in those areas.

Building trust between the State and the people

Reinforcing the State's presence will only have an impact on reducing the risk of conflict if it is a positive presence and must be accompanied by a wider effort to improve the relationship between the State and citizens. The behavior of administrators, the respect of rights, the equal treatment of citizens, and the fairness of public policies are central for the improvement of this trust. The effective deployment of the State's human and financial resources beyond the capital and secondary cities could improve access to key social services and thus address existing and new grievances that are contributing to the violence and contribute to a stronger social contract (see annex 1).[45] However, it is imperative, as transfers increase, to strengthen local capacity, especially in oversight, monitoring, and reporting. Mali has made progress towards meeting the government commitment[46] to transfer 30% of its fiscal resources to local governments. These transfers should be between 20 and 30% of budget resources;[47] Mali transferred around 25% in 2020.[48] Efforts to build up trust should be done across all sectors, including health, education, justice and security. In conflict-affected or remote areas, strengthening access to justice could be done by paying special attention to developing mobile judicial institutions (for example, mobile courts). Adopting fair approaches to public land-use planning and regulation, especially in terms of cohabitation between pastoral and cultivated farmland will also be key given the role played by competition over land and water in current conflict dynamics.[49]

45 World Bank (2022).

46 As laid out in the 2015 Algiers Peace Accord.

47 According to the WAEMU white paper on fiscal decentralization (RESACOOP 2014).

48 Indicating an increase from 19 percent in 2018.

49 Marking the transhumance corridors within the framework of inclusive local consultations could reduce conflict risk between farmers and herders.

Increasing capacity of civil society and reducing community-level fragmentation, through improved accountability and transparency, will strengthen the citizen-state bargaining interface. Adequate citizen engagement (CE) mechanisms should be integrated into the operation of each service-delivery sector. Therefore, working with local stakeholders will be key to convincing them of the benefits of CE as a development tool. Technical support to help local governments build the back-office structures needed will allow them to increase participation and address citizens' queries and complaints in a systematic and timely manner.[50] Further, accountability could be improved through improved participation, more systematic transparency mechanisms, and the use of CE to monitor the management of resources and services. These could include the operationalization of annual performance reports/audits, transparency codes, asset declarations, citizen-state feedback loops, grievance mechanisms, and local community conflict resolution mechanisms.

Combatting corruption and enhancing transparency

Strengthening transparency, the legal framework and the effective application of laws is necessary to combat corruption. In Mali, the adoption of laws is not the real issue, the challenge is in enforcement. Strengthening transparency and law enforcement by improving the functioning of the justice system is pivotal to improving governance. Reforms could focus on the following: (1) providing greater transparency through the publication of court decisions on litigation; (2) collecting relevant data to inform analysis to improve the efficiency of case management processes; and (3) building the capacity of judges and prosecutors to support better litigation decisions. Furthermore, Mali currently has a legal framework for the declaration of assets by public officials; however, concerns exist around the overly small number of public officials affected by the law.[51] The absence, weakness or late issue of judicial sanctions encourages a climate of impunity. To this end, key reform actions could focus on the following: (1) extending the law's coverage to the highest-ranking members of the Malian public administration; (2) strengthening the capacity of the Central Office for the fight against Illicit Enrichment (OCLEI); and (3) accelerating and streamlining the review of cases and the processing of alleged cases of illicit enrichment.

50 Ibid.

51 For example, members of the National Assembly fall outside its scope.

3 ANNEXES

ANNEX 1: MALI: Selected Economic Indicators 2017-2024

Table 3.1 Mali: Selected Economic Indicators, 2017-2024

	2018	2019	2020	2021	2022[1]	2023	2024
			Estimates		Projections		
National income and prices	*annual percentage change unless otherwise indicated*						
Real GDP	4.7	4.8	-1.2	3.1	3.3	5.3	5.0
Real GDP per capita	1.6	1.7	-4.1	0.1	0.3	2.3	2.0
Agriculture	5.9	4.1	-4.8	2.2	4.8	5.0	5.0
Industry	5.5	3.7	-0.1	0.7	2.6	6.0	4.0
Services	4.8	5.2	1.4	4.9	2.5	5.2	5.4
Private Consumption	3.0	3.8	1.9	5.0	4.0	4.0	4.0
Government Consumption	2.0	4.0	4.5	11.2	2.8	4.1	2.1
Gross Fixed Investment	-0.9	6.3	-1.2	3.8	-2.1	8.4	7.5
Gross Fixed Investment - Private	-28.7	-0.6	-3.0	5.4	-5.7	9.7	5.4
Gross Fixed Investment - Public	24.9	10.0	0.6	2.2	1.4	7.3	9.4
CPI (year-average)	1.7	-2.9	0.5	4.0	7.0	2.5	2.0
CPI (EOP)	1.0	-3.3	0.7	8.9	4.0	2.5	2.0
Money and credit	*annual percentage change unless otherwise indicated*						
Exchange Rate (to US$, average)	555	586	575	554	-	-	-
Exchange Rate (to US$, EOP)	576	590	539	580	-	-	-
REER	0.4	-4.2	0.4	1.0	-	-	-
Broad money	14.2	9.0	22.2	9.9	7.7	8.1	7.4
Credit to economy	4.8	2.2	5.3	6.0	7.7	8.1	7.4
Credit to the government	64.1	-36.6	70.3	63.2	29.4	20.7	14.9
Public finance and debt	*percent of GDP unless otherwise indicated*						
Total expenditure	20.3	23.1	26.1	26.7	25.6	26.2	25.8
Total revenue and grants	15.6	21.5	20.7	22	21.1	22.7	22.9
Overall balance (incl. grants)	-4.7	-1.7	-5.4	-4.7	-4.5	-3.5	-3.0
Overall balance (excl. grants)	-6.0	-3.6	-6.6	-6.0	-5.2	-5.1	-4.7
Primary Fiscal Balance	-3.9	-0.7	-4.2	-3.4	-3.0	-2.0	-1.4
Total public debt	36.1	40.6	47.3	52.0	49.8	49.0	48.2

	2018	2019	2020	2021	2022[1]	2023	2024
			Estimates		Projections		
External Accounts	*percentage of GDP unless otherwise indicated*						
Export Growth (%, yoy)	16.0	11.9	16.3	-1.2	2.1	5.0	5.0
Import Growth (%, yoy)	4.6	13.8	11.4	9.3	1.0	3.7	3.1
Exports, Goods and Services	24.5	25.7	29.6	27.7	28.2	26.1	24.2
Imports, Goods and Services	35.6	38.0	36.3	37.5	39.7	38.4	37.1
CAD (incl. current transfer)	-4.9	-7.5	-2.3	-4.3	-4.3	-3.7	-3.9
Net FDI (% change)	2.7	5.0	3.1	2.4	2.4	2.4	2.6
Terms of Trade (% change)	-0.1	1.1	63.6	-10.2	-6.5	-5.5	-5.5
Population, Employment and Poverty							
Population, total (millions)	19.1	19.7	20.9	20.8	21.5	22.1	22.7
Unemployment Rate	7.1	7.2	12.5	12.5	12.5	12.5	12.5
Population Growth (annual %)	3.1	3.0	3.0	3.0	3.0	2.9	2.9
International poverty rate ($1.9 in 2011 PPP)[3]	16.3	15.7	17.6	17.6	17.5	16.3	15.5
Other memo items							
GDP nominal (CFAF billions)	9,482	10,125	10,053	10,635	11,449	12,371	13,282
GDP nominal (US$ billions)	17.1	17.3	17.5	19.2	...	...	...

Sources: *Malian authorities, WEO, WDI, KNOMAD, IMF and World Bank Staff estimates and projections.*
Note: *1/ The macroeconomic projection has factored in downside risks from ECOWAS sanctions (but only for sanctions lasting one quarter) and Russia-Ukraine war. 2/ Includes BCEAO statutory advances, government bonds, treasury bills, and other debts. From 2021 onwards includes SDR allocation in the amount of CFAF 142 billion (1.3 percent of GDP) on-lent from the BCEAO. 3/ Calculations based on 2018 EHCVM. Nowcast: 2019-2021. Forecasts are from 2022 to 2024. Projection using neutral distribution (2018).*

ANNEX 2: Poverty Effect of Food Inflation - Methodology

The methodology used in this analysis relies on a demand system estimation to account for behavioral responses of households to a given change in food prices. More specifically, using the latest household budget survey in Sahel countries, a linearized Exact Affine Stone Index (EASI) implicit Marshallian demand system (Lewbel and Pendakur 2008; Pendakur 2009) is estimated to fit the survey data considering 11 (homogeneous) food categories. Based on the estimated demand system, the poverty effect due to a change in prices is easily derived by compensating variation for a given period of reference.

Let consider J food categories, and let w^j, p^j denote, respectively, the price and budget share of a given food category j, $j \in \{1,...,J\}$. The approximate EASI demand system is given by:

$$w^j = \sum_{r=1}^{R} b_j^r (\tilde{y})^r + \sum_{t=1}^{T} g_t z_t + \sum_{k=1}^{J} a^{jk} \log(p^k) + \varepsilon^j \quad (1)$$

For $j \in \{1,...,J\}$. $\{z_t, t=1,...,T\}$ is a set of household characteristics, and $\tilde{y}$, $\tilde{y} = \log(x) - \sum_{j=1}^{J} w^j \log(p^j)$ is the approximate implicit utility derived from the consumption of the J food categories, with x being household (per capita) expenditure. In contrast to most demand systems, the EASI model is flexible enough to account for the variety of shapes of the Engel curve that has been observed in the empirical literature on consumer expenditure data (Pendakur 2009). The shape of the Engel curve is captured by the coefficients b_j^r in equation (1). Besides, the EASI model accounts for unobserved preference utility, which has been shown to be important in explaining the observed variation in budget shares (Pendakur 2009).

Lewbel and Pendakur (2008) show that the approximate EASI model can be consistently estimated by an iterated linear estimation method with instrumental variables. The instrumental variables, which are functions of $\log(x)$, z_t, and $p\hat{}j$, are used to correct for the endogeneity problem in the model due to the presence of the budget shares at the right-hand side of equation (1) (via the implicit utility). Once the EASI model is estimated, the corresponding coefficients can be easily used to compute demand elasticities or compensating variation following a change in prices.

Demand elasticities and poverty effect of a change in prices

The estimated parameters from equation (1) provide the semi-elasticities of budget shares, defined as the derivatives of budget shares with respect to log prices, given by the a^{jk}, or implicit utility, given by the b_j^r. These semi-elasticities can be easily converted to ordinary demand elasticities by dividing by the corresponding budget shares (Pendakur 2009). For instance, own-price Hicksian (or compensated), η_j^j, and cross-price Hicksian elasticities, η_j^i, for given food categories j and i are derived as follow (Pendakur 2009; Tovar Reaños and Wölfing 2018):

$$\eta_j^j = \left(\frac{\partial w^j}{\partial \log(p^j)}\right) \frac{1}{w^j} - 1 \quad (4)$$

$$\eta_j^i = \left(\frac{\partial w^j}{\partial \log(p^i)}\right) \frac{1}{w^j} \quad (3)$$

The poverty effect following a change in prices can also easily be computed from the estimated model (1). Consider a change in prices from the price vector P_0 to the price vector P_1. Then, the change in income (or expenditure) by compensating variation can be computed as follow:

$$CV(P_0, P_1) = x - exp\left(log(x) + \sum_{j=1}^{J} w_j^0 \left(log(p_j^1) - log(p_j^0) \right) + \frac{1}{2} \sum_{j=1}^{J} \sum_{k=1}^{J} a^{jk} \left(log(p_j^1) - log(p_j^0) \right) \left(log(p_j^1) - log(p_j^0) \right) \right) \quad (4)$$

Note that $CV(P_0,P_1)$ is positive (negative) when prices decrease (increase). In presence of inflation (increase in prices), $CV(P_0,P_1)$ represents the additional amount that is needed to achieve the same level of utility as before the change in prices. In other words, relative to the reference price system, P_0, a typical household will be poorer by $CV(P_0,P_1)$ amount under the new price system, P_1 (Wood et al., 2012). The poverty headcount ratio (by compensating variation) under the new price system can therefore be computed as the share of people with their equivalent income or expenditure in period $1, x_1\text{-}CV(P_0,P_1)$, below the poverty line of the reference period. x_1 represents the nominal income in period 1, that is $x_1=x_0*(1+g_0^1)$ with g_0^1 being the growth rate of nominal incomes between periods 0 and 1. Note that the poverty line needs not to be updated in the new period, since the price effects are already captured through the compensating variation measure. That compensating variation results from household behavioral responses to the change in prices.

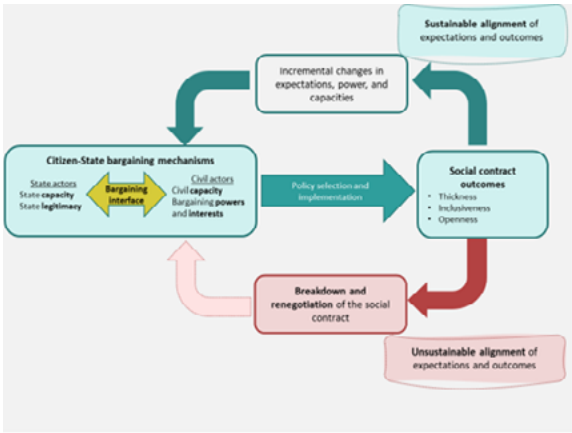
Based on the described methodology, a time series of poverty rate has been computed for the period 2019-2022, with the reference date (period 0) being 2018, the year of the most recent poverty survey implemented in Sahel countries. Three scenarios are considered for any single year of the period 2019-2022. The first measures the poverty rate associated with growth in incomes and no change in prices, that is $P_1=P_0$ and $CV(P_0,P_1)=0$. In other words, the prices in the subsequent years are considered the same as the price of 2018. The second scenario, in addition to incomes growth, considers a benchmark inflation rate, which has been set to the inflation level of 2018 for each of the years of the period. Finally, the last scenario, in addition to incomes growth, consider the realized or effective (projected for 2022) inflation for each year of the period.

ANNEX 3: Social Contracts Conceptual Framework: A Social/Political Tool: Application in Mali Context[52]

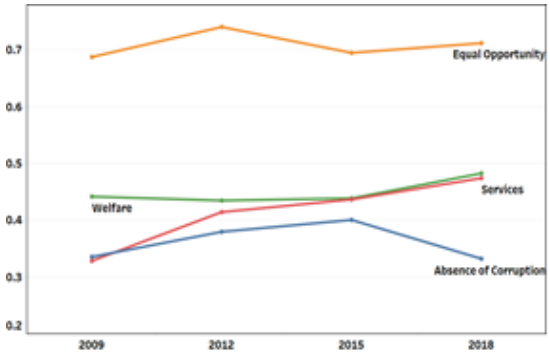
The conceptual framework focuses on three dimensions of the social contract. The ***capacity dimension*** examines the ability of the state and citizens to influence the bargaining space that shapes social contracts. Citizens' political weight (defined as civil capacity) and the state's capacity determine which policies are adopted and implemented. The ***outcome dimension*** captures the quantity (thickness) and fairness (inclusiveness) of the public services, social safety nets, and freedoms the state provides to citizens. Finally, the ***sustainability dimension*** captures how well citizen's expectations are aligned with their perceptions of the outcomes of the contract and the openness of the dialogue between them and the state to renegotiate the contract. Dissatisfaction can be addressed through a renegotiation of the bargain which can be done peacefully where the state is open to dialogue (measured by freedom of expression and of the press) or could be through violent means which can lead to a breakdown of the social contract. These three aspects interact through feedback loops and self-reinforcing cycles. As illustrated in Figure 3.1a.

Figure 3.1 Social contract: the theory and the reality in Mali

a. Shaping the Social Contract



b. Perception of social contract components in Mali (2009-2018)



52 This section is developed from the *Mali SCD* (World Bank 2022).

Mali's social contract has been under pressure for years– this has resulted in a both thin and extractive contract. Social contracts can be defined as dynamic agreements between the state and its citizens on their mutual roles and responsibilities. In Mali, the roles and responsibilities of the state have been declining since 2014. Currently, the state does not provide enough resources to the population. Security sector spending has increased significantly in recent years, with military spending reached 19.4% of public expenditure by 2020 – this has subsequently crowded out other priority areas, particularly education, health, and other service sectors. In addition, clientelism is undermining formal institutions and facilitating wider practices of corruption, which are becoming increasingly rampant. Openness has been decreasing, with indicators worsening for both freedom of expression and the press, closing off the space for dialogue between citizens and the state. Mali's social contract currently falls into the thin and extractive categories, due to its low levels of inclusiveness[53] and thickness[54] compared to other countries in the region. This explains, due to a lack of public resources or because of decisions on how to allocate them, Mali's public sector does not provide many goods and resources to the population and, when it does, they are not distributed fairly according to the evidence available. Indicators based on experts' opinion (expert-based) show that the inclusiveness and thickness of Mali's social contract have not improved since[55] 2012, and that the level of inclusiveness has decreased since 2016. Further, perceptions of social contract show that the level of alignment[56] is one of the lowest of the region while openness[57] was relatively high. That alignment has been declining since 2015, with the most recently measured levels as low as those after the civil war. Popular support for the leaders of the state has remained low since 2012, and only improved in 2015 with the signing of the peace accord. Openness has also been decreasing since 2012, indicating a closing of the space for dialogue between citizens and the state. This, combined with the low level of alignment, suggests that in the past few years the social contract in Mali has become dangerously unsustainable. The combination of increasing dissatisfaction and lower openness risks social instability. While coups are never predictable, empirical analysis raises multiple flags that the likelihood of such an event had been rising in the preceding few years.[58]

53 Inclusiveness measures whether the social contract is geared toward benefitting the broad population or a select few. Inclusiveness is composed of two sub-elements: (1) fairness of opportunity and general equality; and (2) absence of corruption and abuse of power.

54 Thickness measures the level of involvement of the state in providing public services, public goods, and redistribution of wealth (social welfare, safety nets, etc.). Thickness is also composed of two sub-components: (1) access to public goods and services; and (2) social safety nets and welfare policies.

55 Staff calculations based on data from Varieties of Democracy (https://www.v-dem.net/en/), Economist Intelligence Unit, and the Gallup World Poll.

56 Alignment combines measures of the public opinion of the government as well as of the prevalence of acts of civil disobediences (strikes, riots, protests, etc.)

57 Openness measures political violence and repression, and freedom of expression and the press. It indicates the quality of the channels of communication between citizens and the state.

58 World Bank (2022).

Global lessons and literature provide areas of policy recommendations on strengthening the social contract, relevant to Mali:[59]

- ✓ Transparency is most effective when it supports the generation of specific, reliable, and impartial evidence on the performance of leaders tasked with the delivery of public policies.
- ✓ Policies to strengthen the functioning of media markets can be a crucial part of governance strategies to foster healthy political engagement. Policies can encourage the provision of information and the access to media in ways that are more relevant and timely to the political process.
- ✓ Policies can be designed in ways that are sensitive to the nature of political institutions. If government jurisdictions have clearly assigned responsibilities for public goods, then it is easier to generate data on performance that can be attributed to the leaders of those jurisdictions and to communicate that information to enable citizens to hold those leaders accountable for public goods. When citizens are not empowered to select and sanction leaders of government jurisdictions, then citizens are unlikely to have the capacity to use information to exact accountability.
- ✓ Information and communication technology (ICT) can also play a role in creating spaces that help to aggregate individual "voices" into collective citizen action, for instance by supporting mobilization through online coordination.
- ✓ Designing and implementing social accountability in countries where space for citizen-state engagement is formally constrained involves specific constraints and risks. It is possible to overcome the constraints to information, interface, and civic mobilization in various ways. Governments may strictly regulate civil society organizations, but evidence suggests that they can also open up space for citizen engagement— for instance, by supporting particular associations that mobilize citizens to help the state to address deficiencies in service delivery. Even though the state-society interface is formally constrained in these contexts, many governments operate with representative institutions that provide some form of state-society interface. Understanding the historical and political context of the interface between the state and civil society is particularly critical. The space and nature of the interface may also differ greatly depending on the sector or the level (national or local). Evidence seems to suggest that effective channels of state-society interface in such contexts generally are not confrontational.
- ✓ Based on the evidence, there are several entry points and approaches to encourage state actors or institutions to be responsive to citizen feedback. The accountability loop, which either sanctions or encourages responsiveness of the state, occurs through five approaches: 1) appealing to the personal or professional integrity of public officials, which may have a limited scope; 2) appealing to a government's existing instrumental interest in improving service delivery and efficiency; 3) linking to social accountability mechanisms to improve the effectiveness of the state's own "horizontal" accountability framework; 4) using existing diversity within state institutions; and 5) working within the boundaries of government-endorsed, donor-financed initiatives.

59 World Bank (2016 and 2018), Yamouri and Balasuriya (2019), and Grandvoinnet et al. (2015).

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