MALI

Economic and Poverty Update during COVID-19

Spring 2020

WORLD BANK GROUP

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Economic and Poverty Update[1]

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EXECUTIVE SUMMARY

1. **Growth remained robust in Mali in 2019 despite the exacerbated violence in the northern and central regions.** Real GDP growth reached 5.1 percent in 2019 (1.9 percent per capita) compared with 4.7 percent for the previous year, thanks to buoyant economic activities in the still secured southern regions. On the supply side, economic activity was driven by services, agriculture, construction and mining, which make up to 85 percent of GDP growth. On the demand side, government investment accelerated and contributed 2.8 percentage points of growth.

2. **Inflation turned negative in 2019 at -0.6 percent with a continued downward trend.** It was much lower compared with WAEMU average (0.1 percent), which is mainly driven by Senegal (1 percent) and Côte d'Ivoire (0.8 percent). Despite common inflation factors in WAEMU including lower food prices due to excess regional supply and imported euro area low inflation, Mali's price movement reflected a more pronounced and widespread deflation, including in sectors such as clothing, health, communication, restaurants and hotels.

3. **Strong output growth together with enhanced revenue mobilization measures helped reduce the fiscal deficit to be below the WAEMU fiscal convergence criteria of 3 percent of GDP**. After a significant slippage in 2018, total government revenues and grants rebounded by 5.3 percent of GDP in 2019 thanks to, among others, strengthened collection of tax arrears and increased VAT taxpayers' monitoring. Grants from external donors in 2019 increased to 1.9 percent of GDP mainly for project financing but also for general budget support. Total government spending also increased by 2.8 percent mainly on account of higher security-related expenditures and larger public transport infrastructure. Total public debt inched up to 40.4 percent of GDP by end-2019, which left the country's assessment unchanged at moderate risk of debt distress according to the 2020 joint World Bank-IMF debt sustainability analysis.

4. **Fiscal consolidation efforts and an improvement in the terms of trade help reduce the external current account deficit to 4.2 percent of GDP.** Exports were driven by gold production, while the export value of cotton and other products remained largely at the same level as in 2018. Imports of goods and services increased in nominal terms, driven by imports of foodstuffs, machines and vehicles, as well as imports in services. Higher official transfers from development partners and a narrower service trade deficit offset the larger merchandise trade shortfall.

5. **Turning to the outlook, the COVID-19 pandemic has seriously clouded Mali's short-term prospects.** While growth was projected at 5 percent in 2020 prior to the COVID-19 outbreak, real GDP is now projected to increase by a mere 0.9 percent due to contracted global demand, supply chain disruption, and containment measures. Worse still, the pandemic is hitting the country at a time when it is already vulnerable to adverse weather which would add to the existing food insecurity, and a potential escalation of insecurity that would further paralyze agriculture and mining activities in central Mali which is not yet impacted.

6. **The medium-term outlook envisages a steady recovery following the 2020 COVID-19 downturn shock, but with significant downside risks**. Despite severe domestic shocks, with intensifying conflicts and rural fragilities, real GDP growth could bounce back to around 5 percent of GDP over the medium term. Under present trends, inflation should also remain below 3 percent and the fiscal deficit decrease toward the 3 percent of GDP WAEMU target. This relatively favorable medium-term outlook nevertheless carries significant downside risks. The humanitarian and security crises could respectively jeopardize labor supply across sectors, and production especially in the mining and agricultural sectors. Further, these crises are occurring in a context of widespread poverty, fragility, and vulnerability to climatic and terms of trade shocks. Finally, if not successfully contained and if appropriate mitigating and recovery measures are not taken, the ongoing COVID-19 local outbreak combined with the world economic recessionary prospects could negatively and durably affect real sectors, and lead to worsening fiscal deficits, current account balances and debts prospects over the next five years.

7. **Progress in reducing poverty and increasing shared prosperity has not been satisfactory in Mali as strong growth over the last decade has not translated into poverty reduction**. Despite strong annual economic growth performance averaging 5 percent, the proportion of the Malian population living under the national poverty line is stuck at above 40 percent with more than 8 million poor in 2018/19. Mali has not experienced shared prosperity as the consumption growth of the bottom 40 percent of the distribution has been 2 percentage points lower than that of the top 60 percent of the distribution. The lack of progress in monetary poverty is accompanied by mixed improvement in non-monetary indicators where most education and health indicators have stagnated or declined below pre-crisis levels. While urbanization is increasing rapidly, its effects are not leading to a process of economic transformation. Halving poverty rate to 20 percent by 2030 remains an ambitious goal requiring a concerted effort to maintain economic growth at minimum at 7 percent per annum.

8. **In addition to its immediate impact of health outcomes and, tragically, on lives, the COVID-19 outbreak is likely to have long-lasting welfare impacts**. These impacts are stemming from the direct and indirect effects of illness, the preventive behaviors of people and the transmission control policies of governments. In 2020, the cumulative impact of COVID-19 is estimated to result into a decrease in aggregate consumption between 2 and 4.3 percent for the baseline and downside scenarios respectively. This is equivalent to an overall increase in poverty between 1 and 2 percentage points (or between 199,234 and 541,323 more absolute poor).

9. **Policy recommendations will take a three-pronged approach of protecting lives, protecting livelihoods, and protecting the future.** Immediate policy efforts should be directed at scaling up key programs aiming at increased capacities in healthcare, social protection, and food security. Short-term and medium-term policy efforts should be supporting households and firms through the crisis. Over a longer term, a recovery and growth agenda is needed to recreate the conditions for sustainable growth and ensure fiscal resilience. The Government needs to ensure accountability and transparency in the management of the COVID-19 special funds. Fiscal viability and debt sustainability are important to ensure adequate level of capital investment as well as to attract foreign investment.

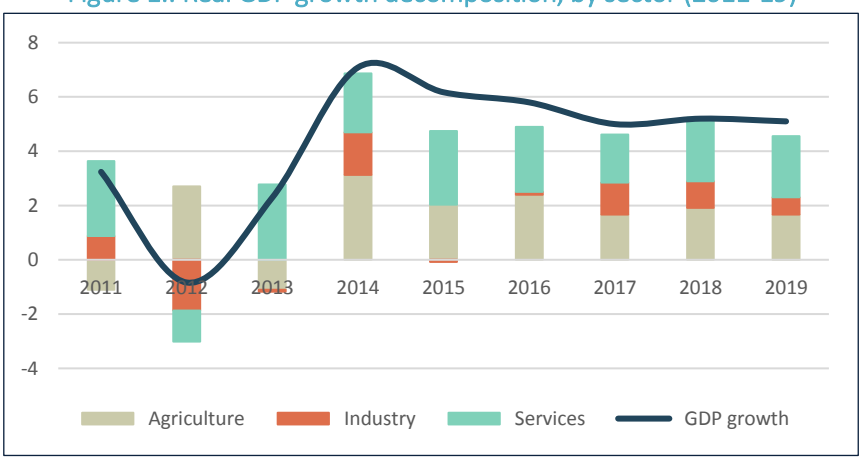
2.1 Recent economic developments

Mali's real GDP growth was sustained at 5.1 percent in 2019 (1.9 percent in per capita terms) despite a rapidly deteriorating conflict situation. The Malian economy experienced deflationary pressures reflecting high level of food production as well as low inflation in euro-area. The financial sector, though segmented, remains sound. The year 2020 started with a good prospect with promising levels of output, satisfying tax collections and a stabilized consumer price.

2.1.1. Real Sector

10. Real GDP growth has inched up to an estimated 5.1 percent in 2019 from 4.7 percent the year before (Figure 1) against the backdrop of elevated security threats and resilient agriculture production. This has been possible because most of the economic activity occurs in the agricultural south of the countwhich has been relatively preserved from violence. Accounting for more than one-third of GDP and four-fifths of employment, agriculture is the backbone of the Malian economy, mainly in the form of subsistence agriculture. After a record year in 2018, agriculture growth decelerated slightly in 2019 but remained robust at 5.1 percent.

Figure 1.: Real GDP growth decomposition, by sector (2011-19)

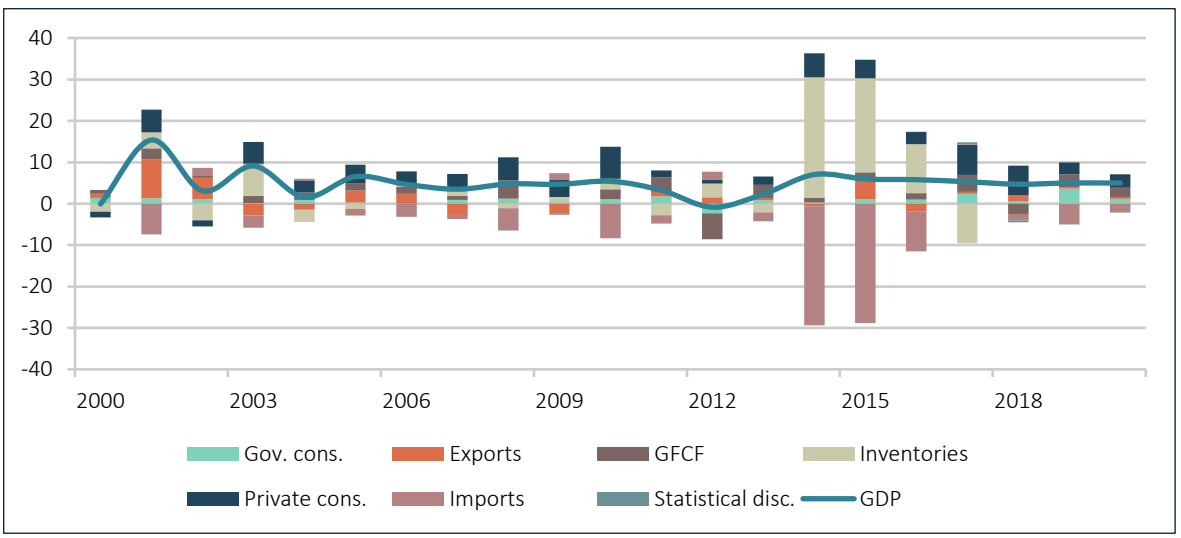


Source: World Bank staff estimates.

11. Beyond agriculture, real GDP growth in 2019 was relatively broad based. A strong rebound in government capital spending led to a construction recovery of 5.5 percent (after almost no growth in the sector in 2018). The performance of the industrial sector was also robust with gold mining growing at 6.6 percent on top of an acceleration of close to 22 percent in 2018. Gold production in 2019 broke a new record and reached 65.1 tons. It is estimated that the level of production will continue in 2020. Services' output rose 5.3 percent in 2019 with a good performance of the transport and ICT sectors. At 4.3 percent, the growth in trade services was less rapid but still an acceleration from the 2.5 percent recorded in 2018. Notwithstanding this relatively broad-based growth performance, Mali's economic diversification process remains relatively muted and reflects slow progress in improving its business environment. Mali's Doing Business performed less well in 2019 compared with previous years (ranking dropped from 145 in 2018 to 148 in 2019, and overall score also dropped from 53.1 to 52.9). Despite improvement in areas such as easiness of starting a business and dealing with construction permits, the troublesome condition of tax payment procedure significantly worsened in 2019.

12. Domestic demand picked up in 2019. After a decline of -2.8 percent in 2017, and no growth in 2018, domestic demand accelerated to 5.8 percent in 2019. Strong domestic demand benefitted from the sharp increase in both public and private investment. Private investment grew 6.8 percent, in part reflecting investments in developing mines, and following a string of negative growth rates over the past three years. Meanwhile, growth in public investment also rebounded to 5.5 percent as the government increased spending on infrastructure projects. At the same time, credit to the private sector reached 2.2 percent supported the robust increase in private consumption totaling 3.8 percent, which in turn also helped boost domestic demand. The negative net foreign balance deepened again by almost 10 percent compared with 2018 as imports of goods and services grew at 6 percent outpacing marginally higher exports. This moderated the impact of the sharp rebound in domestic demand on real GDP growth.

Figure 2.: Real GDP growth decomposition, by expenditure (2011-19)



Source: World Bank staff estimates.

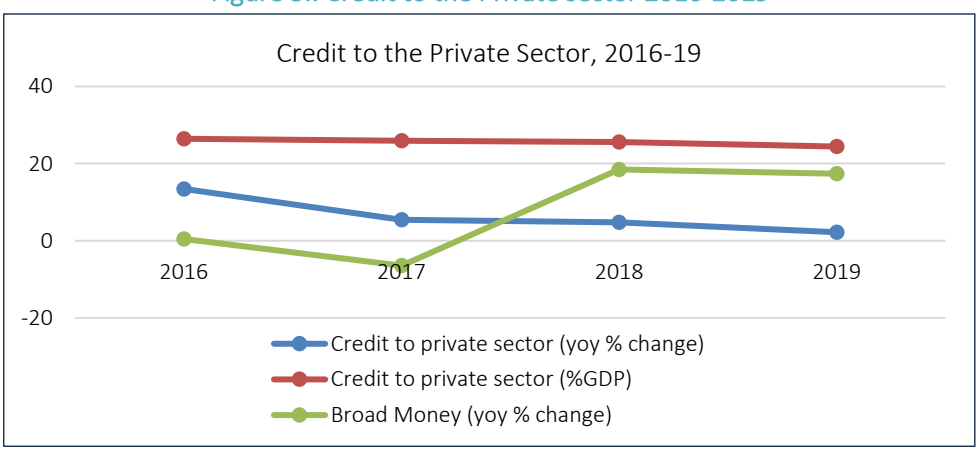
2.1.2. Monetary and Financial Sector

13. WAEMU financing conditions eased after Q1 2019, while the BCEAO, the regional central bank, has kept its monetary policy unchanged since 2017, with the policy rate and RRR at 2.5 and 3 percent respectively. The interbank rate declined by more than 100 bps during the first half of 2019, supported by the central bank's lower open market operations rate and expanding bank's reserves on the back of growing BCEAO's net foreign assets. WAEMU gross international reserves increased by 6.7 percent in 2019 (USD 2.25 billion), representing 4.9 months of imports of goods and services (compared with 4.5 months in 2018). Easier conditions on the money markets have also transmitted to the capital markets: over the last year, Mali's sovereign yield curve flattened, rates decreased by 100-200 bps across the board and regional issuances also increased in 2019. The real effective exchange rate (REER) depreciated by 5 percent in 2019, due to the Euro nominal depreciation against the US dollar combined with persistently lower inflation of the WAEMU compared with trading partners.

14. The good cereal production in 2018 led to a reduction in food prices, bringing about deflationary pressures in 2019 (Table 4), which stabilized in early 2020. Food crop production more than doubled in 2018, and increased food stocks. The larger inventories of cereal led to a decline in headline inflation to –0.4 percent in 2019 from 1.7 percent in 2018, and 1.8 percent in 2017. The fall in prices was also supported by low inflation in the euro zone. Deflationary pressures occurred despite a further increase in private sector credit growth to around 6 percent in 2019 from 4.8 percent a year ago, and 22 percent higher nominal government wages in 2019, which both fueled private consumption. After a continuous decline in 2019, consumer prices stabilized in February 2020 with a 0.1 percent growth rate (y-o-y), The most important item in the consumption basket – raw cereals – edged down by 1.7 percent (yoy), due to strong agricultural production and significant price drop came from services (in particular, health, communication, and leisure) with a decline of 11.2, 18.8, and 13.3 percent, respectively.

15. The financial sector remains sound. The Malian financial system is segmented and dominated by foreign-owned commercial banks. Six banks out of 13 account for 77.5 percent of the sector in terms of total assets. The ratio of domestic credits to the private sector as a percentage of GDP—the proxy for financial depth—was about 25 percent in 2019 compared to an average of around 30 percent of GDP in the WAEMU. Financial inclusion is lagging, but the acceleration of the development of mobile banking, while carrying regulatory and supervisory challenges, helped deepen the financial system, increase the formal sector, and promote long-term economic growth. The banking sector remains well-capitalized, with capital to risk-weighted assets rising to 13.5 percent in June 2019 from 12.5 percent the year before. Asset quality has also improved as the NPLs ratio to total loans fell to 11.6 percent in June 2019 from 18.2 percent in December 2017. [2]The financial sector is also more liquid with liquid assets to short term deposits having risen to almost 102 percent in June 2019 from 69 percent two years ago.

Figure 3.: Credit to the Private sector 2016-2019



Source: BCEAO and IMF.

[2] The sharp decline of NPLs should be interpreted with caution as it is primarily driven by the transition to Basel II/III which include (i) a more favorable asset classification framework for non-performing assets (ii) a five-year maximum for holding NPLs in banks' balance sheets – rather than structural changes in banks' NPL portfolio.

Table 1.: Financial soundness indicators (FSI)

	2015 Dec.	2016 Dec.	2017 Dec.	2018 Dec.
Asset quality				
Non-performing loans to total loans	16.1	16.4	18.2	13.5
Non-performing loans to total loans (net of provisioning)	6.3	7.7	8.9	7.2
Provisions to gross non-performing loans	65.0	70.1	56.0	50.5
Non-performing loans net of provisions to Tier I capital	46.3	60.9	72.8	…
Provisions to gross loans	10.4	11.5	10.2	6.8
Earnings and profitability				
Return on assets (ROA)	1.1	1.1	1.0	1.6
Return on equity (ROE)	14.9	14.8	14.6	…
Liquidity				
Liquid assets to total assets	51.7	50.0	45.6	63.8
Liquid assets to short term liabilities	87.9	86.2	82.6	98.4
Ratio of deposits to assets		58.4	59.4	60.2
Ratio of loans to deposits	**86.7**	**95.8**	**99.6**	**95.8**

Source: BCEAO

2.1.3. Fiscal Sector

16. After a sharp slippage in 2018, the fiscal deficit reduced to 1.7 percent of GDP in 2019 partly thanks to efforts in increasing tax collection. The fiscal consolidation was achieved by an increase of 6.3 percent of GDP of total government revenues and grants, which exceeded the increase of 4.5 percent of GDP in total expenditures **(Figure 4)**. Considerable efforts are being deployed by the authorities to increase tax revenues. These efforts include better communication between tax and customs administrations, rationalization of tax exemptions, strengthened control and audits, digitalizing of procedures in tax and customs administrations, and deployment of e-filing and payment of taxes online or via mobile banking. These measures will contribute to a decline in the fiscal deficit to 1.7 percent in 2019, in line with the WAEMU convergence criterion.

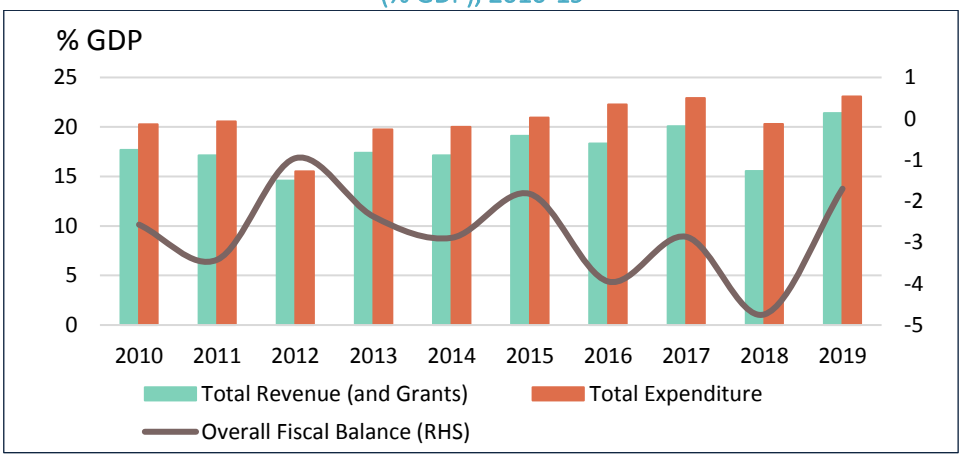
17. All revenue categories performed well in 2019 following the corrective measures taken by the authorities, and the promising prospect continued in early 2020. Tax administration performed relatively better than the customs administration. Tax revenues rose by 2.8 percentage points to 14.6 percent of GDP, driven by a surge in VAT receipts (1.5 percentage point) as the government gradually restored collection of tax arrears, increased VAT taxpayers' monitoring, and launched online payment of taxes. These measures led to a decline in tax arrears by 20 percent by July 2019. VAT receipts and higher non-tax revenues more than offset the decline in excises on petroleum products caused by lower petroleum prices and hence a reduction in the value of fuel imports. External donors, meanwhile, doubled the grants in 2019 to 2.4 percent of GDP mainly for project financing but also as general budget support. The authorities have set an ambitious revenue mobilization plan for the year 2020. The Tax Administration (DGI) and the Custom Administration (DGD) have set the objectives at collecting CFAF 1,005 billion (against 919 bn collected in 2019) and CFAF 713 billion (against 620 bn planned in 2019) respectively. By February 2020, the DGI collected CFA 141 billion (14 percent of the annual target) which was 9 percent higher than projected in the initial 2020 finance law.

18. Total expenditures also recovered to pre-2018 level. Total expenditures rose by 2.8 percentage points of GDP, driven in part by security spending in response to the rapidly deteriorating violence in the northern and central regions of the country. Current expenditures increased by 0.9 percent of GDP, mainly because of higher public

wages and salaries. Capital spending rebounded by 1.6 percentage point to 8.1 percent of GDP mainly as a result of infrastructure investment in roads and bridges. Special funds and annexed budget also increased by 2 percentage points of GDP.[3]

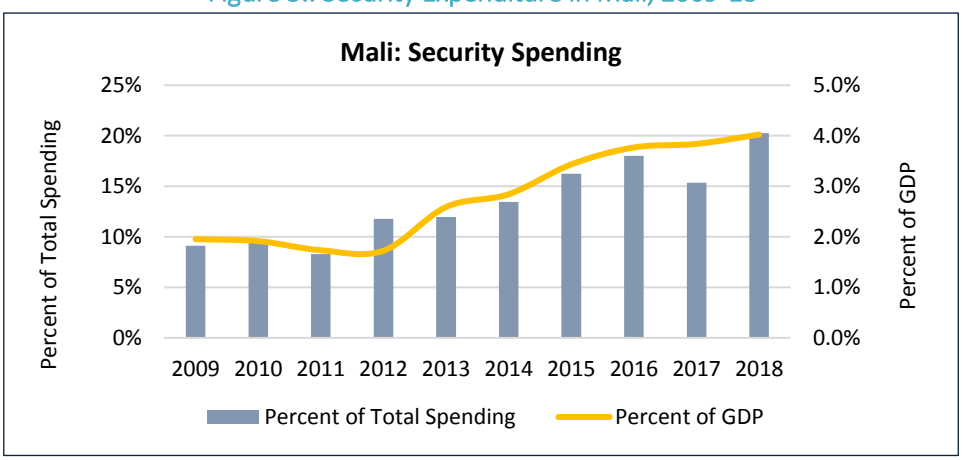
19. Mali's fiscal performance has been hindered by the worsening security situation. While increasing, tax collections have been impeded by the challenging security conditions in the North (which is now spreading to the center). Military spending has steadily risen over the years. In 2011, the year before the 2012 political crisis, military spending as a share of public expenditure was 8.4 percent. By 2018 it has gone beyond 20 percent of spending **(Figure 5)**. Security spending is crowding out development and social spending from the already contracted revenues, and risks of fueling further popular discontent and subsequently more conflicts and insecurity in the future.

Figure 4.: Fiscal overall balance (% GDP), 2010-19



Source: World Bank staff estimates

Figure 5.: Security Expenditure in Mali, 2009-18



Source: BOOST and WEO
Notes: 1/ Expenditure includes both national defense and security.

[3] Special funds refer to the Treasury special accounts such as Forest Management and Protection Fund, Fund for the Development and Protection of Wildlife, VAT Credit Refund Fund, National Fund for Statistics Development, etc. The annexed budgets include: the Malian warehouses in Senegal, Cote d'Ivoire, Togo, Guinea, Ghana, Mauritania and Benin.

Box 1.: Mali's Conflict Situation and the Socio-Economic Impact

Mali is facing a security crisis, increasing in intensity over time and affecting more than two-thirds of its territory. The 2012 crisis involved a rebellion, a violent extremist insurgency and a military coup.[4] Some control was restored in 2013 following a French-led military intervention and elections restored constitutional order. A peace agreement signed in 2015 between Bamako and the two main armed coalitions[5] faces implementation challenges. Violent attacks have both increased, from 413 in 2015 to 1862 in 2019, and expanded geographically from the North to the Center and then the South. New conflicts are emerging as violent groups exploit pre-existing local tensions and rising intercommunal violence which could be exacerbated by recently reported clashes between extremist groups.[6]

Insecurity has become a significant factor impeding the country's growth prospect and causes significant social cost. The geographical expansion of the conflict is beginning to impact more populated and productive areas of Mali. The effects on economic prospects, relatively limited so far, could increase in the future as insecurity adversely affects economic activities. Insecurity disrupts the provision of public services, such as hospitals, pharmacies and schools. This has had dire consequence i.e. basic immunization coverage has fallen to less than 1 percent in Kidal region, compared to 45 percent nationwide. Financial service providers and cereal storehouses looted by armed groups reduces capacity to provide credit and mitigate food insecurity. Further, damages to bridges by suspected militants and attempted attacks on strategic and economic roads have been observed in Mopti region.

Security sector expenditures in Mali measured in percentage of GDP are lower than other countries experiencing conflict and similar to countries not experiencing conflict. Prior to the crisis in 2011, security related expenditures represented 2.2 percent of GDP, equivalent to 8 percent of the national budget. To face the significant increase in levels of insecurity the authorities increased spending to 4.1 percent of GDP in 2018. The same year, security related expenditures in Afghanistan and Iraq were respectively 12.2 and 7.7 percent of GDP while in Turkey and the United Kingdom they were respectively 3.9 and 3.1 percent of GDP. Hence, Mali's security sector expenditures in 2018 were lower than in other countries experiencing conflict and at similar levels to countries not experiencing conflict.

2.1.4. Public and Publicly Guaranteed Debt

20. Total public debt rose to about 40.4 percent of GDP in 2019 from 36 percent of GDP three years ago. External public debt constitutes 70 percent of total public debt, or 27.4 percent of GDP, and is mostly contracted on concessional terms. The latter implies not only long grace periods and maturities but also an average nominal interest rate of around 1 percent. The other 30 percent of total public debt represents largely medium-term treasury bonds issued on the domestic and regional markets, which carry an average interest rate of close to 6 percent.

21. Based on the 2020 joint World Bank-IMF Debt Sustainability Analysis, Mali continues to be at moderate risk of debt distress. All external debt burden indicators are below the relevant indicative thresholds under the most likely, baseline scenario. Mali also has a medium-term plan to improve its debt profile and strengthen the overall debt management framework. However, the country remains particularly vulnerable to adverse commodity price shocks, especially gold, cotton and oil prices, as well as contingent liabilities from large state-owned enterprises.

[4] Sahel Regional Risk and Resilience Assessment, World Bank, 2020

[5] Coordination des Mouvements des Mouvements de l'Azawad (CMA) comprised of ex separatists and the Platform comprised of pro-government armed groups.

[6] Referring to rising tensions between Islamic State and al-Qaeda-affiliated groups in the region.

In particular the state-owned electricity utility (EDM-SA) is facing insolvency and its short-term debt to commercial banks urgently needs restructuring to prevent default. **Box 2** provides more details on how EDM constitutes a major fiscal risk).

Box 2.: Énergie du Mali (EDM) and the Fiscal Risk

The need for rapid expansion of electricity service implies a challenge of high costs due to energy mix, geography and logistics. Population growth and urbanization are driving the electricity demand. Current access to electricity in Mali was estimated at 39 percent (below the Sub-Saharan Africa average of 43.3 percent) and is largely confined to urban centers (86 percent) while only 19 percent of the rural population get connected. The GoM is committed to achieve SDG 7 (universal access to affordable, reliable and modern electricity services) by 2030. To meet the demand, the state-owned utility company, EDM-SA, developed thermal generation capacity around Bamako, purchased electricity from privately operated thermal power plants, and was forced to have recourse to emergency diesel (back-up) generation on a semi-permanent basis in order to avoid massive black-outs. This rapid sector expansion has resulted in a change in the generation mix from hydropower (representing 94 percent in 2003 and only 37 percent in 2018) to predominantly thermal, implying higher fuel cost. Moreover, the landlocked feature (making fuel logistically difficult to source) and the low overall population density implies additional costs for further service expansion outside the more populated southern and central region.

The EDM is operating at a loss as the cost of production is higher than the tariff level. The change of the generation mix thus the higher reliance on fossil fuels has exposed the sector to the volatile fuel price on the international market (the country so far has not benefitted much from the recent fuel price drop due to several existing contracts and its low oil storage capacity). The cost of service estimated at US$0.24/kWh in 2017 and over US$0.26/kWh in 2018, while the average tariff stands at US$0.185/kWh for low voltage (LV) customers and US$0.15/kWh for medium voltage (MV) customers. The tariff deficit is close to 30 percent of the total cost of electricity per kWh. There is, however, considerable political and societal resistance to increases to electricity tariffs in Mali. As a result, only small tariff adjustments have taken place in rare instances during the last 15 years, and the gap between revenues and costs for EDM has considerably increased in recent years.

EDM has been relying on commercial loans and government subsidies to fill the increasing cash shortfall. In recent years EDM was unable to pay for its debt service without contracting additional debt and is therefore insolvent. Faced the increasing liquidity challenges, the EDM has been relying heavily on short-term borrowing to meet its obligations and has delayed payments to fuel and power suppliers, including for electricity imports from neighboring countries such as Côte d'Ivoire. In early 2018, EDM had a debt of 2.5 percent of GDP to 16 different financial institutions (including Development Financial Institutions and commercial banks) and had 0.7 percent of GDP of payment obligations to suppliers. The company's equity also turned negative (i.e. it does not have enough assets to pay its debt), undermining its creditworthiness and ability to source commercial funding.

A number of actions have been initiated by the government and supported by the world bank in order to reduce the cost of service, to strengthen EDM-SA's revenues and to increase access to electricity. In the medium term, increasing imports from Côte d'Ivoire, priced at USc 11/kWh is the primary leverage to reduce the average generation costs. In the longer term, access to hydropower through regional projects and domestic solar power plants are also expected. In addition, investments in the transmission and distribution networks will reduce technical distribution losses. Furthermore, there is scope to raise MV tariffs for commercial and industrial use by almost 40 percent to better align with the cost structure of EDM-SA. Taken together, these

measures reduce operating costs and will help to manage the tight cash situation EDM-SA is facing and to reduce fiscal burden, which averaged 0.4 percent of the country's GDP.

The financial relationship between the State and EDM-SA however undermines transparency and accountability and consistent decision-making. In 2019, the Government has cleaned arrears of the public administration (0.1 percent of GDP) and revised the 2019 budget by increasing further energy subsidies to 0.7 percent of GDP. This also includes the government partial repayment and restructuring of EDM's commercial debt using concessional external loans. However, annual operating subsidy is provided on an ad-hoc basis instead translating into a lack of long-term incentives for efficiency improvements on the company.

2.1.5. External Sector

22. The external current account deficit declined to 4.2 percent of GDP in 2019 with the rise in import volumes offset by an improvement in the terms of trade. Mali's main source of exports – gold – continued to increase, supported both by higher volumes and favorable international prices. Cotton's high production volumes was however offset by declining price of cotton on international markets. Despite an improvement in the terms of trade (16.7 percent improvement vis-à-vis 2018) that largely offsets the rise in import volumes, the trade balance slightly deteriorated by 2 percent compared with 2018.

23. The current account deficit was largely financed by project grants in the capital account and official credits. Non-debt creating financing in the form of project grants funded one-third of the current account shortfall, equivalent to 1.5 percent of GDP (or US$157 million). Another half of the current account shortfall, equivalent to 2.6 percent of GDP, was financed by net official credits, largely as budget support by the World Bank and loan from the Abu Dhabi Development. Meanwhile, net FDI inflows halved to 1.8 percent of GDP in 2019 compared to two years ago as a result of the deteriorating security situation and associated uncertainties. The sharp increase of official loans and transfers (3.95 percent GDP) in 2019 compensated for the lack of private funding in 2019.

2.2. Economic outlook in the time of COVID-19

Mali's economic outlook has drastically changed with the spread of COVID-19 pandemic since February 2020. Under this evolving circumstance, the medium-term outlook is highly uncertain with many risks tilted to the downside. This section discusses the transmission channel of COVID-19 impact, the current impact on Mali, the policy buffer, the economic outlook as well as policy recommendations.

2.2.1. Transmission Channels of the COVID-19 Impacts

24. COVID-19 is exerting impacts through both external and domestic channels of transmission. External channels include contraction in global demand and subsequent drop in commodity prices and tightened global financial conditions. Domestic channels relate to impact of social distancing policies imposed to contain virus.

25. The impact through the external channel is mixed as the terms of trade might improve while international trade will still suffer from a subdued global demand and supply chain disruptions. Mali is a net oil importer and gold exporter. Gold represents around 60 percent of its total exports, and other main exports include cotton products (around 18 percent) and livestock (around 14 percent). Gold mining sector is not yet affected by the pandemic and it is estimated that the gold sector will maintain same level of production. Although cotton price has hit record low since 2016 (Fig. a), lower oil prices and higher gold prices would improve Mali's terms of trade. The improved term of trade will have a positive effect on the external, fiscal and real accounts. Mali depends

substantially on Senegal, China and Côte d'Ivoire for almost half of its imports. Supply chain disruptions on products imported from China and other neighboring countries will result in a price rise in domestic consumption basket.

26. The external position is suffering from extremely low FDI and tightened external financing conditions. Foreign financing flows will decline due to both push factors (global investors shift demand towards safe assets) and pull factors (deceleration of domestic economy). The FDI inflow was already declining (from 3.6 percent GDP in 2017 to 1.6 percent in 2019) and will be further depressed. Similar contagion effects in other parts of the world (particularly France) will affect the income of migrant workers and hence migrant remittances which account for around 5 percent of GDP. The government plans to issue a total amount of CFAF 667 billion on the regional market for its financing needs in 2020 and has so far raised 115.5 billion. However, the regional market is already facing pressures particularly on the longer term of the curve.

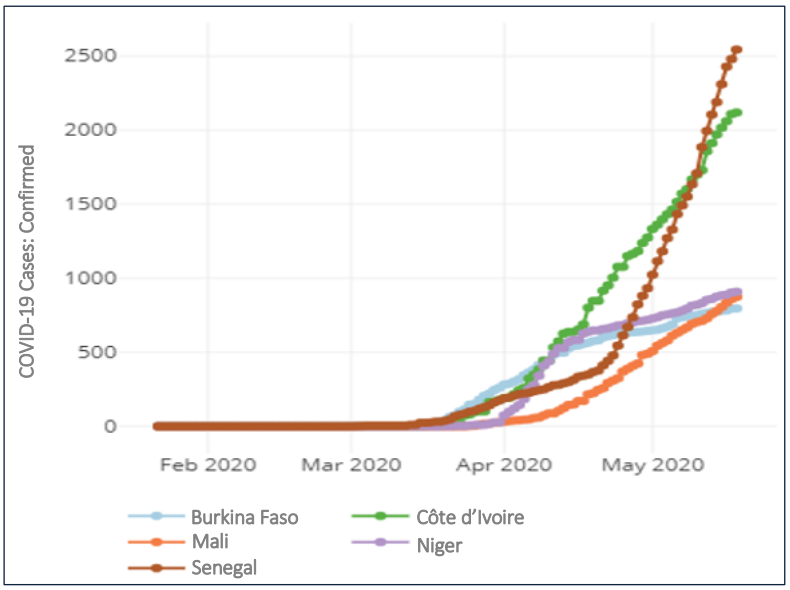
27. The impact through domestic channels operate through negative demand and supply shocks on real activities. On the demand side, real economy will be affected by both lower investment and lower consumption of final and intermediary goods. On the supply side, the economy may suffer from both lower productivity and lower labor availability due to social distancing measures or illness. Sectors that require direct human contact, such as transportation, recreation, tourism, restaurant and hotel will get the hardest hit. Agricultural output might also get further affected by disruptions in the supply chain, including logistics and transportation. In addition, the functioning of the public sector might also be weakened by social distancing measures.

2.2.2. Current Impact on Mali

28. COVID-19 not only represents a worldwide public health emergency but has become an international economic crisis that could surpass the global financial crisis of 2008-09. The global outlook has been overshadowed by sudden stop of major economics, financial tightening and the sharp drop of commodity prices. Compared with other regions, the spread of COVID-19 in Africa is simply delayed. Sub-Saharan Africa has close to Eighty thousand cases (as of May 18) and the region is projected to enter a recession of minus 2.1 percent in the baseline scenario and minus 5.1 percent for the downside scenario.[7] Two cases were discovered on March 24 and the number increased over tenfold within the first week. The total number increased to 874 (as of May 18). For a country with constrained health care facilities, limited fiscal space and large informal sectors, the challenge is substantial. Worse still, the pandemic is hitting the Sahel region at a time when it is already vulnerable.

[7] World Bank Group. 2020. "Assessing the Economic Impact of COVID-19 and Policy Responses in Sub Saharan Africa", *Africa's Pulse*, Vol 21. World Bank, Washington, DC.

Figure 6.: Confirmed COVID-19 cases in selected countries



Source: Johns Hopkins University Center for Systems Science and Engineering. Last updated on 18 May 2020.

29. Containment and mitigation measures have been deployed to contain the spread of the virus, but they will come at a high economic cost. The authorities have imposed containment and mitigation measures (lockdown and social distancing), that are necessary to save lives, curb a sudden pressure on the healthcare system, and buy time for more future resources (more medical supplies and a possible vaccine). Given the current spread of the virus and the possible under-reporting of cases, the lockdown measures and increase of health public expenditure are crucial. However, these measures come at a cost and might not be as effective as in the developed world. Border control and social distancing specifically entail a reduction in economic activity. Specific measures to aid small business and the most vulnerable will soon be needed, otherwise social distancing could be neither thorough nor sustainable, especially in a context of low trust in the government. All these measures will however weigh on its limited fiscal space.

30. On the domestic side, containment and mitigation measures have been introduced, with visible reduction in all sorts of activities, especially in retail and transport. Similar to its neighboring countries, Mali has closed its external borders: commercial flights from affected countries were suspended, Bamako Airport and land borders were closed. Social distancing measures were also introduced including prohibition of large public gathering, closure of school (to 9 May 2020) and markets. A night-time curfews (9PM to 5AM) was also introduced and was lifted in early May. The instructions to wear masks everywhere and in all circumstances will be soon implemented. The isolation of Bamako from the rest of the country was under discussion. Despite the lift of curfew in early May, reduction in all activities continue and are reflected in Google's Community Mobility Reports (as of May 13, 2020): compared with baseline (February 23), there are significant reduction in activities around transit stations (-35 p.p.), retail and recreational places (-17 p.p.), grocery and pharmacy (-13 p.p.) and workplace (-8 p.p.).[8]

31. The effectiveness of containment and mitigation measures are not yet clear, while negative side-effects on economic activities and social tension already surfaced. The lockdown and interrupted transportation will affect market supply while social distancing measures will dampen demand. Reduced consumption will further affect investment decisions. Since late March, sharp price increases (7 - 20 percent) in basic goods such as sugar, rice,

[8] Curfew was lifted in early May while the downward trend in activities continue, probably due to Ramadan.

oil and powdered milk were registered in Bamako's major markets. Similarly, the supply of imported food (from Algeria and Mauritania) dropped in the northern region following the closure of certain borders, and price of imported foodstuff are expected to rise in the coming months. A food crisis is looming in the northern and central region already torn by conflicts and population displacement. In addition, strict containment and mitigation measures are hard to implement in a society where the majority of population depend on outside work for subsistence.

32. The external position is suffering from extremely low FDI and tightened external financing conditions. Foreign financing flows will decline due to both push factors (global investors shift demand towards safe assets) and pull factors (deceleration of domestic economy). The FDI inflow was already declining (from 3.6 percent GDP in 2017 to 1.6 percent in 2019) and will be further depressed. Similar contagion effects in other parts of the world (particularly France) will affect the income of migrant workers and hence migrant remittances which account for around 5 percent of GDP. The government plans to issue a total amount of CFAF 667 billion on the regional market for its financing needs in 2020 and has so far raised 115.5 billion. However, the regional market is already facing pressures particularly on the longer term of the curve.

33. Healthcare and social aid policies have been announced, weighing on the limited fiscal space. The government has announced a series of measures to fight against the spread of the virus and to support the most vulnerable, including tax breaks, increase in priority social spending of over CFAF 100 bn, and a special COVID-19 fund of CFAF 500 bn. This implies a much higher deficit and necessary budget reallocation. The government might need to consider reducing none-essential expenditures, which however might add to the existing social grievances and conflicts. Capital expenditure, already quite low, will be further affected and will negatively affect the economy in the long run.

2.2.3. Policy Buffers

34. Mali has limited policy buffers to contain the global health pandemic from turning to a prolonged shock. If proper policy measures can be deployed on time, the economic and financial crisis induced by the global health pandemic will most likely be temporary instead of a permanent shock. However, Mali has limited fiscal and monetary policy buffer. Healthcare capacity is low and especially ill-prepared for pandemics. Albeit certain level of financial aid and social safety net, food crisis is looming and impacting the most vulnerable in the society.

35. The fiscal space might soon be exhausted. As noted, Mali is at moderate risk of public and external debt distress, with a public debt at 40.4 percent of GDP in 2019. The tax and customs administration have deployed considerable efforts last year to mobilize revenue and to contain expenditure. The fiscal deficit subsequently decreased from 4.8 percent of GDP in 2018 to 1.7 in 2019, allowing some space to absorb shock. The government has set an ambitious plan of tax revenue mobilization of 17.4 percent of GDP (against 15.5 percent in 2019), and tax collection for the first two months of 2020 was indeed encouraging. However, the encouraging trend will be interrupted with tax exemptions, reduced economic activities and subdued international trade. In addition, security spending is unlikely to help create space for social spending. General security costs (including national defense and policing) might even increase, with potential social tension arising from reduced household income due to COVID-19.

36. The BCEAO has some space to contain negative spillovers from external shocks and domestic containment measures, while the effectiveness and sustainability of these measures are subject to the credibility of the fixed-exchange rate regime. The BCEAO has announced a set of measures to ease liquidity constraints, including reducing refinancing rates and policy rate (reduced from a corridor of 2.5–4.5 percent to a fixed rate of 2.5 percent). The BCEAO also allocated CFAF 25 billion to the West African Development Bank (BOAD) to provide an

interest rate subsidy to member countries and increase the amount of concessional loans for urgent investment and equipment expenses. To further support firms, the BCEAO relaxed the collateral requirements to access central bank refinancing and established a framework with the banking system to support firms with repayment difficulties. In addition, commercial banks were requested to extend deadlines for loan reimbursement for an initial period of three months with one-off renewal option and reduced fees for digital financial transactions.

37. The financial buffer is limited due to high exposure to vulnerable sectors and the support for firms will mostly be through state guarantees for bank loans. Mali's banking sector is still expected to face significant liquidity (and potentially solvency) risks given the magnitude of the crisis and banks' exposure to the most heavily affected sectors. Seventy-five percent of the banking sector's credit to the private sector is allocated to sectors which have been heavily impacted by the crisis such as wholesale and retail trade, hotels and restaurants, manufacturing, transportation, communications, building/construction and mining. The bank credit to the private sector was around 5 billion USD (Dec 2019). The government (together with WB/IFI support) could provide financial support by proving 'emergency' credit guarantees to banks.

38. Healthcare capacity is inadequate for this pandemic and a potential outbreak weigh on the fragile health system as well as the government budget. On case detection, controls have been put in place at all borders, but the stock of tests kits is very small (about 2,000) making it impossible for any active testing strategy. The capacity of clinical care of confirmed cases is extremely low, with only 3 ventilators in total (as of April 17), 2 functional beds for intensive care (i.e. a bed with a monitor and a respirator connected to oxygen network). The number of hospital beds per 1,000 people is 0.1. A potential outbreak will impact the health care system through potential death of healthcare workforce and through the negative impact on provision of health services (e.g., number of medical consultations, reduction in vaccinations, etc.) as well as crowding out effect on other patients.

39. Some targeted policy responses are already in place, including mobile cash transfer to households and support to MSMEs affected by the crisis. One of the emergency responses is to increase and digitize the cash transfers component under the existing social protection program (Jigisemejiri). This would imply involving telecom providers (Orange, Malitel and Wari) on the provision cash transfers to the most vulnerable groups including in the North and the Center of the country. This solution will have to take account of the specific characteristics of these populations, in particular the lack of official identity documents and the illiteracy. In terms of support for firms, there is an ongoing program aiming at MFI supervision and performance, promotion of digital payments, creation and growth of MSMEs, and income generating activities and labour-intensive public works.

40. The capacity of the food system to deal with shock is low and a food crisis is already looming. Conflict, displacement, and flooding continue to limit livelihood opportunities for vulnerable households, restricting their ability to meet basic needs. Approximately 757,000 people require urgent food assistance from March to May 2020. Without appropriate measures, food crisis will affect approximately 1.34 million people during June-August 2020 (peak of the lean season when food is mostly scarce). This food security situation may be worsened by the COVID-19 pandemic. The social distancing measures, closures of market and borders are disrupting the food market, affecting the food supply chains and limiting pastoral area for herders. Effects on food flows and price increase are already observed in markets in Bamako. Households in Kidal, Taoudénit, Ménaka, and, to a lesser extent, Tombouctou and Gao are particularly vulnerable to price hikes given their food security almost exclusively depends on market access. These regions which are already affected by conflict and violence would be more affected.

41. An increase amount of special fund has been established but questions might be raised on whether the PFM system can effectively prevent or mitigate risk of abuse of emergency-associated payments. To deal with the pandemic, the government has set up a special fund of 6.3 billion XOF mobilized from budget reserve which is likely to increase to 500 billion. The fund is expected to finance the overall response plan of the government including preventive measures, economic and social measures, and will be managed by the office of the Prime Minister. Special procedures will be put in place to ensure transparency and accountability in the fund management. Liquidity mobilization arrangements have been put in place for the EPA involved in the COVID-19 response. There have been no major changes in the current PFM system except for an administrative memorandum taken by MEF to authorize a special procedure to the Public Procurement Code which allows direct contracting under COVID-19. Public account reporting and control arrangements remain unchanged at this stage.

2.2.4. Scenario Analysis under COVID-19 Shocks

42. This section first illustrates the pre-crisis economic outlook, and then evaluates the economic impact of COVID-19 on Mali under baseline and downside scenarios. Baseline and downside scenarios can be distinguished by three different sets of assumptions. 1) Timing of lifting containment measures: June for baseline and end-August for downside. 2) level of global recession: baseline mild recession for the rest of major economies, while downside assumes a much grimmer recession. 3) level of commodity price collapse and magnitude of financial market stress. The rest of the session assesses impact on growth, public finance, external position, financial sector, poverty and households under both scenarios.

Pre-crisis Projection

43. Growth was projected at around 5 percent over the medium term, slightly above the potential growth rate (4.8 percent). The tertiary sector (telecommunications, transport and, to a lesser extent, trade and financial services) will remain the main driver of growth. The authorities seek to improve infrastructure quality, strengthen the framework for public-private partnerships, implement the new legal framework for tax disputes and accelerate the development of mobile banking. The implementation of structural reforms on governance and business climate will support private sector investment over the medium-term.

44. The external current account deficit is projected to reach 5.1 percent in 2022. Gold exports are projected to decline following depletion of reserves while cotton production will return to its long-term growth trend after outstanding harvest in 2018. Considerable efforts are being deployed by the authorities to increase tax revenues so that fiscal deficit will return to or below 3.0 percent in 2022 to be in line with the WAEMU convergence criterion, after a fiscal relaxation (3.5 percent) in 2020 to accommodate security spending.

45. WAEMU reserves would reach about 5.1 months of imports by 2022 as member countries continue to implement fiscal consolidation measures and external competitiveness improves. In December 2019, the WAEMU authorities announced a currency reform involving changes to the underlying arrangements with France. Market reactions have been muted so far, likely reflecting expectations that the foundations of the currency regime would remain broadly unchanged for the foreseeable future.

46. The poverty rate is projected to decline steadily provided the robust expansion of the economy continues over the period 2020-22 and that the security threat does not deteriorate further South. Under those assumptions, the poverty rate would decline from 38.6 percent in 2020 to 35.6 percent in 2022.

Baseline

47. The baseline scenario assumes the world economy contracts by 4.9 percent in 2020 while bouncing back by 4.5 percent in 2021. More specifically, it assumes a lift of containment measures in advanced economies by June 2020. the Euro area (-7.9 percent) and the U.S (-6.4 percent) fall into recession. Oil prices will decline further in Q2 before recovering and non-energy commodity prices also fall sharply. Gold price, however, will increase by at least 7 percent. Despite prompt and massive liquidity provision, financial market stress weights on investment and consumption. A recovery would get underway once mitigation measures are lifted but, despite large-scale fiscal and monetary policy support, would be moderate. Once mitigation measures are fully lifted, however, this would be followed by a rebound in global growth in 2021.

48. Subdued global demand and tightened financial market will be translated into a depressed GDP growth of 0.9 percent (-2.1 percent per capita). The economy is affected not only by global downturn and repressed appetite on financial market, but also by the reduced activities due to confinement measures. Agriculture (contributes to 1.3 ppts of growth) and industry (contribute to 0.5 ppts of growth) will be relatively less impacted. The tertiary sector will get the hardest hit due to limited operating hours, market closure (contributes to -1.1 ppts of growth). On the expenditure side, private consumption and private investment will decline. As a result, growth is projected to decelerate to 0.9 percent in 2020, and to an average 5.0 percent over the period 2021-22.

49. Fiscal deficit will breach the pre-agreed ceiling and reach 6.2 percent. It is estimated that the decline in economic activities and tax exemptions in April and May will result in a tax revenue loss of CFAF 247 bn. Tax revenue is therefore projected to decline from 14.7 percent of GDP in 2019 to 13.3 percent in 2020. Despite potential increase in grants, total revenues will decline from the target of 23 percent to 21.2 percent of GDP. On the expenditure side, the rise special support for vulnerable and on healthcare amounts to an additional CFAF 174 billion, largely funded by budget reallocation from capital expenditure to current expenditure. Total expenditures as expected to increase to 27.4 percent of GDP. The fiscal deficit will as a result widen to 6.2 percent of GDP in 2020 and is expected to fall down in the medium-term.

50. The collapse in global demand will further dampen exports while import will contract due to a lower energy bill and lower domestic demand. With the baseline assumption of a gold price rise, the country might enjoy a trade balance surplus of 1.3 percent of GDP (first time since 2012), and the current account deficit will also decrease to 3.6 percent of GDP. However, remittances will be lower. A decline in FDI (drop from 1.8 percent of GDP in 2019 to 0.9 percent in 2020) and other private inflows (will turn negative and drop to -2.4 percent in 2020) will weigh on the financial account, whose deterioration will more than offset the current account improvement.

51. COVID-19 will impact firms and business through demand- and supply-side shocks, financial constrains as well as market uncertainties. Demand-side shocks include negative impact on final consumption and export demand, as well as through value chains due to drop of demand or payment delays of other firms. Supply-side shocks include decline in labor availability and firm productivity (due to firm closure, disrupted transport, illness, increased household duties and childcare), as well as lack of intermediate goods (due to disrupted value chains such as imports from China). Funding strains are extremely pertinent for (i) MSMEs that are fully reliant on bank funding, (ii) EMDEs with high debt levels; (iii) larger corporates that are dependent on backup lines of bank credit. Finally, business will be impacted by market uncertainty due to lower investments and lower appetite for risk associated with innovation and entrepreneurship.

52. Households are equally affected through income drop due to direct health impact, confinement measures and remittance decline, aggravating poverty and gender inequality. Direct and indirect health impacts include unanticipated medical costs, opportunity costs for those caring for the sick, loss of earners' income, potential for

high mortality rates because of lack of services, misinformation about disease and treatment, and underlying morbidity and malnutrition, which could potentially be mitigated by a youthful population structure. Preventive measures will reduce incomes (informal traders, transportation operators, etc.) and increase layoffs (household service providers, etc). Drop in international remittance and domestic transfers due to the pandemic will result in a total increase in poverty rate by 0.6 ppts (corresponding to 119,630 additional poor). School dropouts, child labor and early marriage for adolescent girls will increase (as happened during the Ebola outbreak). The impact of the pandemic will be more severe for households headed by a member aged 65 or more (those who tend to be more vulnerable to the disease).

Downside

53. The downside scenario assumes the world economy contracts by 7.0 percent in 2020 while bouncing back by 0.7 percent in 2021. More specifically, containment measures in advanced economies will be lifted by end-August 2020. The Euro area (-10.4 percent) and the U.S (-9.0 percent) are more hardly hit from the long duration of economic disruption. During the additional three months before the lift of containment measures, mitigation measures would only be eased gradually. Despite fiscal policy support, vulnerable firms would exit, vulnerable households would sharply curtail consumption, and travel would remain sluggish. A number of vulnerable EMDEs would slide into sovereign debt crises. The recovery that follows would be sluggish.

54. Prolonged global demand contraction will drag the economy into a recession of -1.5 percent (-4.4 percent per capita). Apart from the tertiary sector (contributes to -2.0 percent to growth), the industrial sector (contributes to 0.1 percent growth) and, to a lesser degree, agriculture and pasturing (contribute to 0.4 percent growth), will also get affected in case of further spread of the virus and stricter social distancing measures. On the expenditure side, private investment and private consumption will plunge due to decline in demand and uncertainty in investment. Government consumption will surge with large social spending (including water and electricity bill payment for part of the population). Consequently, growth will drop further to -1.5 percent in 2020 and slowly bounce back in 2021 (2.4 percent) and 2022 (6.6 percent).

55. Continued contraction in tax revenue and increasing outlays will result in a deficit at 8.2 percent of GDP. Assuming a slow recovery takes place only after September, the loss in tax revenues will double, amounting to 494.97 billion. Tax revenue will decrease to 11.7 percent of GDP (slightly below the level of the crisis year of 2012) while total revenue will drop to 20.6 percent (we assume that total budget grant and project loans will further increase by 247.5 billion). Additional social and healthcare expenditure will surge to 348 billion, further depriving capital expenditure. Still total expenditure will surge to 28.8 percent and budget deficit will enlarge to 8.2 percent. The surge in deficit is likely to trigger a financing gap in 2020 yet to be covered.

56. Current account deficit will also increase to 5.6 percent of GDP as global demand contraction and supply chain disruption more than offset any gain from improved terms of trade. The collapse in global demand will further dampen exports. Cotton will decrease not only due to lower price but also due to contracted demand from South Asia. Livestock export to neighbouring countries will be impacted by prolonged lockdown. Gold export will also be affected due to reduced production (health concern from mining sector) and supply chain disruption (reduced demand from South Africa and Switzerland).

57. The impact of the COVID-19 crisis on the banking sector is largely contingent on the impact on firms and support measures to help them weather the crisis. The financial sector was broadly stable and sound prior to the crisis: Banking sector capitalization and liquidity was adequate, and non-performing loans (NPLs) were on a declining trend. A rapid deterioration of the financial conditions of firms will inevitably impair the credit portfolio of the banking sector and, depending on the severity of the corporate sector's distress, affect the liquidity and solvency of financial institutions.

58. Impact of COVID-19 through MSMEs are substantial despite the small size of formal economy. Most private sector workers work in MSMEs, dominated by sole proprietors which account for more than 90 percent of the workforce. The formal sector is small but important: there are 10,000 registered firms employing around 100,000 people (each supporting a household and often other family members) contributing to over 43 percent of value addition and 78 percent of exports. If one were to consider employees of the supply chain dependent on the formal sector, that number would be even higher. As a result, the ordered stay home order will have an even harder impact on MSMEs and keep operating. Assuming a mortality rate of firms at even 20% would affect the livelihoods of more than 120,000 people. In that sense, these firms and jobs are safety nets with many dependents – letting them die would be disastrous for the population.

59. Households will be affected through not only diminished income but also higher price level, aggravating grievances and escalating social tension. The production of staple crops and trade (higher prices of seeds and other inputs, missing links in the value chain) will be disrupted due to health issue and confinement measures. Continued lockdown will result in even higher prices for food and imported goods, which will be possibly exacerbated by increased demand for food in the run up to the month of Ramadan, starting on April 24. COVID-19 is likely to dampen aggregate consumption by 4.33 ppts, equivalent of 782,000 more absolute poor. The impact of a general inflation due to the pandemic will result in an increase in poverty rate by 1.63 ppts, translating in 321,584 additional poor. Social unrest in urban areas, building on pre-existing governance and service delivery grievances, might follow. Conflicts in northern and central region, amidst a food crisis, might also intensify.

60. Changed economic outlook has profound implication on Mali's poverty reduction prospects. The dismal growth and reduced income will push more population into prolonged poverty. In addition, the impact of COVID-19 is likely to be different on households of different income levels. The second part of the report aims at examining this issue and proposes possible policy remedies.

POVERTY UPDATE

3.1. Recent poverty developments

3.1.1. Poverty Trend

Reducing poverty and increasing shared prosperity has not kept pace with growth in Mali.

61. Strong growth over the last decade has not translated into poverty reduction. The proportion of the Malian population living under the national poverty line is 42.1 percent in 2018/19, equivalent to 8.5 million poor[9] using the West African Economic Union household survey[10]. From 2011 to 2018/19, poverty declined by a mere 2 percentage points. Therefore, despite strong annual economic growth performance averaging 5 percent, poverty reduction has been relatively weak as the growth elasticity of poverty was only -0.4 (meaning a percentage increase in GDP growth is associated with 0.4 percent reduction of poverty). This elasticity is low when compared to the average -1.9 elasticity for the sub-Saharan Africa.

62. Inequalities have increased. From 2011 to 2018/19, the annualized consumption growth for the bottom 40 percent of the distribution was 3 percent per year compared to 5 percent for the top 60 percent. This is similar to the gap in per capita consumption growth between rural areas (4 percent) and urban areas (6 percent). In addition, among the poor, those at the bottom of the distribution experienced lower per capita consumption growth. For example, the 10th and 20th decile have an annualized per capita consumption growth of 2 percent. This pattern is more pronounced in rural areas which is reflected in a stagnating poverty among rural households. Consumption inequality as measure by the Gini remains moderate, increasing from 0.37 in 2014 to 0.38 in 2018/19.

Figure 7.: Poverty incidence and inequality

Figure 7.1.: Poverty incidence (%, 2011-2018/19)

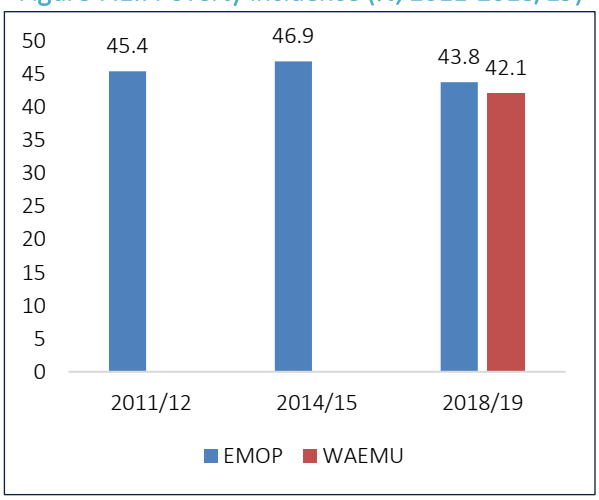
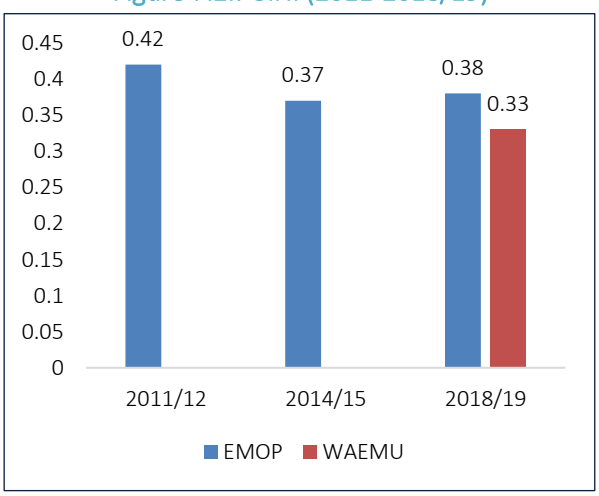


Figure 7.2.: GINI (2011-2018/19)



Source: Authors' calculations using EMOP 2011-2018/19 and WAEMU 2018/19

[9] These are preliminary numbers expected to be shared with our Government counterpart by April 15th, 2020. The internal Bank review process is ongoing.

[10] Similarly, the poverty rate suing the national household survey EMOP is 43.8 percent.

Lack of progress in monetary poverty is confirmed by mixed improvement in non-monetary indicators.

63. For education and health, between 2011 and 2018, most indicators have stagnated or declined below pre-crisis level. The lack of progress in education and health indicators can be attributed to deterioration of security conditions particularly in the north and center regions. The security crisis has created constraints to school attendance, especially for girls, due to damage to infrastructure and the scarcity of learning materials and the outflow of qualified teachers. Overall, primary grade repetition rate deteriorated from 15 percent in 2011 to 18 percent in 2018/19 and primary completion rate declined by 11 percentage points from 58 percent to 47 percent. This means that on average only 1 in two Malian pupils reaches 6th grade in 2018/19. For health indicators, the share of the population living within 5km of a health post declined from 59 percent in 2011 to 57 percent in 2018/19. This has been particularly severe in the two northern regions of Kidal and Gao which have seen a continuous decline since 2011.

Table 2.: Evolution of education and health indicators

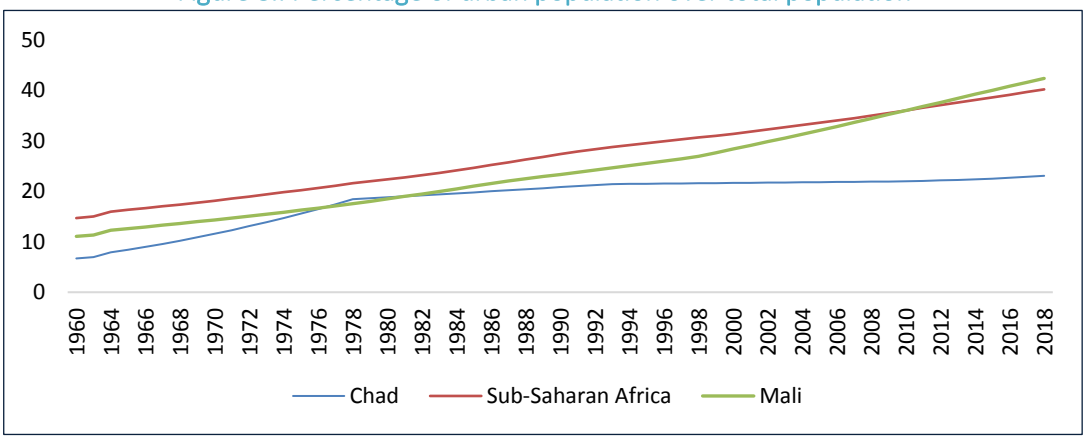
	2011	2018/2019
Primary enrollment rate (%)	81.5	76
Primary grade repetition rate (%)	15	18
Primary completion rate (%)	58	47
Population living within 5km of a health (%)	59	57
Use of prenatal medical services (%)	76	78
Assisted birth delivery rate (%)	58	58

Source: EMOP 2011-2018/19

64. There has been mixed progress in many non-monetary poverty indicators. Household ownership of assets (radio, TV, bike, motorbike, refrigerator, computer, animal cart, car or truck) has stagnated or declined but ownership of phones increased by 14 percentage points from 2014 to 2018/19. Use of electricity for lighting and access to flushing toilet have declined by an average of 3 percentage points from 2014 to 2018/19. While access to piped water has increased by 3 percentage points, still 90 percent of Malians households are lacking access to improved cooking.

65. While urbanization is increasing rapidly (Figure 8), it is not associated with faster poverty reduction. Decomposing the change in poverty that occurred between 2014 and 2018/19 (a decline of 3.4 percentage points) shows that most of the change occurred among people who stayed in their original location. The contribution to poverty reduction of people shifting from rural to urban areas has been marginal (0.4 percentage point) suggesting that most of the migrants who moved to urban areas were either already non-poor in their location of origin or were unable to escape poverty once they arrived in urban areas.

Figure 8.: Percentage of urban population over total population



Source: United Nations Population Division. World Urbanization Prospects: 2018 Revision.

66. The structural basis of economic activities has barely transformed. From 2011 to 2018/19, there were no significant shifts of labor away from agriculture to industry or services. In 2011, household heads were involved in agriculture (70 percent), industry (8 percent), commerce (9 percent) and services (14 percent). In 2018/19, these shares remain almost unchanged at 66, 8, 11, and 15 percent respectively. Looking at the evolution by income profile, the poor are self-employed in agriculture, while the non-poor are more likely to be engaged in non-agricultural self-employment or wage employment. In 2011, 55 percent of poor household heads were engaged in agricultural self-employment while 16 percent were engaged in nonfarm self-employment. Only 10 percent of poor households were engaged in public and private wage employment. In 2018/19, 51 percent of poor household heads were still engaged in agricultural self-employment, while 10 percent of poor household heads were still engaged in private and public wage employment.

3.1.2. Poverty Profile

67. In 2018/19, poverty in Mali remains widespread and mainly a rural phenomenon. At the national level, about 42.1 percent of the population was living below the national poverty line. This translates into more than 8.5 million Malians that were unable to meet their basic food and non-food needs. Around 88 percent of the country's poor are located in rural areas. Poverty is more than twice prevalent in rural areas (50.5 percent) than in urban areas (24 percent). Poverty in the capital city of Bamako is lower at 11.8 percent. The poverty intensity and severity have similar spatial pattern with low values in Bamako and urban areas but relatively high values in rural areas.

68. Mali is characterized by stark regional differences in terms of monetary poverty. In the northern regions of the country where households depend more on nomadic and transhumant pastoralism, poverty is highest in Tombouctou (49.2 percent) and lowest in Kidal (4.7 percent). In the newly created regions, poverty is lowest at 8.5 percent in Taoudéni (formally part of Tombouctou) and highest in Méneka at 43.4 percent (formally part of Gao). In Mali's most populous regions in the south, poverty is highest in Sikasso (63 percent) where households depend on cotton farming. On the other hand, in Kayes region, where household combine income from remittances with livestock rearing, poverty is relatively low at 33 percent. For the center regions, where households mostly depend on rainfed sorghum and millet cultivation, poverty remains high in Segou (53 percent) and Mopti (61 percent). Overall, about 65 percent of the poor are in three regions (Sikasso, Segou and Mopti).

69. Within regions, poverty incidence also differs widely across subnational district levels. Even though the household survey was not designed to be representative at the district level, poverty can be estimated in 2018/19 for districts with large observations. For example, in the poorest region of Sikasso, poverty is as lows as 31 percent in Kadiolo rural district but as high as 80 percent in Yorosso rural district. In addition, the proportion of the population living under the national poverty line in the urban district of Sikasso is high at 63 percent. In the second poorest region Mopti, all the six rural districts have poverty rates that are above 50 percent. However, more than 60 percent of the poor in this region are in the two rural districts of Bandiagara and Bankass.

Figure 9.: Spatial incidence of poverty

Figure 9.1.: Poverty incidence by area (%, 2018/19)

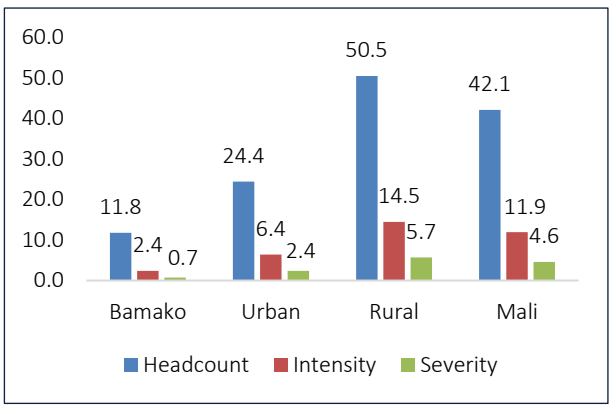
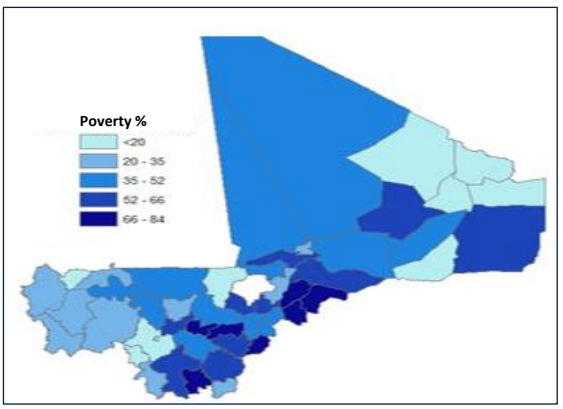


Figure 9.2.: Poverty incidence by district (%, 2018/19)



Source: Authors' calculations using WAEMU 2018/19

70. Mali has experienced a decline in multidimensional poverty over the last four years. The index is a combination of six dimensions of wellbeing including education, health, childhood and youth, access to basic services, housing conditions, and assets. An individual is considered as multidimensionally poor if she/he suffers from deprivations in at least a third of these 6 dimensions of well-being. In 2018, almost 38 percent of Malians were deprived in at least one-third of the six dimensions of well-being, a decline of about 10 percentage points compared to 2014 when 48 percent of Malians suffered from deprivations.

71. The analysis of the stochastic dominance of the distribution of the multidimensional poverty index shows that the index has been decreasing between 2014 and 2018 regardless of the cutoffs used for the identification. This improvement in Malians' living conditions happened in all the regions of the countries with a decline of MPI of 18 percentage points in Koulikoro and only 3 percentage point in the region of the capital city. In 2018, the regional disparity of the multidimensional poverty indicates that the region of Bamako has the lowest rate of 7.8 percent while almost 59 percent of Malians living in Gao continue to experience deprivation in at least six of the dimensions of wellbeing mentioned above.

Figure 10.: Multidimensional poverty Index

Figure 10.1.: Trend of multidimensional poverty

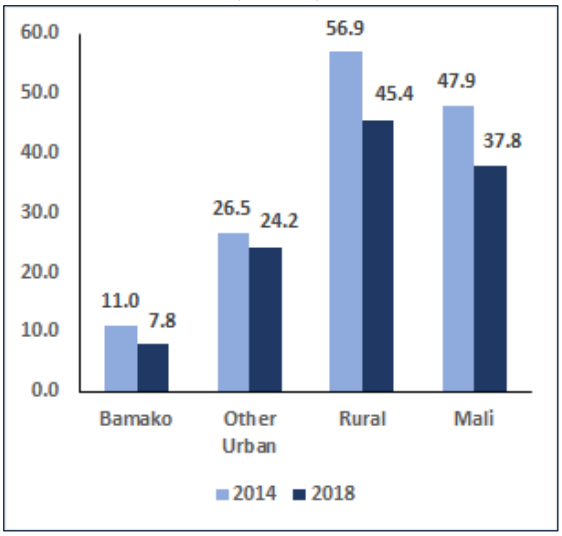
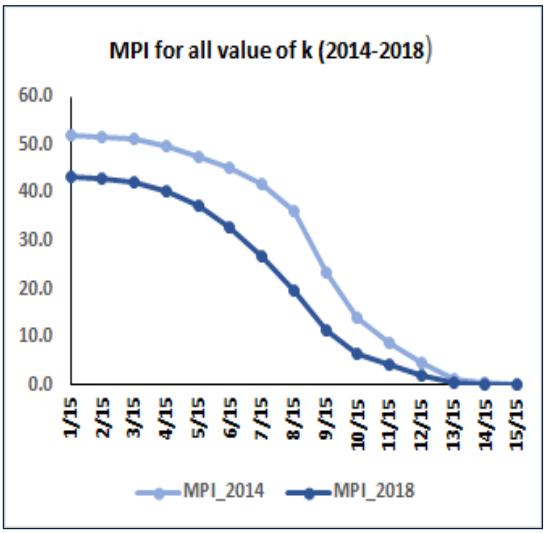


Figure 10.2.: Stochastic dominance of multidimensional poverty index



Source: Authors' calculations using WAEMU 2018/19

The profile of the poor has remained unchanged

72. **Poverty remains strongly correlated with socio-economic and demographic characteristics.** Rural poverty is still characterized by low-earning agricultural employment, large families and high dependency ratios. Poor households are more likely to have lower educational accomplishments and less diverse income sources. The rural poor also tend to be located relatively far from key infrastructure, markets, and public institutions. Fertility rates are especially high in rural areas, and rapid population growth slows the growth of their per capita income. In urban areas, poverty is most common among self-employed workers in the informal sector. Overall, in Mali, poverty rate is high in households whose head works in the agricultural sector (57 percent) compared to 25 percent for head of household working in mining or 36 percent for household heads working in manufacturing sector. Extreme poverty rate was 50 percent for households whose head does not have any level of schooling, against 21 percent and 11 percent respectively for household head with primary and secondary education levels.

73. **The poor continues to earn the greater part of their income from agriculture and livestock.** Unlike in Chad where no significant distinction is observed in income composition across the poor and the non-poor, non-poor households in Mali have much more diversified income compared to the poor. Agriculture and livestock income generate 80 percent of the income for the poor of Mali while the non-poor get 60 percent of their income from the same source. The poor earn about 13 percent of their income from non-farm sources and only about 6 percent from remittances. This is because the poor own relatively few alternative productive assets and have limited scope for wage income. In the southern regions of Kayes and Koulikoro, the poor are also more dependent on nonfarm income and private transfer. In the northern regions of Tombouctou, Gao, and Kida there are no differences in sources of income between the poor and non-poor as most households depend on livestock income.

74. **The poor continues to practice agriculture differently.** Poor households predominantly cultivate cereal (millet and maize) crops in Mali. While there is no disparity in per capita cultivated land between the non-poor and the poor, the latter are 20 to 40 percent less productive for certain crops such as rice paddy, millet and peanuts. For agricultural inputs, the poor predominantly use their family labor in farming while around 40 percent non-poor households use hired labor on their farms. Similarly, poor farmers are using fertilizer on fewer plots compared to

those of the non-poor farmers and this is more pronounced in some regions such as Segou. In addition, rural poor households have very limited use of irrigation on their plots. Only 5 percent of the total plots owned by poor households are under irrigation while 20 percent plots owned by non-poor households are under irrigation.

75. Despite a large allocation of agricultural public funds to food crops relative to neighboring countries (78 percent of total agricultural spending compared to 47 and 26 percent in Burkina Faso and Senegal, respectively)[11], farmers face poor yields in these crops, especially in millet and sorghum, which are the main staple crops. As a result, commercialization of food crops is very low with less than 5 percent of total output sold (3 percent for the poor), as farmers struggle to meet their food security.

76. There are strong gender disparities in access to productive resources in terms of land size and livestock holding across female-headed and male-headed households (Figure 11). Intrahousehold differences in livestock holding are sharper, especially for large livestock, where the size for women is almost zero compared to about 4.7 heads for men. Even for poultry, male-headed households holding is more than 3 times that of female-headed households. Furthermore, despite having a smaller household size, per capita land size for female-headed households is more than 2.5 times smaller than that of their counterpart male-headed households. These gender-based differences in access to productive resources are reflected in income composition across female-headed and male-headed households (Figure 11).

Figure 11.: Access to productive resources and income composition by gender of head

Figure 11.1.: Cultivated land size (ha)

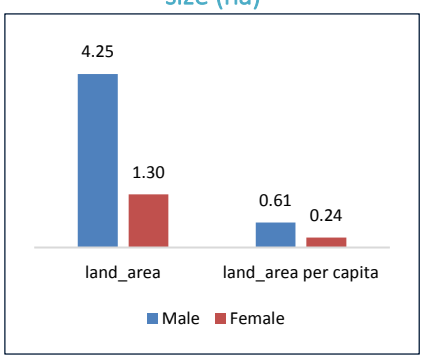


Figure 11.2.: Size of livestock holding

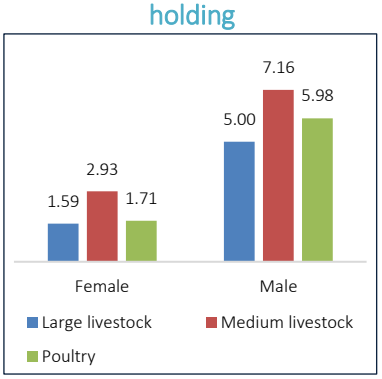
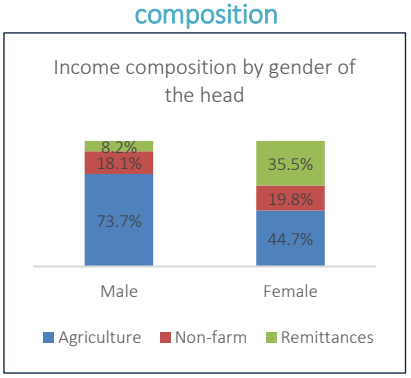


Figure 11.3.: Income composition



Source: Authors' calculations using WAEMU 2018/19

[11] MAFAP 2018

77. Two out of 5 households in Mali owns at least one nonfarm enterprise (NFE) with urban households being more likely to own relative to rural households (48 and 39 percent, respectively). These NFEs are highly concentrated in the retail sector (32 percent) followed by the restaurant (19 percent) and the personal services (14 percent) sectors across the poor and the non-poor in both rural and urban areas. Overall, these firms have a limited contribution to job creation, as about 80 percent of them exclusively employ family labor. Furthermore, NFEs owned by the poor tend to be highly seasonal, which limits their income earning opportunities compared to the non-poor.

Shocks are pervasive across the country

78. Different shocks strike every portion of the welfare distribution. Overall, climate shocks are the most prevalent form of shock out of all shocks recorded in rural areas regardless of wealth distribution and are the most concentrated amongst the poor as compared to other shocks (Figure 12). Among the rural bottom quintile, the other three most prevalent shocks are illness followed by animal diseases and conflict/insecurity while the second to fourth shocks reported by the rural top quintile are high food prices, illness, and animal diseases. On the contrary, the most prevalent shocks for the urban bottom quintile are high food prices, drought/irregular rainfall and severe illness, whereas illness, high food prices, and death of a household member constitutes the top three shocks reported by the urban wealthiest (Figure 12). When ranked by severity of shocks, drought and illnesses equally dominate across all income distribution.

79. Shocks in the regions induce irreparable coping strategies that significantly reduce the resiliency of households to later shocks. Both the poor and non-poor rely on similar coping strategies to deal with shocks. Across the welfare distribution and residence area, the three dominant coping strategies are the use of savings, reliance on family/friend, or doing nothing (Figure 12) and therefore absorbing the full negative impact of the shocks. Livestock sales are another common strategy across all household groups except urban households in the top quintile. For the poor, the shocks carry irreparable consequences leading to decrease in income (89 percent), decrease in assets (80 percent), or decrease in production (74 percent).

Figure 12.: Household shocks and coping strategies

Figure 12.1.: Shocks experienced over the last 3 years (% Rural HHs)

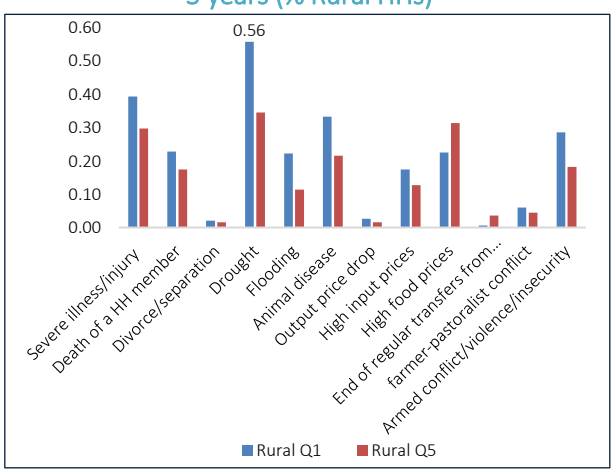


Figure 12.2.: Shocks experienced over the last 3 years (% Urban HHs)

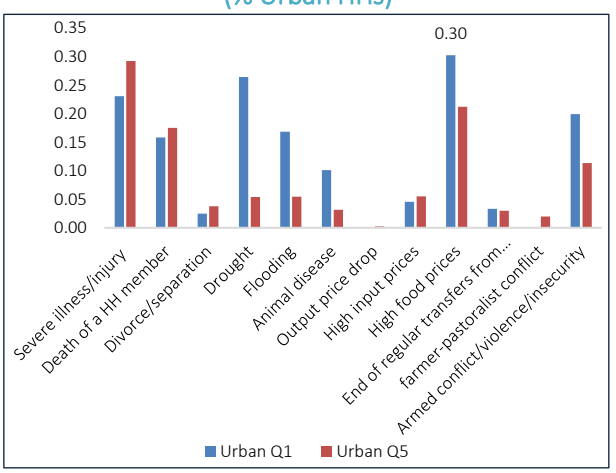


Figure 12.3.: Coping strategies (% Rural HHs)

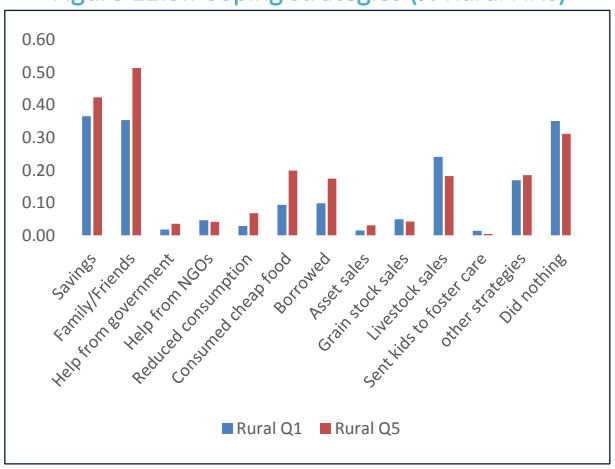
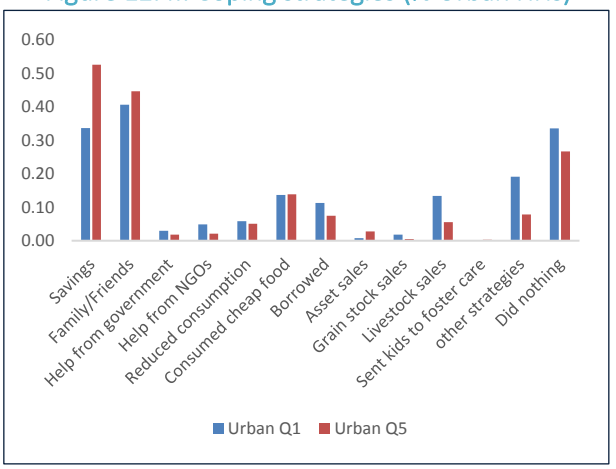


Figure 12.4.: Coping strategies (% Urban HHs)



Source: Authors' calculations using WAEMU 2018/19

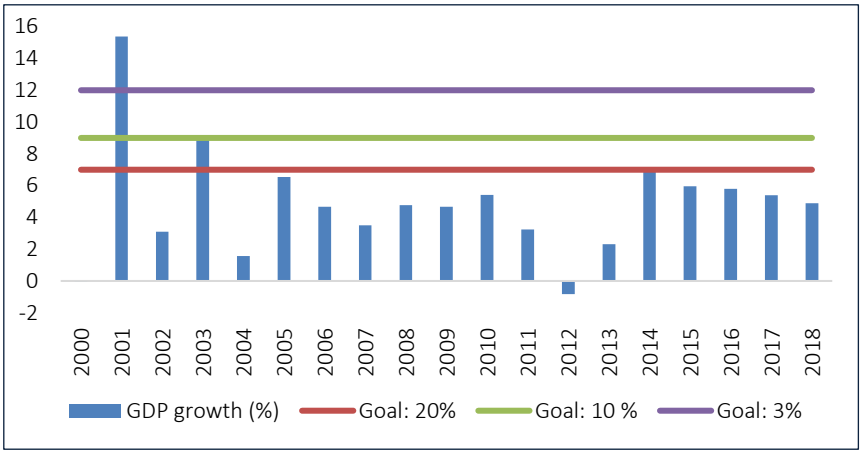
3.1.3. Outlook: Ending Extreme Poverty in Mali

Mali needs higher growth but also a higher elasticity of poverty reduction to growth

80. Is Mali on a path to end extreme poverty by 2030? The lack of progress in the fight against poverty reduction observed in the last decade needs to change otherwise Mali will not be able to eradicate poverty by 2030. Poverty reduction is driven by both a growth and a redistributive component. Although Mali has experienced strong GDP growth averaging 5 percent in the last decade, turning this growth into increased consumption for households has been weak. Therefore, to accelerate the pace of poverty reduction, Mali will require higher and more inclusive growth rates coupled with a sharper focus on redistributive policies. Looking to the future it is relevant to know what the rate of growth would have to be to half poverty by, say, 2030. This is an ambitious objective as it implies that poverty would reduce to around 20 percent, but it is significantly less ambitious than the World Bank's objective of 3 percent poverty by 2030.

81. A much higher level of growth is required to substantially reduce poverty. Projections starting at 40 percent poverty in 2020, show that to reduce poverty to 20 percent by 2030 GDP growth must reach 7 percent per annum. In addition, projections show that if the objective is to reduce poverty to 10 percent by 2030, the GDP growth rate has to reach 9 percent per year on average. Even the target of 3 percent poverty by 2030 is attainable with a GDP growth rate of about 12 percent per year on average. These growth rates required to significantly reduce poverty in Mali, exceed the growth achieved over the past two decades. As (Figure 13) shows, growth rates in Mali have fluctuated considerably over the past 20 years and rarely did they reach 7 percent. This implies that halving poverty by 2030 is already an ambitious objective (the World Bank's objective is to reduce poverty to 3 percent) which requires a concerted effort to increase growth. Designing a strategy to accelerate growth can only happen if security is restored in the other half of the country (the north and center regions).

Figure 13.: Growth rates needed to achieve various poverty targets by 2030



Source: WDI and Authors' calculations using WAEMU 2018/19

82. Accelerating poverty reduction in Mali will also require higher elasticity of poverty reduction to growth. This entails policies designed to, among other things, focus on where the poor live and what they do as livelihoods. In particular, attaining higher elasticity will require helping the poor shift to higher-returns activities and protecting the poor against the negative impacts of major shocks. The challenge is to align the interests of the governing elite with these known long-standing development goals.

3.2 Poverty outlook in the time of COVID-19

83. In 2020, the direct cumulative impact of COVID-19 is estimated to result into a decrease in aggregate consumption between 2.0 and 4.3 percent for the baseline and downside scenarios respectively. This is equivalent to an overall increase in poverty between 1 and 3 percentage points (or between 199,2 and 541,323 more absolute poor). The predicted impact of the pandemic in both scenarios will be uniform across subgroups of households without distinction of the gender of the household head or residence areas (Table 3). However, this does not necessary mean that the COVID-19 pandemic will not increase inequality, as its ultimate effect on inequality will depend on behavioral responses to the pandemic, which will likely differ across subgroups, and the effectiveness of COVID-19 mitigation policies in being inclusive.

Table 3.: Simulation of the impact of COVID-19 on households

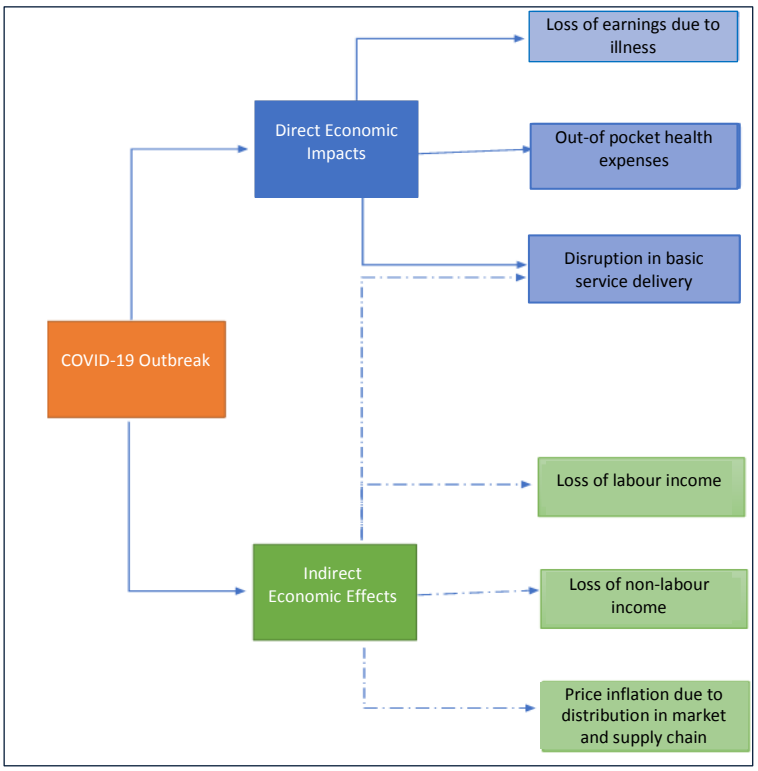
Optimal scenario				Worst scenario		
	Baseline	COVID-19	Additional poor	Baseline	COVID-19	Additional poor
National	44	45	199234	44	46	541323
FHHHs	29	30	16992	29	32	36914
MHHs	45	46	182239	45	47	504409
Urban	21	22	50308	21	24	149245
Rural	52	53	148925	52	54	392075

Source: Authors' calculations using WAEMU 2018/19
Note: FHHS and MHHs stand for female-headed households and male-headed households, respectively

84. The main transmission channels are presented in (Figure 14). The remainder of this section describes these potential channels focusing on the impacts on labor income, non-labor income, market disruptions (prices/quantities), and access to public services. As noted above, the main economic transmission channels will be through contracting global demand, recessionary effects of the domestic measures, and lower public

investment. Given the heterogeneity in livelihoods across rural and urban households, we separate the discussion on the potential losses in labor income by rural and urban areas.

Figure 14.: COVID-19 impacts transmission channels



3.2.1. Impact on labor income

Impact on labor income of urban households

85. **The informal sector, which highly dominates the economy and employs more than 80 percent of the urban population, is the most likely to be the hardest hit in the immediate term,** especially the of those who are in the most vulnerable segments. Anecdotal evidence shows demand in the fruit market in the capital city has collapsed due to fear of contaminated produce by the COVID-19 virus, forcing many women street vendors to stop their activities. The 9pm-5am national curfew imposed from March 25th to May 8th, 2020 has cut the earnings of those who depend on night-time economic activities for their livelihoods.

86. **A slowdown in the manufacturing industry, retail and wholesale sectors – which heavily rely on merchandise imports from overseas such as China and Dubai – and the service sector including a halt in transportation with border closure with neighboring countries will negatively impact labor income of the urban population**. The reduced interactions opportunities with foreign investors following the limited mobility of people is likely to cause a decline in Foreign Direct Investment inflows and, this combined with disruptions in input markets and reduced demand for non-essential goods and services could weaken the functioning and performance of the business climate and inhibit the creation of new jobs. **Decreased international demand for gold – especially from China – will also affect the mining industry**, causing earning losses to those engaged in the sector. This will also likely affect rural income for those engaged in small-scale artisanal mining, especially women – who represent 50 percent of the ASM workforce – and youths.

87. The history and culture of Mali makes it an attractive destination for tourism and those engaged in the industry, which is an important source of wage employment (e.g., hospitality, restaurants) and self-employment (arts and crafts). Therefore, tourism sector and livelihoods dependent on it are also likely to feel the negative economic impacts from the pandemic.

88. The eventual deteriorations in health conditions as the disease spreads will affect earnings opportunities. Health shock has been reported as one of the most severe idiosyncratic shocks across all segments of wealth distribution (about 27 percent of households) and households in different geographic locations and socio-demographic characteristics. Many of these households face highly volatile income without reliable safety net system to manage risk and incur out of pocket healthcare cost by relying on families and friends when facing idiosyncratic shock (Figure 12). A covariate shock like the COVID-19 pandemic undermine this type of mutual help, and will likely coerce households to resort to irreparable coping strategies, which can have dire medium- and long-term effects on wealth and human capital.[12] Indeed, analysis show that even in pre-COVID-19 crisis, households exposed to health shocks are already resorting to this type of hard choices, especially among urban households (Figure 15) and this situation is likely to be exacerbated with the pandemic.

Figure 15.: Shocks leading to irreparable coping strategies and impact of sickness on consumption

Figure 15.1.: Shocks leading to irreparable coping strategies

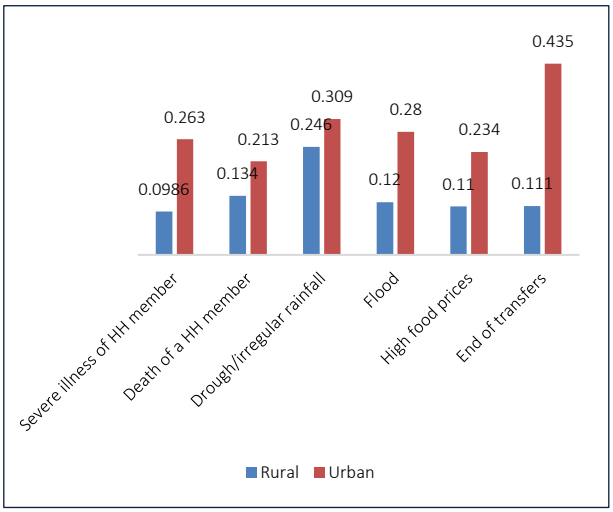
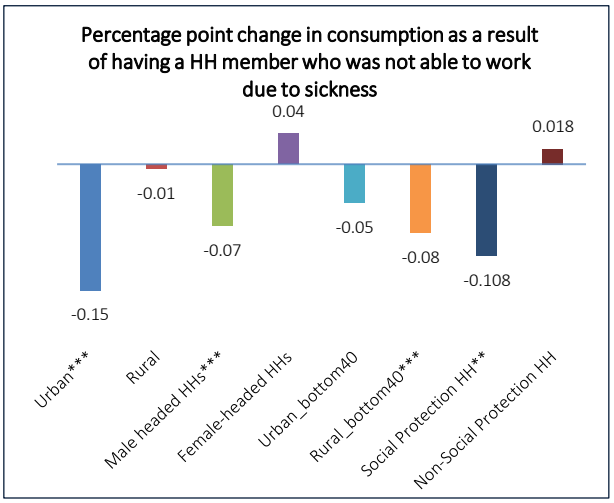


Figure 15.2.: Impact of sickness on consumption



Impact on labor income of rural households

89. Famers may not immediately feel the impact of the pandemic on their labor income given the seasonality of agricultural activities, especially those who sell the bulk of their output at the end of the agricultural campaign, which occurs between November and January. However, those involved in nonfarm income activities may feel the impact as a result of disruptions in the distribution chain, especially in the retail and restaurant sectors which make about 50 percent of the rural nonfarm enterprises. The negative impact on nonfarm income could spill over to agricultural production in the medium-term given that it is considered as a financing sources for agricultural investment for many households.

90. As discussed above, health shocks are among the most severe idiosyncratic shocks for many households. According to nationally representative statistics, about 40 and 50 percent of households in urban and rural areas reported at least one household member who could not work as a result of a sickness. Though the pandemic is still unfolding with high uncertainty about how it will last, the possibility that it will spread during the agricultural season is to be considered. If this is the case, the performance of the agriculture sector could be seriously affected

given that a covariate health shock will likely significantly decrease farmers' productivity who have limited access to labor-saving technologies (only 3 percent of plots received mechanized plowing in 2018) and mainly rely on human labor as main non-land productive asset. According to the International Food Policy Research Institute, exports of agri-food are estimated to decline by 25 percent in low- and middle-income countries. **This will not only affect rural producers but also commercial producers in the peri-urban areas**. Productivity loss will also impact food consumption given that most rural households are subsistence farmers.

3.2.2. Impact on transfers for urban and rural households

91. The negative impact of COVI-19 on transfers will increase monetary poverty. The stock of Malian migrants is estimated at 5.4 percent of its total population and remittances inflows from these migrants constituted 6.7 percent of the country's GDP in 2017.[12] Remittances, especially from France, make up a large share of household non-labor incomes in Mali. The strict lockdown in France will not only negatively impact Malian migrants' earning but also the availability of money transfer services. This disproportionately affects households in regions such as Kayes, the second poorest region in Mali, where this source of non-labor income makes up more than 25 percent of total income. In addition, other regions in the north and center already experiencing fragility and conflicts could be more disproportionally affected given their reliance on transfers in the absence of public resources. This is likely to affect much more female-headed households, who have the bulk of their income from transfers (35 percent versus 8 percent for their counterpart male-headed households).

3.2.3. Market disruptions and price shocks

92. The risk of market disruptions is large. Mali is a country that is not self-sufficient in food production and imports goods for the mining industries in the country. In addition, as discussed above, a large part of the population operates within the informal economy with non-farm enterprises. The disruptions in both global and local supplies will exacerbate poverty across all the residence areas in the country. Analysis using the 2018-2019 household survey shows that high food prices have been reported as the second most severe shock among urban households. The reduced supply will lead to high food prices, especially in urban areas but rural households may also be severely impacted given that some may end up being net food buyers due to reduced productivity.

3.2.4. Impact on delivery of basic services

93. The immediate impact of the pandemic is loss of learning opportunities due to school closures. This is likely to widen inequalities in human capital as children with educated and wealthy parents could still have the opportunity to learn during the closure of schools.

94. Expected decrease in government export revenues (mainly in cotton and gold) will limit the power of public spending. Consequently, the government's priority to mitigate the health impacts of the pandemic and to provide social assistance to the most vulnerable will happened at the expense of the delivery of other basic services, which will likely disproportionately affect some specific subgroups. In particular, access in rural areas is on average 20 percentage points lower and women are 10 percentage point less likely to have access. A health crisis such as COVID-19 will only exacerbate the difference between the non-poor and the poor or urban versus rural populations. As discussed above, illness is one of the top shocks faced by households. Another direct impact of the pandemic on welfare is out of pocket health expenses for those who contract the diseases. (Figure 15) provides rough estimates of the effects of health shocks on per capita consumption across different types of households.

[12]KNOMAD (2019). https://www.knomad.org/data/remittances?tid%5B176%5D=176

POLICY RECOMMENDATIONS

95. Policy recommendations will take a three-pronged approach of protecting lives, protecting livelihoods, and protecting the future. In the immediate term, the primary concern is putting in place the measures needs for the prevention, detection, and treatment of the disease to save as many lives as possible. These containment and mitigation measures have profound economic consequences. The second prong of the policy response must be on ensuring livelihoods during the period when parts of the economy need to be shut or slowed down in order to prevent the spread of the disease. Protecting income from vulnerable households and preventing large-scale loss of employment while keeping otherwise healthy firms alive is important. Additionally, despite sharp declines in fiscal revenues, key public services need to be maintained. This refers to functions such as management of health care facilities, payments of public servants, provision of essential goods and services by the state, central bank functions including the conduct of monetary policy, and banking supervision. Finally, while much of the effort would necessarily go towards addressing the immediate crisis, investment needs to be made in recovery and growth, to create the foundations for the future. Areas of focus should include investments in faster recovery, sustainable growth and resilience.

4.1. Protecting lives

96. Immediate policy efforts should be directed at scaling up key programs aiming at increased capacities in healthcare, food security and social safety net. To save lives the capacity in the healthcare system both the work force and medical supplies need to be strengthened. Policies can include simplifying the legal process in the purchase of medical equipment and drugs, legalization and financing of community health workers (CHW) that can greatly expand the health service especially in remote area. To enhance food security, commodity warehouse and free food distribution can be considered. The authorities may also consider reducing customs procedures and import duties on essential goods especially food and drugs).

4.1.1. Healthcare and sanitation

97. A strong health response is needed to save lives. The first line of defense against the pandemic, the health sector, is underequipped, understaffed and underfinanced. The region has the lowest Universal Health Coverage service index score of any region. Fragile health systems increase the morbidity and mortality risk of COVID-19 in Africa. In addition, large segments of Africa's population and its poorest are more vulnerable to contagion and illness because of close living quarters (70% of city dwellers live in crowded slums), limited access to water and sanitation and underlying health risks (malnutrition, HIV/AIDS, TB and other conditions). However, Africa's relatively young population could mean that the proportion of people at high risk of COVID-19 related complications and mortality could be lower than in other regions. The "COVID-19 Emergency Response Project" (Fast Track COVID-19 Facility, $25.7 million) aiming at increasing Mali's preparedness of its healthcare system is already approved (27 March) and will be disbursed soon.

98. Health sector response can be strengthened by increased healthcare workforce and expansion of affordable healthcare. Community Health Workers (CHW) are an important component of health work force and are extremely important for rural areas. They however operate under a precarious condition without legal recognition nor proper training. By legalizing the status of CHW as well as their compensation the work force will be greatly strengthened. It will also help the workforce gain access to better training. Out-of-pocket expenses prohibits proper treatment for a large share of the population. The government might consider provide better access to healthcare by introducing basic Universal Health Insurance and free healthcare for children and pregnant women.

99. Safely managed water, sanitation, and hygiene services are also essential to prevention of disease during the current pandemic. One of the most cost-effective strategies for increasing the response, especially in resource-constrained settings, is investing in core public health infrastructure, including water and sanitation systems. Good sanitation practices serve as barriers to human-to-human transmission of the COVID-19 virus in homes, communities, health care facilities, schools, and other public spaces.

4.1.2. Food security

100. Targeted distributing of basic food items to vulnerable communities. To mitigate the impact of higher food prices and/or potential food storage, it is recommended to procure and distribute necessary food, particularly to the most vulnerable already identified in the Food Security Early Warning System in Kaye, Koulikoro, Mopti, Gao, Menaka, Kidal and Timbuktu regions. Partnering with international organizations such as the World Food Programme would facilitate the vulnerable targeting as well as the distribution implementation.

101. Distributing basic food items and providing meal programs. To mitigate the impact of higher food prices and/or potential food storage, it is recommended to procure and distribute necessary food, particularly to urban poor who are the most vulnerable to food price shocks. To avoid potential insufficient food intake among children dependent on school feeding programs, the government should continue to distribute school meals in certain locations even in the event of school closure.

102. Avoiding food export bans at the regional level. There is a need to work with regional organizations such as ECOWAS, WAEMU and member countries to ensure that food export restrictions are not put in place in the context of COVID-19. Food insecurity will be worsened if a regional mechanism and agreement to not ban food exports is not put in place. Temporary lift of import duties on essential food import (rice and milk) can also help.

4.2. Protecting livelihoods

103. Short-term and medium-term policy efforts should be supporting households and firms through the crisis. To strengthen social safety net and cash transfer system, the Unified Social Registry (RSU), the national registry of households eligible for social assistance, should be expanded to cover a larger population. The authority may consider utility bills moratorium (water and electricity) for households and firms affected by the pandemic. Certain subsidies to the key public service providers (SOMAGEP and EDM) might also be necessary to sustain their daily operation and service continuity. Reduction and deferral in tax payment as well as enhanced access to credit can be considered to sustain households and business.

4.2.1. Social Safety Net

104. Expand safety net and improve targeting. First, the Unified Social Registry (RSU), the national registry of households eligible for social assistance, should be expanded to cover a larger population. Second, given the large share of informal employment in Mali and the pandemic's spread particularly in urban areas, the government will need to go beyond its usual beneficiary base for social safety nets to reach those negatively affected by the crisis.

105. A more flexible transfer mechanism including in-kind transfer and e-transfer. With social distancing guidelines, the usual form of in-person transfer delivery threatens to encourage the spread of COVID-19, highlighting the need to shifting the payment system towards mobile payments, while still being able to assurance the receipt of the transfer by beneficiaries. The main response that Bank is proposing is the "cash+" transfers (including mobile cash transfers and complementary in-kind transfers), which provide flexibility for poor or near poor households to address their basic needs in the face of increased prices and income losses.

4.2.2. Key Public Service Continuity

106. Ensure service continuity for households and firms affected by the crisis and support key utility companies. Households and firms can be supported by allowing utility bills moratorium on water and electricity bills for certain households and firms, VAT exemption of the water and electricity bills. However, this cost should not be weighed on the utility companies. Government should also consider supporting critical utility companies such as the water company (SOMAGEP and SOMAPEP) that is under-capitalized and the energy company (EDM) which is already insolvent.

107. Ease tax burdens. The government can help the economy by reducing tax payment of individual and corporate taxpayers, and deferring payments of social security contributions and advancing the payment of VAT credit refunds.Typical measures can include: extending the deadlines for filing and paying taxes and duties, facilitate tax payment plans, deferring payments of the payment of social security contributions for businesses, advancing the payment of VAT credit refunds subject to ex-post reviews, suspending penalties for late payment or filing, adjusting early payment policies, discontinuing measures for the recovery of tax arrears based on adopted criteria, exempting from the submission of tax declarations and reports those business payers with temporary suspension of activities, establishing a joint committee (Government and private sector) to the monitoring of the application of tax measures and publishing quarterly reporting provisions for the implementation of this measure.

4.3. Protecting the future

108. Over a longer term, a recovery and growth agenda is needed to recreate the conditions for sustainable growth and ensure fiscal resilience. The Government needs to ensure accountability and transparency in the management of the COVID-19 special funds. This can be achieved by designing a governance mechanism that will be used to oversee the management of the funds collected from the private and public sector. This could also help attract donor funds. Fiscal viability and debt sustainability are important to ensure adequate level of capital investment as well as to attract foreign investment. Tax revenue recovery and careful budgetary plan are therefore essential. To guarantee a quick recover and maximization of post-crisis tax revenue collection, the Government can, for instance, introduce fiscal incentives for online tax filing and payments. Further, an optimization of the spending in times of crisis will be warranted. Concretely, the Government can postpone some capital expenditures and non-essential current spending and instead, focus on health-related expenditures and measures aiming at accelerating recovery and strengthening economic resilience. In addition, a frequent publication of budgetary reports and debt statistics are equally important.

4.3.1. Public finance management

109. Ensure accountability and transparency of funds. The Government can consider publishing quarterly budgetary reports on COVID-19 expenditures, as well as publishing procurement plans and contract awards. The government has established a new COVID-19 Special Fund and the governance structure needs to be defined including eligibility and simplified expenditure procedures, transparency, auditing and reporting principles. Third Party auditing on the use of the fund is also welcomed.

4.3.2. Fiscal and Debt Sustainability

110. Limit the fiscal deficit and maintain debt sustainability. To maximize tax revenue collection, the government can introduce fiscal incentives for online tax filing and payments. It can also make a push for home-based work through measures such as an import tax reduction or suppression on IT equipment, and tax incentives toward internet service providers. Further, an optimization of the spending in times of crisis will be warranted. Concretely, the government can postpone some capital expenditures and non-essential current spending and instead, focus on health-related expenditures and measures aiming at accelerating recovery and strengthening economic resilience.

ANNEX

Figure 16.: Evolution of COVID-19 in West Africa

Figure 16.1.: Report on the number of COVID-19 cases

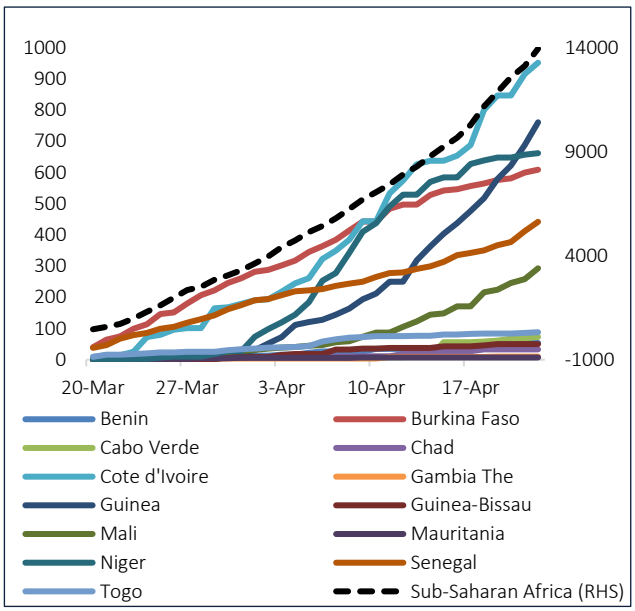
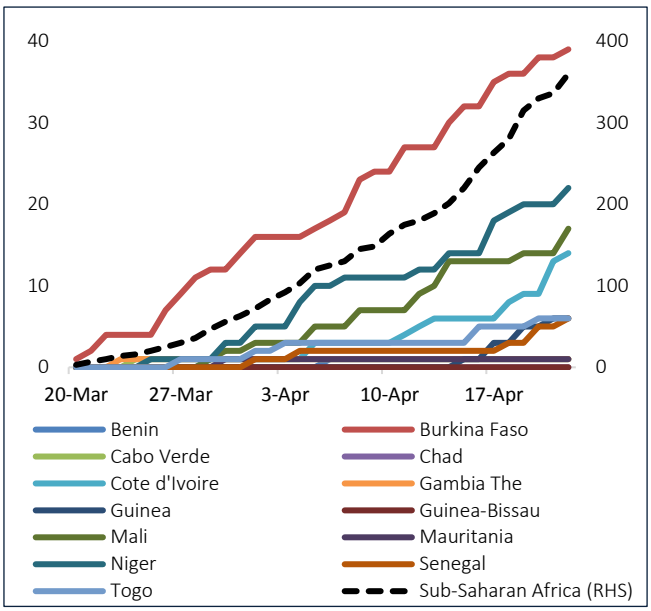


Figure 16.2.: Report on the number of COVID-19 deaths



Source: World Bank and John Hopkins CSSE. Note: Last updated on April 22, 2020

Figure 17.: Evolution of COVID-19 in Mali

Figure 17.1.: Report on the number of COVID-19 cases

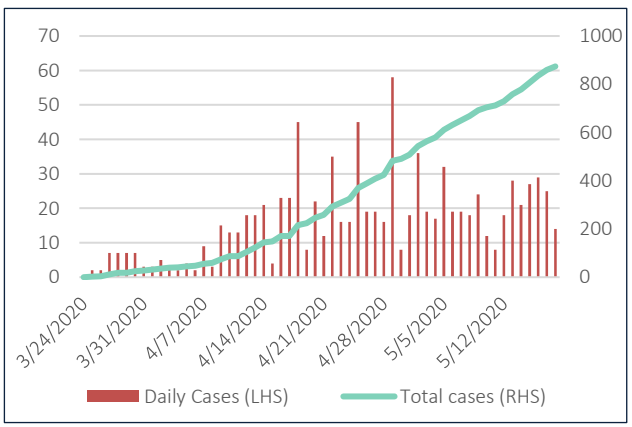
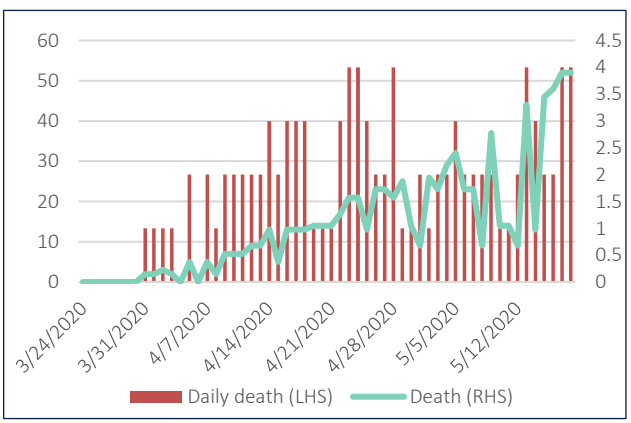


Figure 17.2.: Report on the number of COVID-19 deaths



Source: World Bank and John Hopkins CSSE. Note: Last updated on May 18, 2020

Figure 18.: Economic Developments under Baseline and Downside Scenarios

Figure 18.1: Price dynamics of main export (gold, cotton) and main import (crude oil, food).

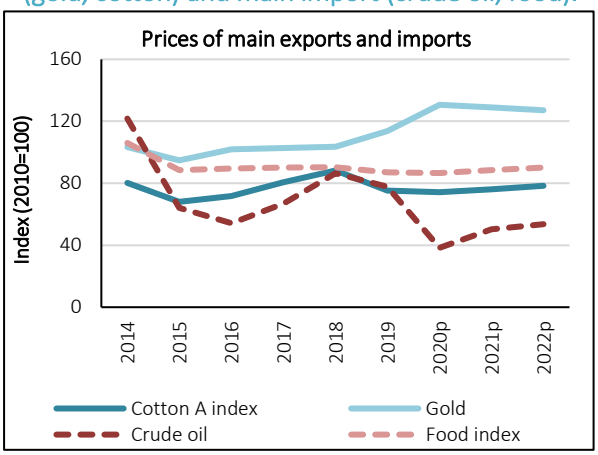


Figure 18.2.: GDP growth, with baseline sector decomposition of baseline growth.

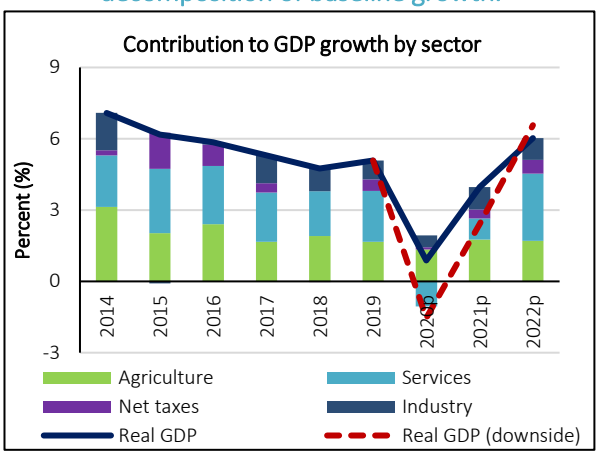


Figure 18.3.: Poverty dynamics in response to the COVID19 outbreak (baseline)

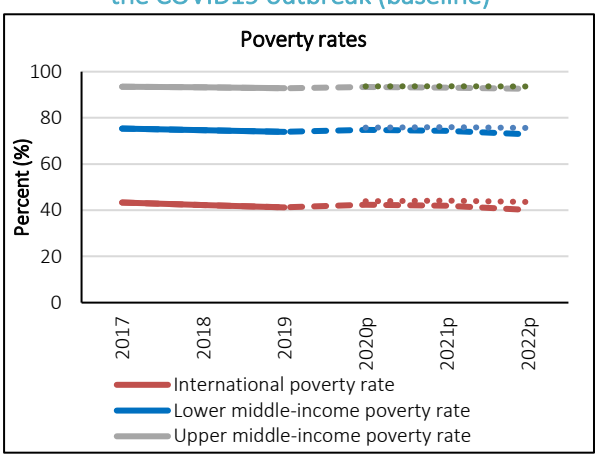


Figure 18.4.: Fiscal dynamics (baseline)

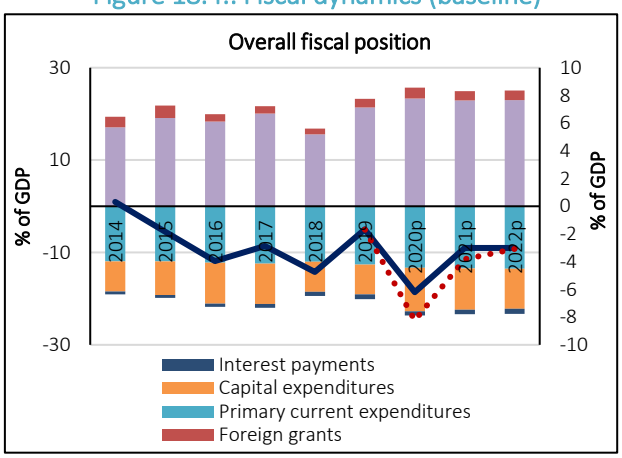


Figure 18.5.: Public debt dynamics

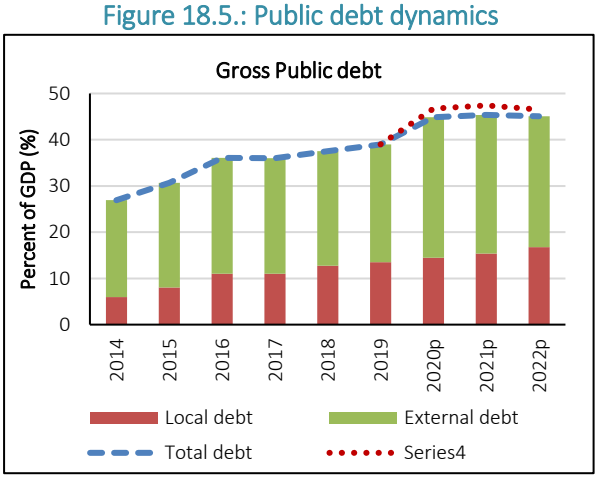


Figure 18.6.: External pressures will increase somewhat

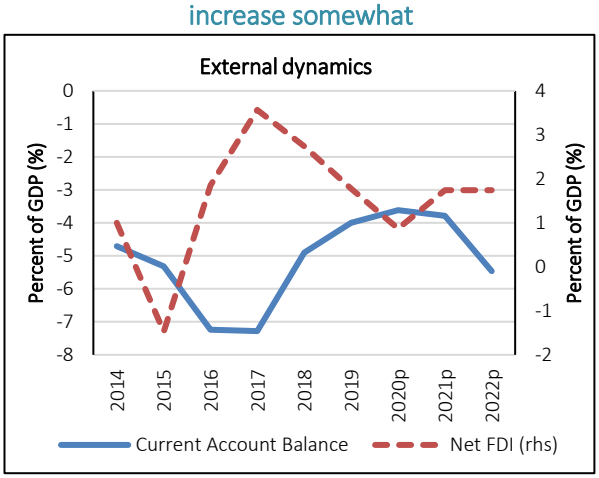


Table 4.: Mali: Selected economic indicators under Baseline and Downside Scenarios

Variable	Unit	Historical			Projections (baseline scenario)			Projections (downside scenario)			Projections (pre-crisis)[2]			
		2017	2018	2019	2020p	2021p	2022 p	2020p	2021p	2022p	2019e	2020p	2021p	2022p
Nominal GDP	LCU billion	8,922	9,482	10,154	10,427	11,030	11,929	10,172	10,676	11,711	10,214	10,917	11,732	12,602
Exchange rate	LCU/$	580.7	555.5	585.9	..	..	..	..	..	..	..	..	..	..
Inflation (CPI)	%	1.8	1.7	-0.6	0.6	1.5	2.0	1.6	2.0	2.3	-0.4	0.6	2.0	2.3
Inflation (Deflator)	%	1.9	1.5	2.5	1.8	1.7	2.0	1.7	2.5	2.9	2.5	1.8	2.3	2.3
Real GDP growth, *out of which*	%	5.3	4.7	5.1	0.9	4.0	6.0	-1.5	2.4	6.6	5.1	5.0	5.0	5.0
Agriculture	%	1.7	1.9	1.7	1.3	1.8	1.7	0.4	0.7	1.7	1.7	1.4	1.7	1.7
Industry	%	1.2	1.0	0.8	0.5	0.9	0.9	0.0	0.6	1.2	0.8	0.8	0.9	0.9
Services	%	2.1	1.9	2.1	-1.1	0.9	2.8	-2.0	0.5	3.3	2.2	0.2	2.2	2.2
Net taxes	%	0.4	0.0	0.5	0.1	0.4	0.6	0.1	0.6	0.4	0.5	0.1	0.8	0.5
Government revenues	% of GDP	20.1	15.6	21.4	21.2	21.4	20.6	20.6	21.7	21.3	21.9	22.9	22.7	23.0
Government expenditures	% of GDP	22.9	20.3	23.1	27.4	24.4	23.6	28.8	25.5	24.4	24.8	26.4	25.9	26.0
Fiscal balance	% of GDP	-2.9	-4.7	-1.7	-6.2	-3.0	-3.0	-8.2	-3.8	-3.1	-2.9	-3.5	-3.3	-3.0
Primary fiscal balance	% of GDP	0.5	-1.7	4.2	2.9	2.6	2.9	0.1	3.0	2.8	-1.9	-2.4	-2.2	-1.9
Gross Public Debt	% of GDP	36.0	37.5	40.4	44.9	45.4	45.1	46.7	47.4	46.5	38.3	38.3	39.5	39.7
Current account balance	% of GDP	-7.3	-4.9	-4.0	-3.6	-3.8	-5.5	-5.6	-4.2	-4.4	-4.8	-4.4	-4.6	-5.2
Net FDI	% of GDP	3.6	2.7	1.8	0.9	1.7	1.7	0.9	1.8	1.8	1.8	2.5	2.6	2.6
Net Portfolio investment	% of GDP	0.2	1.3	1.5	0.9	0.9	0.9	0.4	0.3	0.3	0.4	0.4	0.4	0.4
International poverty rate [/1]	%	43.3	42.2	41.2	42.4	42.0	40.1	43.9	44.2	43.6	39.9	38.6	37.0	35.6
Lower middle-income poverty rate [/1]	%	75.4	74.6	73.9	74.8	74.3	72.9	75.8	76.0	75.6	72.8	71.9	70.7	69.6
Upper middle-income poverty rate [/1]	%	93.5	93.3	92.8	93.3	93.1	92.6	93.6	93.7	93.6	92.5	92.2	91.8	91.3

Source: National authorities, MFMod, IMF, World Bank commodity markets and authors' calculations.

Notes:

[1/] International poverty rate refers to $1.9 in 2011 PPP; Lower middle-income poverty rate refers to $3.2 in 2011 PPP; Upper middle-income poverty rate refers to $5.5 in 2011 PPP.

[2/] Pre-crisis projections were based on estimates in January 2020, during which 2019 figures were estimates and are different from finalized 2019 figures in April 2020.