Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 24-Apr-2020 | Report No: PIDISDSA29364

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Mali	P168812	Promoting Access to Finance and Income Generating Opportunities in Mali Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	30-Apr-2020	30-Jul-2020	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Republic of Mali	Ministry of Finance	

Proposed Development Objective(s)

To enhance access to finance and provide income generating opportunities for targeted beneficiaries in Mali

Components

Component 1: Promoting Sustainable Microfinance and Digital Payments
Component 2: Provision of Financing and Capacity Building for MSMEs
Component 3: Income and Employment Support
Component 4: Contingency Emergency Response
Component 5: Project Management and Implementation Support

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	60.00
Total Financing	60.00
of which IBRD/IDA	60.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	60.00
IDA Credit	30.00
IDA Grant	30.00

Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Since 2012, Mali has been experiencing instability and conflict, and insecurity remains stark in the center and north of the country.** Security, critical to economic recovery and poverty reduction, remains fragile in the face of continued attacks by armed groups on UN peacekeepers, the Malian army, and civilians, especially in the northern and central regions. In parts of the central region of Mopti, increased inter-ethnic tensions have significantly worsened the security situation. Insecurity has reached the point where farmers in some areas were unable to cultivate their land during the 2018 and 2019 cropping seasons, and where danger on the road and in public places dissuades traders and customers from coming to markets. Tourism was brought to a halt, and thus removed a previously crucial source of demand for goods and services in both the Center and the North. While overseas development assistance (ODA) has rebounded, the public investment budget remains limited, the construction sector has not recovered, transport costs have stayed high, and private sector investment (whether domestic or foreign) is still limited, with insecurity cited as the chief business obstacle in the most recent Enterprise Survey. All of these factors affect job creation and the productivity of existing jobs.

2. **The fragile political and security context risks to further deteriorate Mali's human development outcomes, which are amongst the lowest the world.** Poverty is multi-dimensional in Mali and the country currently ranks 182nd of 188 countries in the Human Development Index and 153rd out of 157 countries in the World Bank's recently published Human Capital Index (HCI), a measure of the amount of human capital that a child born today can expect to attain by age 18). Mali's HCI at 0.32, is well-below the regional Sub-Saharan Africa average of 0.40, low-income countries' average of 0.38 and only above that of Chad in the Sahel region.

3. **Women and the youth suffer more severely from the consequences of conflict and extreme poverty.** With only a score of 0.678 on the Gender Inequality Index, Mali is ranked 157th out of 160 countries in the 2017 index. Only 8.8 percent of parliamentary seats are held by women (against 23.5 percent in Sub Saharan Africa –

SSA), 7.3 percent of adult women have reached at least a secondary level of education (against 28.8 percent in SSA) and 12 percent of women are literate (against 27 percent of men).Whilst the young age structure of the population presents a unique opportunity for a demographic dividend, in the context of limited security and widespread underemployment, it can have the opposite effect. Under these circumstances, many youth risk being exposed to criminality and banditry. Youth unemployment is over two times bigger than the national average, with young girls (aged between 15-24) facing additional barriers on the job market where the employment gap between men and women reaches three percentage points. These barriers for women include supply-side constraints (lower enrolment and graduation rates), as well as demand-side constraints, such as employer perceptions around sectors, which are deemed suitable for men, as compared to women. According to the World Development Indicators, 94 percent of women in Mali had a vulnerable employment in 2018 (compared to 83 percent of men), and at least 97 percent of female workers in the non-agricultural sector had an informal status in 2015.

4. **In the center and north of Mali, conflict and insecurity have reversed gains in schooling and literacy.** Mali can look back at progress in raising educational attainment during the 2000s, but instability has reversed some of these gains. In a recent household survey, the literacy rate among youth aged 15-24 in in the Center and North of the country was 35 percent, compared to 49 percent in the rest of the country. The discrepancy has widened during the conflict: among youth who completed primary schooling before the conflict, the difference in the literacy rate between the two regions was four percentage point. Among those whose primary school years coincided with the conflict, it had widened to 12 percentage points.[1] A major constraint to gainful income-generating opportunities and employment is a lack of foundational skills.

5. **The prolonged political and security crisis is also a major additional burden on firms in Mali, further adding to a challenging economic context and burdensome business environment.** Political instability was ranked as the top constraint by Malian enterprises in 2016 Enterprise Survey, followed by access to finance, informal sector practices and corruption (**Error! Reference source not found.**). Mali ranks 148 out of 190 economies measured by the 2019 World Bank's Doing Business report (**Error! Reference source not found.**). Improvements are needed in all areas of business regulation, with the biggest challenges revolving around property registration, taxation and contract enforcement.

Sectoral and Institutional Context

6. **Agriculture and services dominate the economy, and most jobs remain in self-employment.** The productive sector is led by agriculture which is estimated to account for 41 percent of Gross Domestic Product (GDP), followed by the services sector (40 percent) and industry (19 percent). Agriculture employs most Malian workers (83%), nearly always in self-employment (24% of those in the sector) or as unpaid household helpers (68%), and most workers' primary activities are seasonal (79%). Virtually all employment is informal, and wage employment remains the exception (14%, combining formal and informal wage jobs).[2] Informal employment accounts for over 90 percent of all jobs (ONEF, 2016). Formal employment is the norm only in the public sector, where it accounts for four out of five positions (80%) – but public employment itself only accounts for three percent of employment.

[1] Source: LSMS 2017. Estimate of conflict impacts based on comparing Malian youth aged 9-12 to those aged 21-24.
[2] LSMS, 2017

7. **Private sector activities are diverse, ranging from a few formal firms that contribute an outsize share of value added to a large number of informal Micro, Small and Medium Enterprises (MSMEs) and casual household enterprises.** The formal private sector in Mali is small and highly concentrated with a small number of large firms. The 39 largest firms in Mali are responsible for 80 percent of salaried employment in the private sector – but formal wage employment only accounts for less than one percent of jobs[3]. These large firms mill cotton, generate electricity, and operate in telecommunications or in mining (for the most part, sectors which are more capital than labor intensive). In addition to the formal sector, a large share of economic activity is transacted by informal Small and Medium Enterprises (SMEs), which are estimated to account for about half of all Malian enterprises[4]. Beyond these firms, about one in every six households (%) operates a household enterprise – a market-linked activity that is casual but has some degree of permanence. Household enterprises are important employers: they provide jobs for 280,000 Malians full-time and 545,000 part-time, including 260,000 workers who are not part of the owner's household. This is about an order of magnitude more workers than are employed by formal firms.

8. **Insecurity and structural challenges limit the availability of good jobs in businesses and self-employment for Mali's large and growing pool of young workers.** Mali faces the challenge of generating job opportunities for a labor force that is estimated to grow by about 235,000 workers every year (with over half of the country's 3.6 million population aged 24 years or younger). Unemployment is estimated at nine percent on a national level but is much higher among youth (40.3 percent) and in certain regions such as Gao or Koulikoro (>30 percent)[5]. Like in other low-income countries, unemployment is a problematic measure of job outcomes. Because of the need to make a living, what is measured as unemployment rarely means idleness. More often, those who register in statistics as unemployed are unpaid helpers in family agriculture, casual services, or housekeeping. What is common to most workers in Mali is that they are limited to jobs that are of low productivity in the agriculture sector or in small commerce and casual services. There is also clearly a gender dimension to youth unemployment in Mali, with substantially lower female labor force participation. If productive employment opportunities do not open up for, it will pose both a major development and security challenge to the country.

9. **Young Malians face particularly poor economic outcomes.** Young Malians are most likely to be unpaid household helpers, have far lower cash incomes than their older peers, are less likely to have diversified out of agriculture, and are less likely to work in household enterprises. Three quarters of employed Malian workers aged 15-24 are unpaid household helpers, compared to 60 percent of those aged 25-34, and 44 percent of older workers. Men largely transition from unpaid household work to self-employment as they grow older; women also shift into self-employment, but to a far lesser degree. In line with the prevalence of unpaid household work among young Malians, workers aged 15-24 have only one-fifth to one-third of the cash income of older age cohorts. Young workers are also substantially less likely to have an activity outside of agriculture (16% of workers aged 15-24, as compared to 25% among older workers) or to work in a household business activity (4% among those aged 15-24, and 8% among older workers).

Financial system and access to finance

10. **Mali's financial system is dominated by the banking sector and is comparatively small in terms of size,**

[3] Source: ONEF, 2016
[4] Source: Census of MSMEs in Mali, April 2019.
[5] Source: 2017 Mali Household Survey.

depth and outreach. The banking sector is comprised of 14 banks which collectively account for more than 90 percent of total financial sector assets. The microfinance sector is much smaller in size, accounting for about three percent of financial system assets, but is more relevant in terms of outreach and inclusion: The microfinance sector accounts for more than 1.8 million deposit accounts (against 1.1 million banking deposit accounts) and provides financing to market segments which are either excluded or underserved by the banking sector and predominantly informal (microenterprises, subsistence firms, women-led firms, farmers, etc.). The remainder of Mali's financial system comprises six non-bank financial institutions (NBFIs) – three mobile money operators, two guarantee funds and a leasing company - and eleven insurance companies, which collectively account for less than two percent of total financial sector assets.

11. **Credit growth has been slowing down in recent years after a decade of robust growth.** Mali's credit to GDP ratio has been growing fast since the 2008 financial crisis to converge with the regional average despite the challenging political and security environment following the 2012 crisis (**Error! Reference source not found.**). While bank assets are still dominated by short-term credits to the private sector, the share of government bonds has increased steadily since 2012 (**Error! Reference source not found.**; **Error! Reference source not found.**), raising concerns on potential crowding-out effects on private sector lending. While there is no direct evidence of crowding out of the private sector, this higher ratio of medium and long-term bonds could put some pressure on the issuance of long-term loans to the private sector as banks must comply with the transformation ratio. It is typically deemed safer and easier for commercial banks to hold long-term government bonds than long term credits to the private sector. Sovereign debt instruments benefit from more favorable regulatory rules, rarely become nonperforming assets, can be used as collateral to obtain liquidity, and do not require due diligence to assess the credit worthiness and viability of the long-term project associated with the loan.

12. **Access to finance remains a major constraint for most Malian enterprises despite improvements in access to credit.** Available data from the World Bank's enterprise surveys conducted in Mali over the last decade suggests that firms' access to credit has significantly improved during this period. The share of Malian firms reporting to have a loan or line of credit increased steadily from 10 percent 2007 to reach 26 percent in 2016 (**Error! Reference source not found.**). Yet despite improved access to credit, the share of firms considering access to finance as major constraint has been on the rise (**Error! Reference source not found.**).

13. **The microfinance sector has the know-how and experience to finance low-income households and microenterprises, but its growth potential is hampered by major weaknesses in its governance and oversight.** Mali's MFIs have the experience and delivery model to finance smaller, less established and more informal firms which are shunned by the banking sector, but have been unable to scale-up their operations due to a prolonged MFI sector crisis which has not only impaired the confidence of clients, but also of banks and other investors who have been increasingly reluctant to finance the sector after a series of MFI failures since 2012. The Microfinance sector has been undergoing a crisis since 2009, when the collapse of several large MFIs made thousands of low-income depositors lose access to their savings overnight, along with a loss of confidence in financial institutions. The continued lack of adequate supervision[6] remains the biggest threat to the financial soundness of the microfinance sector. The resulting gaps in the sector's oversight are a major risk factor which impede the detection and prevention of unscrupulous business practices which have been the main driver of failing MFIs.

[6] The oversight of the microfinance sector is shared between WAEMU banking commission, which oversees 13 MFIs with more than XOF 2bn in assets, and the MFI supervision unit within the Ministry of Finance which is in charge of the vast majority of MFIs whose assets fall below that threshold.

14. **The low capacity of the microfinance sector supervision unit does not allow an adequate oversight of the sector in order to avoid additional crisis, and few MFIs meet regulatory and prudential requirements.** The continued lack of adequate supervision remains the biggest threat to the financial soundness of the microfinance sector. The oversight of the microfinance sector is shared between West African Economic and Monetary Union (WAEMU) banking commission, which oversees 13 MFIs with more than XOF 2bn in assets, and the MFI supervision unit within the Ministry of Finance which is in charge of the vast majority of MFIs whose assets fall below that threshold.

Employment and access to income-generating opportunities

15. **Multiple constraints prevent youth from engaging in more productive employment in Mali.** The core constraint to job opportunities is limited demand for labor, which is exacerbated by and contributes to the fragile security situation. The three main cited constraints are: (a) access to finance (over 50% of all firms); (b) access to land (about 30%); and corruption (about 25%). On the supply side, many youth lack basic literacy and numeracy skills, but also higher-level skills (technical, soft skills etc.) required to transition successfully into employment.

16. **On the supply side, low primary education levels mean that basic literacy and numeracy are often lacking.** As of 2016, the gross enrolment rate for primary education stands at 77 percent, whilst the completion rate stands at 58 percent. An estimated 1.9 million children of primary school age are currently not in school. Both supply-side and demand side factors impact the high rate of out-of-school age children. These include the high costs of education to households, distances to get to schools and insecurity, poor quality of existing physical facilities, school closures due to the violence as well as limited parental interest and engagement. Overall, households tend to underestimate the returns to education, which suggests they may be of the view that the existing education system will not lead to gainful employment and aligns with the fact that even though kids get on average 5.6 years of schooling, the learning adjusted years are half. The high dropout rate at the primary level has a notable impact on basic functional literacy and numeracy. Early Grade Reading Assessments show that more than two-thirds of Malian students complete the second year of basic primary without basic reading skills. The World Bank is financing a US$45 million project in 2019, which aims to improve basic education outcomes across Mali.

17. **Job-relevant technical skills required to access existing employment opportunities are often in short supply.** One in six firms included in the recent enterprise surveys highlight lack of education and required skills as a major or very severe constraint to business development. This reflects overly theoretical general secondary education track (over 90 percent of secondary level students) and the very limited reach of the TVET system (less than 10 percent). The general track is disconnected from the realities of the work place and thus opens limited job opportunities, one of the core drivers of the secondary dropout rate. Youth following the koranic education track face even greater disconnect from the labor market, with an additional language barrier since they learn in Arabic.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To enhance access to finance and provide income generating opportunities for targeted beneficiaries in Mali

Key Results

- Percentage of Microfinance Sector Assets under Supervision
- Number of MSMEs with a loan or line of credit
- Number of individuals and MSMEs benefited from digitzed services (disaggregated by gender and youth)
- Number of beneficiaries that have benefited from income generating activities, (disaggregated by gender and youth)

D. Project Description

18. **This project aims to support entrepreneurship and employment in Mali by supporting income generating activities and access to finance.** The project intends to achieve its objectives via three main channels: (i) strengthening the performance and stability of the microfinance sector and facilitating access to digital financial services to promote sustainable financial inclusion; (ii) supporting the creation and growth of MSMEs through greater access to finance (guarantees; long-term funds) and capacity building; and (iii) supporting youth in fragile areas in starting market-linked activities, and providing temporary employment opportunities through labor intensive public works where markets have been particularly disrupted.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

The project will be implemented throughout Mali, but with a concentration of activities in the center of the country. Mali faces environmental and social challenges related to its Sahelian character and whose vulnerability is aggravated by the impacts of climate change affecting the main economic sectors, in particular the agricultural sector. In addition to these climatic challenges, the context of insecurity of Mali characterized by the attacks of Jihadist groups in the north and center, and the recent upsurge of inter-ethnic rivalries, especially in the central part of the country. The LIPW and IGA activities that the project will implement are small-scale, low-impact, but cumulative, can have significant impacts on the environment of the intervention sectors. The environmental risk is substantial and the measures will have to be taken by the Malian party to put in place an institutional framework that will be able to develop the necessary measures and effectively implement the measures that will be planned. An EMSF, SEP, ESCP and LMP will be prepared and disclosed prior to appraisal. In addition, ESS9 is relevant and will require a capacity assessment of the PSGF in order to identify training and other capacity building that will be necessary.

E. Implementation

Institutional and Implementation Arrangements

19. **The Ministry of Economy and Finance will be the direct recipient of the World Bank credit and the overarching implementing entity overseeing project implementation.** The project also foresees the establishment of a steering committee comprising key public and private sector stakeholders to provide strategic guidance and ensure effective coordination between project stakeholders. The Private Sector Guarantee Fund (PSGF) is expected to lead the implementation of Component 2. Component 3 will be contracted out. The precise institutional arrangements for project coordination and implementation will be finalized during appraisal. The team will develop an implementation support plan upon the completion of the capacity assessment.

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APPROVAL

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