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Mali: Second Review Under the Poverty Reduction and Growth Facility, Second Annual Program, Requests for Augmentation and for Extension of Arrangement and Commitment Period—Staff Report; Staff Statement; Press Release on the Executive Board Discussion

In the context of the second review under the Poverty Reduction and Growth Facility (PRGF) and second annual program under the PRGF, the following documents have been released and are included in this package:

- the staff report prepared by a staff team of the IMF, following discussions that ended on June 16, 2001 with the officials of Mali on economic developments and policies for 2001. **Based on information available at the time of these discussions, the staff report was completed on July 9, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **July 25, 2001**, updating information on recent economic developments.

- the Press Release summarizing the **views of the Executive Board as expressed during the July 26, 2001 Executive Board discussion** of the program.

The documents listed below have been or will be separately released.

Letter of Intent*
Memorandum of Economic and financial Policies*
Technical Memorandum of Understanding*

*May also be included in Staff Report.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

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MALI

Second Review Under the Poverty Reduction and Growth Facility, Second Annual Program, and Requests for Augmentation and for Extension of Arrangement and Commitment Period

Prepared by the African Department

(In consultation with Fiscal, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Amor Tahari and Masood Ahmed

July 9, 2001

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EXECUTIVE SUMMARY

Recent developments

- Program implementation was broadly satisfactory in 2000, with all quantitative performance criteria and benchmarks, and both structural performance criteria, observed. As regards structural benchmarks, two out of three were observed.

- Development in 2000 was adversely affected by a crisis in the cotton sector, the hike in oil prices, a drought, and tensions in neighboring countries. The cotton sector crisis was triggered by depressed world prices for cotton fiber, compounded by weaknesses in the management of the cotton monopsonist (CMDT) and the producers' decision to boycott production to protest the low producer price paid by the CMDT.

- Real GDP growth slowed to about 4 percent in 2000 from 6½ percent in 1999, but inflation remained subdued. The real effective exchange rate continued to depreciate, contributing to gains in external competitiveness. However, with the drop in export volume, the current account deficit, excluding grants, widened by 1½ percentage points to almost 12½ percent of GDP in 2000.

- Revenue performance in 2000 was adversely affected by the hike in oil price and slowdown in the economy. Nonetheless, higher-than-expected privatization receipts and budgetary assistance helped the authorities meet the expenditure program in 2000. As a result, the basic budgetary balance turned into a deficit of 0.8 percent of GDP.

Prospects and program for 2001

- Reflecting the cumulative impact of the above-mentioned shocks, real GDP is projected to decline by about 1 percent in 2001. The external current account deficit (excluding grants) is projected to deteriorate by about 1½ percentage points of GDP, largely on account of the sharp drop in cotton exports.

- The basic fiscal balance is expected to reach a deficit of 3.2 percent of GDP in 2001, as total expenditure will be higher than originally programmed, owing primarily to the cost to the budget of restructuring the cotton sector, increased HIPC Initiative outlays, and higher election costs. Tax revenue is projected to increase in 2001, albeit by less than originally programmed, reflecting the boom in the mining sector, implementation of the new taxation mechanism for petroleum products, and improved tax administration.

- The structural program focuses on the reform of the cotton sector, including the financial restructuring of the CMDT. The cotton sector is to be completely liberalized by 2005. In the period 2001-03, the CMDT will be restructured to make it more cost-effective by refocusing its operations on its core activities. Also, a pricing mechanism for seed cotton based on market conditions will be established, and the ginneries in one cotton-producing region will be privatized.

- Other structural measures are designed to further civil service reform and to establish a mechanism for monitoring the use of resources freed by assistance under the enhanced HIPC Initiative. The government is pursuing its poverty reduction strategy, in line with the interim PRSP.

- In light of the cumulative impact on the economy of various shocks and the large financing need that has arisen, the government of Mali requests an increase in the resources committed under the PRGF arrangement by a sum representing 5 percent of Mali's quota in the Fund (amounting to SDR 4.665 million), to be disbursed onetime upon completion of the second review. Assuming this request is approved, a financing gap of 2.9 percent of GDP would remain in 2001, for which financing assurances have been received from Mali's main donors. The staff also supports the authorities' request for extension of the arrangement and the commitment period of the three-year PRGF arrangement, in order to allow the disbursement of resources committed under the PRGF arrangement.

Staff appraisal

- The resolution of the crisis in the cotton sector is critical for the resumption of growth and the return to a sustainable fiscal path. The steps already taken by the authorities to address the crisis in the cotton sector are expected to reestablish confidence among cotton growers, avoid a weakening of the domestic banking system, and ensure the financing of the 2001/02 crop season.

- It will be critical for the authorities to maintain the momentum of the reform of the cotton sector during the run-up to presidential elections early next year. Implementation of a number of key structural performance criteria and benchmarks will measure the authorities' resolve to move ahead with reform of the sector. In particular, the preparations leading to the launching of bids for the privatization of one cotton-producing zone in December 2001, as well as the preparation of a medium-term financial restructuring plan, will be critical tests.

- The 2001 budget appropriately addresses the crisis in the cotton sector and attempts to dampen the impact of the crisis on the population, as well as to foster the democratization process. The staff commends the authorities' efforts to raise tax revenue. However, in order to meet the program's target for the basic fiscal balance, the authorities should stand ready to reinforce revenue mobilization and/or lower nonpriority expenditure, in case the revenue target becomes unreachable.

- The staff is encouraged by the authorities' effort to ensure participation of all segments of the population in the preparation of the full PRSP, as well to tackle issues of good governance, improve public expenditure management, establish a medium-term expenditure framework, and implement an effective tracking mechanism for the use of resources freed by assistance under the enhanced HIPC Initiative.

I. Introduction

1. Discussions on the second review of the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), as well on the second annual program under the PRGF arrangement, were held in Bamako during February 5–17, 2001 and April 17–30, 2001; technical discussions continued in Washington during May 25–26, 2001 and were concluded on June 16, 2001.[1] The conclusion of the discussions was conditional on the preparation by the authorities of an action plan to reform the cotton sector and restructure the cotton monopsonist (CMDT), as well as on the implementation of prior actions related to the cotton sector. The three-year arrangement for Mali under the PRGF, in an amount equivalent to SDR 46.65 million (50 percent of quota), was approved by the Executive Board on August 6, 1999 (EBS/99/129; 7/16/99). To date, two disbursements totaling SDR 13.5 million have been made under this arrangement. Mali's outstanding use of Fund resources at end-April 2000 amounted to SDR127.82 million (137.0 percent of quota).

2. The first review under the PRGF and the 2000 Article IV consultation were concluded by the Executive Board on September 6, 2000. On that occasion, Mali reached the decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). Cumulative assistance under the original and enhanced HIPC Initiative frameworks would amount to US$523 million in end-1998 net present value (NPV) terms, reducing the NPV of debt outstanding at end-1998 to US$906 million (63 percent of pre-HIPC Initiative debt stock). In completing the first review, Directors noted the mixed macroeconomic performance in 1999-2000 and delays in the implementation of key structural reforms. They welcomed the corrective measures taken by the new government which had been formed in February 2000, and its commitment to push ahead with structural reforms.

3. In the attached letter and memorandum of economic and financial policies (MEFP), dated July 9, 2001 (Appendix I, Attachment I), the Minister of Economy and Finance reviews developments during 2000 and sets out measures to be implemented during the

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[1] The February mission met with Mr. Sidibé, Prime Minister of Mali. The Malian representatives included Mr. Koné, Minister of Economy and Finance, Mr. Diallo, Minister of Rural Development, Mr. Traoré, the National Director of the Central Bank of West African States (BCEAO), and other senior officials. The staff team (members participated in one or more of the missions) consisted of Mr. Ghura (head-AFR), Mr. Bouscharain, Ms. Gaye, Ms. Guichard, Mr. van den Boogaerde, Mr. Walliser (all AFR), Mr. Leruth (FAD), Mr. Williams (Fund Resident Representative in Bamako), and Ms. Jean-Baptiste and Ms. Estevez (Administrative Assistants-AFR). Mr. Tahari (Senior Advisor-AFR) participated in some policy discussions. Mr. Barro-Chambrier, Executive Director for Mali, and Mrs. Kabedi-Mbuyi and Mr. Kpetigo, Advisors to the Executive Director, participated in some policy meetings. The February mission worked closely with a parallel World Bank team that was in Bamako.

remainder of 2001 to achieve the objectives of the revised program. In order to ease the hardship arising from various shocks that have hit the economy since last year, the government of Mali requests an increase in the resources committed under the PRGF arrangement by a sum representing 5 percent of Mali's quota in the Fund (amounting to SDR 4.665 million), to be disbursed onetime upon completion of the second review. If the full amount under the PRGF arrangement is disbursed, and taking into account scheduled repayments, Mali's financial obligations to the Fund would amount to SDR 122.4 million (126.5 percent of quota) at end-December 2003. A revised schedule of projected reviews and disbursements under the PRGF arrangement is set out in Table 2, and Mali's relations with the Fund are summarized in Appendix II. A summary of Mali's relations with the World Bank Group is presented in Appendix III.

4. Mali's statistical database is broadly comprehensive and sufficient for program monitoring. Progress has been achieved by the authorities in addressing a number of past weaknesses by implementing the recommendations of technical assistance missions. The timeliness of economic and financial information could be improved, which would allow better assessment of current developments. The authorities are collaborating with STA to finalize the metadata requirements for the General Data Dissemination System (GDDS), which, when fully implemented, can be expected to further improve data quality and timeliness.[2]

II. Performance under the Program in 2000

A. Program Implementation

5. **Program implementation was broadly satisfactory**. All quantitative performance criteria and benchmarks were observed (Table 1 of the MEFP).[3] Nonetheless, as explained below, the indicative targets on revenue and the basic fiscal balance were missed. Both structural performance criteria and two out of the three structural benchmarks were observed (Table 2 of the MEFP). The privatization of 60 percent of the capital of the energy company

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[2] Under the safeguards assessment policy, Mali is subject to a full stage-one safeguards assessment. A stage-one safeguards assessment of the Central Bank of West African States (BCEAO), of which Mali is a member, is in progress and a draft stage-one report has been recently issued for comments by departments. The staff is also trying to obtain from the BCEAO a letter authorizing to speak with external auditors, which is the only document left to fully conclude the stage-one assessment.

[3] The authorities purchased military equipment in 2000 (worth CFAF 8 billion) financed on nonconcessional terms. The amount of this purchase falls under the ceiling of nonconcessional borrowing set under the program. This transaction was incorporated in the balance of payments for 2000, and the debt-service schedule associated with this transaction is incorporated in the fiscal accounts (as defense expenditure) over the repayment period.

(EDM) was finalized in November 2000. In addition, new associate judges were appointed at the commercial courts. The authorities prepared an action plan to reform the CMDT (improve the transparency and efficiency of its operations, and lower production costs) that was considered weak by the World Bank. While further work is being done to reinforce the reform agenda, the CMDT has already started implementing measures to improve internal management and marketing strategies, as well as lower its operating cost: (i) the president of the company was replaced last year; (ii) the wage bill has been cut by about 20 percent; (iii) the marketing of cotton fiber is no longer being done by one exclusive agent; (iv) all aspects of transportation have been liberalized, with the exception of that for seed cotton, which is also slated for liberalization; and (v) investment in new capacity has been significantly curtailed. In the telecommunication sector, however, the launching of an international bid for a cellular telephony license to the private sector was delayed for technical reasons (with approval from the World Bank).

B. Economic and Political Development

6. **Economic development in 2000 was adversely affected by the crisis in the cotton sector, the hike in oil prices, poor rainfall, and tensions in Côte d'Ivoire**. A large number of cotton farmers boycotted production for the 2000/01 season in protest of the low producer price offered by the Compagnie Malienne pour le Développement des Textiles (CMDT) (see Box 1). Real GDP growth in 2000 slowed considerably to about 4 percent from 6½ percent in 1999. Inflation was subdued in 2000 as a whole, with the consumer price level declining by an average of 0.7 percent from a year ago.

7. **Mali's current account deficit, excluding grants, worsened by 1½ percentage points of GDP to 12½ percent in 2000**, mainly as a result of a decline in cotton production and a sharp deterioration in the terms of trade. The impact of these developments was partially offset by a further expansion of gold-mining activity. Reflecting the slowdown in economic activity, nonmining import volume declined by nearly 3½ percent in 2000. The real effective exchange rate continued to depreciate, contributing to gains in external competitiveness. The financing of the current account deficit by project loans and grants, as well as by large private capital inflows related to gold-mining activity, allowed a significant accumulation of net foreign assets at the central bank.

8. **On the political front**, the next legislative and presidential elections are scheduled for mid-2002. Mali has made significant progress in moving toward a democratic system of government since the early 1990s, while promoting peace and stability in the region.

Box 1. Mali: Cotton Sector Crisis and Impact on Producer Income

Mali became a leading cotton producer in Africa following the devaluation of the CFA franc in 1994. By 1998, cotton output had peaked at 523,000 tons, and the cotton sector accounted for nearly 50 percent of export revenue, 9 percent of GDP, and about 6 percent of tax revenue. The livelihood of about one-third of Mali's population is directly related to activities in the cotton sector. The rapid surge in production was made possible by increased land use and investment in new ginneries, and not by productivity improvements; in fact, cotton yield has been on a declining trend since the late 1980s.

Mali's cotton industry is organized as a vertically integrated system. The Compagnie Malienne pour le Développement des Textiles (CMDT) controls virtually all aspects of production, including the supply of fertilizer; the purchase, transport, and ginning of seed cotton; and the marketing of cotton fiber. (The Government of Mali owns 60 percent of the CMDT, and the French partner Compagnie Française des Textiles (CFDT) owns 40 percent.) Also, the CMDT provides training, extension services, and organizational support to cotton farmers, in addition to mobilizing and distributing credit. The sector's integrated monopsonistic structure generates a number of inefficiencies and rents, and the implicit tax burden on cotton farmers is heavy. Progress was made in raising the share of the producer price (including the cost of public services) relative to the world price, with this ratio reaching a peak of 63 percent in 1998/99 (from 31 percent in 1994/95). Nonetheless, in view of the CMDT's liquidity crisis, this progress was reversed in 1999/2000, with the share of the world price going to farmers declining to 43 percent.

The CMDT's current liquidity crisis has been brought about not only by the depressed world market for cotton fiber, but also by poor financial management, weak marketing strategies, and poor investment decisions. The world market price for cotton plummeted by about 25 percent during the period 1996/97-1998/99 (in CFA franc terms). Mali's cotton fiber has typically been sold to foreign marketing agencies at discounts that are not justified by product quality. Because of the CMDT's liquidity problems, the company lowered producer price by some 19 percent in 1999/2000 even though the world market price had recovered somewhat. The origin of the current crisis can be traced to this decision to reduce the producer price, which, coupled with the unfavorable weather, led to a 16 percent decline in net agricultural income.

Reeling from its liquidity crisis, the CMDT announced a low producer price at the outset of the 2000/01 season. A large number of farmers announced that they would boycott cotton production unless their demands were met, including an increase in the producer price. Negotiations involving the government, CMDT, and producers eventually resulted in an 11-point agreement that met the farmers' demands. It was signed in July 2000, but by this time it was too late in the rainy season for many farmers to resume planting. Consequently, cotton production declined by some 50 percent in 2000/01, and it is projected that net agricultural income in the cotton-producing regions will decline by 44 percent this year.

A recent survey conducted by the CMDT of the three regions most affected by the boycott showed that 5–9 percent of farmers were forced to sell their cattle used for plowing the fields. Other means of coping with the loss of income included the sale of other livestock, in addition to surplus cereal stocks. The survey found that there was almost no sales of farming equipment. Despite the drop in cereal output in the cotton producing regions, the study found that farmers were generally self sufficient. Less than 3 percent of households surveyed indicated a need to purchase cereal, and the nutritional situation was considered satisfactory. For instance, infant malnutrition in the two communities examined in detail during a study conducted by the National Early Warning Service averaged only 4.5 percent, compared with a national rate of 23.3, as percent based on a survey conducted in 1995-96.

The government is undertaking a nationwide electoral census and plans to hold a referendum on a new constitution in October 2001.[4] The vote would mark the country's first transition from one democratically elected president to another. There have been social tensions in the run-up to the elections, and the government has made a number of concessions in order to maintain social peace (see Section IV.B). A continuation of the efforts being made by the government to address the economic crisis and foster social peace will be essential for a peaceful vote.

C. Fiscal Stance

9. **Fiscal performance in 2000 was affected by the increase in oil prices and the slowdown in the economy.** With revenue lower than expected, the 1999 basic budgetary surplus turned into a deficit of 0.8 percent of GDP in 2000 (compared with the small surplus that had been programmed). The revenue shortfall for 2000 is estimated at about 1.4 percent of GDP, explained by (i) the decision by the authorities to freeze retail petroleum product prices at their March 2000 level; and (ii) poor customs revenue performance in the last quarter of the year (reflecting significantly lower nonmining imports, as well as poor management).[5] The overall fiscal deficit, on a commitment basis and excluding grants increased by 1 percentage point to 9¾ percent of GDP in 2000.

10. **There was a marked contrast in fiscal performance between the first three quarters of 2000 and the last quarter,** when the impact of the above-mentioned shocks was felt the most. Budgetary revenue was on target during the first three quarters; as a result of this performance, combined with lower-than-programmed expenditure levels, the indicative target on the basic fiscal balance was surpassed during this period. Nonetheless, revenue fell short of the program target in the last quarter of 2000. The catch-up in expenditure execution during that quarter therefore created a weaker fiscal position for 2000 than expected under the program (although total outlays were within the programmed limits for the year). Higher-than-expected privatization receipts, together with large inflows of budgetary assistance in the fourth quarter, helped the authorities meet the expenditure program target in 2000.

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[4] Currently, each deputy in the National Assembly is elected by popular vote within his/her constituency. The proposed change calls for "mixed representation," under which half the deputies would be elected directly by the popular vote within their respective constituencies, and the other half would be chosen as elected corepresentative of the constituency by the political party that won the majority of the popular vote. In addition, the new constitution calls for the reinforcement of the judicial system with the separation of judicial functions into three autonomous bodies (Supreme Court, Commercial Court, and Constitutional Court).

[5] The Director of Customs was replaced in November 2000.

D. Monetary Development and the Banking System

11. **The regional Central Bank of West African States (BCEAO)** raised the intervention rate by 75 basis points to 6½ percent in June 2000 in response to the rapid growth of credit in the zone. As regards Mali, there was a sharp increase in the net foreign assets of the banking system in 2000, reflecting significant inflows of budgetary assistance and a reversal in the decline in commercial banks' net foreign assets (observed through May 2000) following the increase in the intervention rate. The counterpart of this increase in net foreign assets was a sharp rise in broad money. Noncrop private credit fell at end-2000, owing to depressed demand and a crowding out stemming from the nonpayment by the CMDT of its loans from the banking system (amounting to CFAF 30 billion). Net credit to the government was also sharply down because of increased deposits from privatization receipts and aid inflows. The full impact on the banking system of the crisis in the cotton sector was limited by a government guarantee on the CMDT loan.

E. Governance Issues

12. The authorities have stepped up their efforts to promote **good governance**. In this context, they created in October 1999 an ad hoc commission to follow up on the reports of the Inspector General's Office concerning irregularities in the use of public funds, including by public enterprises. The recommendations of this commission have generated ongoing measures to strengthen administrative procedures, including on procurement, and have also resulted in sanctions and the referral of certain cases to the judicial authorities. Notable cases awaiting trial for mismanagement of public funds include those of the former director of the CMDT and of two senior officials of the telecommunications parastatal.

III. Revised Medium-Term Framework

13. **Economic performance in 2001 is being adversely affected by the crisis in the cotton sector and the ongoing drought.**[6] In light of these shocks, the macroeconomic projections have been revised (see table below).

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[6] Three changes were made to the macroeconomic framework. First, the impact of the boom in the gold sector starting in 2001 was incorporated. Second, the authorities' historical GDP data through 1999 were adopted. Third, the balance of payments was updated to be fully consistent with the presentation in the *Balance of Payments Manual* (5^{th} ed.).

Mali: Key Macroeconomic Indicators, 2000-04
(Annual percentage change, unless otherwise indicated)

	2000		2001		2002		2003	2004
	Prog.	Proj.	Prog.	Proj.	Proj.	Rev. Proj	Proj.	
Real GDP growth	4.5	4.3	5.6	-1.2	5.1	7.0	6.6	6.0
CPI inflation	1.2	-0.7	2.0	4.5	2.5	3.1	2.0	2.0
Basic fiscal balance 1/ 2/	0.6	-0.8	1.4	-3.2	2.1	-0.1	1.6	1.9
Current account balance 1/ 3/	-14.6	-12.4	-11.7	-13.9	-8.4	-11.9	-10.4	-9.4
Nonmining export volume growth	...	-4.8	7.3	-32.1	10.9	55.4	3.7	7.2
Import volume growth	2.7	-1.9	3.0	4.6	3.1	8.9	7.3	6.6
Gross domestic investment 1/	21.3	21.3	21.7	20.7	21.5	21.2	21.7	22.4

1/ In percent of GDP. The historical GDP series has been revised to be fully consistent with the authorities' data. Thus old ratios to GDP are not strictly comparable with the new ones.
2/ Total revenue (excluding grants) minus total expenditure and net lending (excluding foreign-financed investment)
3/ Excluding official transfers.

14. **Cotton production is expected to drop by about 50 percent during the 2000/01 season.** This outcome would depress activities in the secondary and tertiary sectors. In addition, cereal production is expected to decline by 17 percent. Real GDP is projected to drop by about 1 percent in 2001 (compared with an increase of 5½ percent projected in the program). The boom in the gold sector would ease this impact; excluding the mining sector, real GDP is projected to decline by about 5 percent.

15. **Over the medium term, the pace of the pickup in real GDP will depend critically on the strength of reform in the cotton sector**. Given the measures that the authorities have already started implementing to reestablish producers' confidence in the cotton sector (see Section IV.D), the medium term growth forecast assumes that cotton production will rebound to its peak precrisis level by 2003. This would imply real GDP growth rates in the range of 6-7 percent during 2002-04 (or about 4 percent on average during 2001–04) and average export volume growth of about 9½ percent over the 2002-04 period.

16. **The private investment-GDP ratio** is projected to drop sharply in 2001 to 9½ percent of GDP (from 11½ percent on average per year during 1998-2000), but it will pick up to an annual average of about 12 percent during 2002-04, accompanied by an increase in private savings. Reflecting the impact of the envisaged reform, especially in the cotton sector, the productivity of capital is projected to improve over the forecast period, with the incremental capital-output ratio (ICOR) declining from an average of 3.4 during 1994–2000 to an average of 3.2 during 2001–04.

17. **The consumer price index (CPI)-based inflation rate is projected to increase to 4½ percent in 2001** on a period-average basis (compared with 2 percent in the program), reflecting the decline in cereal output and the programmed increase in utilities rates (see below). Mali's inflation rate is expected to converge to the average rate in the European Union over the medium term.

18. **Owing to new outlays related to the crisis and the elections, as well as lower revenue, an inevitable weakening in Mali's fiscal position is projected in 2001.** The basic fiscal balance (excluding exceptional World Bank-financed expenditure) [7] would deteriorate by almost 2½ percentage points further to register a deficit of 3.2 percent of GDP. Nonetheless, under the assumption of a resumption of growth in 2002, as well as more normal expenditure patterns, the basic fiscal balance would improve in that year but would still be below the target set out in the program. The main reasons for the deterioration of the basic fiscal balance in 2002 relative to the original projections are the higher HIPC Initiative-related expenditure, higher domestic investment, and higher election costs, as well as the cost of restructuring the cotton sector. Over the medium term, with the elimination of the onetime outlays needed to stabilize the economy in 2001-02, the restraint placed on nonpriority expenditure, and the continued efforts to keep the wage bill within the limits of the West African Economic and Monetary Union (WAEMU) convergence criteria, the basic fiscal balance is expected to strengthen. Nonetheless, expenditure related to cotton sector restructuring could potentially increase during 2002-05, once the medium-term restructuring plan for the CMDT has been finalized in December 2001.

19. **On the external front, the sharp decline in cotton exports in 2001 would be more than compensated for the 50 percent increase in gold exports.** The transfer of profits of gold-mining companies will, however, offset to a significant extent the positive impact of the rise in gold exports on the current account balance. Over the medium term, the current account deficit is projected to narrow, largely on account of a rebound in cotton production and expansion in gold exports. With the projected economic recovery during 2002–04, import volumes are projected to grow slightly faster than real GDP. To finance its public investment program and other budgetary expenditures, Mali will continue to rely on concessional external financing over the medium term. Taking into account the HIPC Initiative assistance from those creditors that are already providing debt-relief, Mali's debt-service obligations would fall from 13 percent of exports to about 9 percent between 2000 and 2004.[8]

20. **With a view to testing the sensitivity of the baseline forecast to exogenous shocks,** an analysis was performed under two scenarios: (i) a severe cyclical drought; and (ii) a permanent drop in the world cotton price. The main assumptions and results of the analysis are provided in Appendix IV. The impact of bad weather is particularly severe: under this scenario and relative to the baseline, real GDP is almost 2 percentage points lower on average per year during 2002–04, the current account deficit is 1½ percentage points worse,

[7] A credit of CFAF 18 billion was disbursed by the World Bank in March 2001.

[8] Taking into account debt relief by the IMF, the World Bank, the European Union, the OPEC Fund, and the Paris Club. Mali has reached agreement with Paris Club creditors and most multilateral creditors on debt rescheduling. Discussions with non-Paris Club bilateral creditors have yet to start.

the basic budgetary balance is about ½ of 1 percent more deteriorated, and the budgetary financing gap is CFAF 14½ billion wider.

IV. Program for 2001

A. Developments During the First Five Months of 2001

21. **With the cotton harvest completed, the anticipated decline in production this year has been confirmed**: production for 2000/01 fell by 47 percent to 243,000 tons of seed cotton. However, gold production more than doubled during the first five months of 2001 (compared with the same period last year). Nonpetroleum product imports increased by about 23 percent in the first five months of 2001, largely related to mining sector machinery and equipment. Inflation, which had remained subdued in 2000, reached about 5½ percent in May 2001 (year-on-year), reflecting the decline in cereal production. A larger-than-normal increase in cereal imports during the first five months of 2001 has limited the spike in domestic food prices.

22. **On the fiscal front, the authorities are taking measures to reinforce tax collection.** These have included the intensification of the use of the unique taxpayer identification numbering system and enhancement of the use of information technology at customs and border checkpoints. Budgetary revenue was broadly on track for the first five months of 2001: it averaged CFAF 23 billion per month, compared with the program target average for the first six months of CFAF 22½ billion. Total budgetary revenue for the period was CFAF 115 billion, equivalent to 40 percent of the target for the year. The revenue contribution from the mining sector in the form of royalties for the first five months was about CFAF 7 billion.[9] The programmed rate of revenue collection had anticipated an increase in the second half of the year, reflecting the historical pattern.[10] Given the tight treasury situation, the authorities are taking steps to keep expenditure under control.

23. **Preliminary monetary data through March 2001** (latest available) indicate that the net foreign assets of the banking system increased by about CFAF 19 billion in the first quarter of 2001, mainly owing to a surge in net foreign assets of the commercial banks. This movement marked a reversal in the decline in these banks' net foreign assets (observed through May 2000), following the increase in the intervention rate at the regional level. On a year-on-year basis, domestic assets of the banking system increased by about 4 percent in March 2001, with credit to the economy increasing by about 7½ percent. Nonetheless,

[9] Profit taxes and dividends from the mining companies will be collected in the second half of the year (the program's target for mining sector revenue is CFAF 19 billion in 2001).

[10] Direct tax declarations are made by end-April, and collections tend to be concentrated in the third quarter of the year. In addition, the normal pattern will be accentuated this year because the new petroleum tax system will become effective in July.

excluding the unpaid loan of CFAF 30 billion owed by the CMDT, credit to the economy fell by about 2½ percent in March 2001 (year-on-year).

B. Fiscal Policy

24. **The 2001 budget reflects efforts to address the crisis in the cotton sector, dampen the impact of that crisis on the population, and foster social peace and the democratization process.**[11] As a result of higher expenditure and slightly lower revenue relative to the program, the basic fiscal balance is expected to weaken further in 2001 to reach a deficit of 3.2 percent of GDP (compared with a surplus of 1.4 percent of GDP under the program). A financing gap of CFAF 51.2 billion (2.9 percent of GDP) would remain, for which financing assurances have been received from Mali's main donors.[12] This financing gap assumes the approval of the request made by the government of Mali for an increase in the resources committed under the PRGF arrangement by a sum representing 5 percent of Mali's quota in the Fund (amounting to SDR 4.665 million), to be disbursed onetime upon completion of the second review.

25. **Despite the economic crisis, tax revenue is projected to increase by about 2 percentage points of GDP in 2001**. The boom in the gold sector and the taxation of petroleum products would yield additional revenue equivalent to 1½ percentage points of GDP. The mining sector is expected to yield about CFAF 19 billion in 2001 (or 1 percent of GDP, versus about 0.5 percent of GDP in 2000), while the new taxation system for petroleum products is expected to yield an increase of 1 percent of GDP over 2000.[13] Since Mali has already implemented the common external Common tariff (TEC) and has a single rate value-added tax (VAT), the remaining increase in revenues will be achieved through the administrative measures described in paragraph 10 of the MEFP.

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[11] The authorities have prepared a supplementary budget to incorporate these changes, which they intend to present to parliament in the third quarter.

[12] Financing assurances have been received from the World Bank, the European Union, Netherlands, France, and Sweden. Part of the donor support is specifically related to the cost of cotton sector restructuring and higher election costs.

[13] The new taxation system is broadly consistent with the WAEMU's guidelines, as each product is subject to a common external tariff, a value-added tax, and an excise tax. Under the new system, product prices are to be adjusted on a monthly basis to reflect movements in international prices of petroleum products. The staff has advised the authorities that the new taxation system would need to be made fully consistent with the final WAEMU guidelines in that the discretion provided to the Minister of Finance to change the specific tax rate would need to be eliminated.

26. **Expenditure policy in 2001 reflects primarily onetime outlays to stabilize the economy and foster social peace.** Total expenditure in 2001 is higher than originally programmed on account of (i) higher HIPC Initiative-related expenditure; (ii) a higher wage bill, owing to an increase in benefits for teachers, magistrates, and health workers; (iii) higher election costs (para. 9 of the MEFP); (iv) a subsidy to the energy company (EDM) in order to limit the hike in utility rates;[14] (v) a cost to the budget in 2001 to restructure the cotton sector;[15] (vi) the decision by the authorities to enhance the transparency of the budget presentation;[16] and (vii) exceptional expenditure related to a CFAF 18 billion World Bank loan to support investment in the EDM and provide liquidity to the cotton sector.[17] The increase in the wage bill will be limited to 12 percent (from its level in 2000) and accompanied by a reform of the civil service (para. 19 of the MEFP). In addition, in order to limit the subsidy to the EDM (and safeguard the company's financial position), utility rates were raised by 10 percent for water and 5 percent for electricity in July 2001.

27. **With a view to controlling the hike in expenditure, the authorities trimmed down nonpriority outlays by 0.3 percentage point of GDP in 2001**. In addition, the authorities will limit capital expenditure on the African Soccer Cup to CFAF 10 billion, while capital expenditure from domestic sources, excluding HIPC Initiative-related resources, will increase by CFAF 6.4 billion in 2001 (see para. 19 of the MEFP).

28. **The authorities are taking steps to further improve fiscal transparency** (as described in para. 20 of the MEFP). The upcoming Report on the Observance of Standards

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[14] The total subsidy is composed of a direct subsidy (CFAF 3 billion) and an implicit subsidy in the form of debt forgiveness (CFAF 7½ billion).

[15] The total cost is estimated at CFAF 23 billion. The Malian government will contribute 60 percent of the CFAF 30 billion of the loan owed by the CMDT to the domestic banking system. In addition, the government will bear the full cost of the additional burden for the CMDT to pay a producer price of CFAF 200 per kilogram for cotton (announced by the government during the participatory forum in April)—estimated at CFAF 5 billion in 2001 and CFAF 5 billion in 2002. The government has issued bonds to securitize the remaining CFAF 12 billion owed by the CMDT to banks, while continuing negotiations with the Compagnie Française des Textiles (which owns 40 percent of the capital in the company) for a solution based on the concept of equitable burden sharing.

[16] The revised expenditure presentation incorporates VAT reimbursements to mining companies that were previously included in treasury operations below the line (CFAF 7.8 billion). The staff advised the authorities that VAT reimbursements to mining companies should be classified as negative revenue in the future.

[17] The investment needs for EDM are associated with linking the Malian power grid to the regional Manantali electricity network.

and Codes (ROSC)/HIPC Initiative mission from FAD will seek to draw up an action plan for improving the public expenditure management system.

C. Monetary Issues

29. **Monetary policy at the regional level will continue to be guided by the objectives of preserving the peg of the CFA franc to the euro and consolidating official reserves.** Mali's contribution to these objectives in 2001 will be reflected in an improvement of the net foreign assets position, primarily as a result of the expected inflows of foreign assistance and privatization receipts. Nonetheless, in view of its financing needs, the government will be a net borrower from the domestic banking system to the tune of CFAF 24 billion. Overall credit to the economy is projected to decline significantly, but this is due to a large extent to the effect of the CMDT's nonreimbursed credit to the banking system at the end of 2000; excluding this effect, credit to the economy would increase by about 1 percent. Broad money is projected to increase by 2.8 percent in 2001, in line with the nominal GDP growth rate.

D. Cotton Sector Reform

30. **In order to build a broad consensus on the need for reform in the cotton sector,** the government organized a participatory forum of major players in April 2001. Producers asked for the establishment of a pricing mechanism for seed cotton based on movements in international prices. They also indicated that, as a way to lower its production costs, the CMDT should focus on its core activities (ginning and marketing), entailing the transfer to the private sector, producer organizations, and decentralized communities of the company's noncore activities (transportation of seed cotton; distribution of fertilizer, pesticides, and farm equipment; and public services, such as road maintenance and extension services). A small group of producers recommended the establishment of an independent entity to be managed and operated by the private sector in the OHVN (Office de la Haute Vallée du Niger) zone.

31. **The government's letter of development policy for the liberalization of the cotton sector was approved by the Council of Ministers in June 2001.**[18] The reform plan envisages the full liberalization of the cotton sector by 2005. In the interim, measures will be taken to restructure the CMDT and make it more cost-effective, refocus the CMDT's operation on its core activities, establish a pricing mechanism for seed cotton based on market conditions, privatize the ginneries in one cotton-producing region, and prepare the sector for full liberalization. The authorities have prepared a crisis resolution plan for the CMDT with technical assistance from the World Bank. An important feature of this plan is the full repayment by the CMDT of the CFAF 30 billion to the domestic banking system by September 2001. This is key to safeguarding the soundness of the banking system and

[18] The authorities worked in close collaboration with the World Bank in preparing the letter of development policy, following the participatory forum.

ensuring the financing of the 2001/02 growing season. In addition, in order to reestablish producers' confidence in the cotton sector and provide incentives for farmers to resume production, the government announced a price of CFAF 200 per kilogram for seed cotton following the participatory forum. A medium-term restructuring plan for the CMDT will be prepared by December 2001. The authorities intend to launch public campaigns to build support around the objective of complete liberalization of the sector; the primary actions and timetable for the reform of the sector are provided in Box 2.

E. Other Structural Reforms

32. **The World Bank is playing a lead role in structural reforms in Mali** (see Box 3). In addition, the authorities intend to improve the efficiency of the civil service and continue to control the wage bill over the medium term. They expect to achieve these goals through a reform of the civil service, with a view to harmonizing the various salary grids and modernizing the service. As a first step to this multiyear reform process, the authorities plan to complete an organizational audit of the civil service by November 2001.

F. Regional Integration

33. **Mali has in recent years made progress in respecting WAEMU's convergence criteria** (Table 7). In 2000, Mali respected three out of five primary criteria—it missed the criteria on the basic fiscal balance and total debt. It is expected that, with the projected economic recovery in 2002, the government will also respect the criterion on the nonnegative basic fiscal balance. Achieving compliance with other criteria implies continuous adjustment efforts over the medium term. In particular, the government needs to reduce its financing needs and follow prudent fiscal policies in order to reduce the debt-to-GDP ratio over time. Likewise, the authorities should continue their efforts to broaden the tax base and increase domestic revenue, so as to lift fiscal revenue above the level of 17 percent of GDP

G. Poverty Reduction

34. **The authorities are implementing their poverty reduction strategy along the lines described in the interim poverty reduction strategy paper (I-PRSP).** A special treasury account has been opened at the BCEAO to house HIPC Initiative resources freed by assistance under that Initiative. The allocation of poverty-related spending (including that stemming from HIPC Initiative-related resources in 2001) reflects the priorities set out in the I-PRSP (see Box 4). Poverty-related outlays increased by 1.2 percentage points of GDP between 2000 and 2001, or by 0.5 percentage point, excluding those financed from HIPC Initiative-related resources. The preparation of the full PRSP is scheduled to be completed in September 2001 (see paras. 22-25 of the MEFP). Progress in meeting the completion point triggers under the enhanced HIPC Initiative is shown in Box 5.

Box 2. Mali: Broad Outline of the Cotton Sector Reform Action Plan

Short term: 2001-02

The CMDT will be restructured financially as follows:

- completion of the short-term financial crisis resolution plan by June 30, 2001;
- preparation of a repayment plan for the CFAF 30 billion owed by the CMDT to the domestic banking system by end-June 2001; and
- preparation of a medium-term restructuring plan for the CMDT by end-December 2001.

The CMDT will focus on its core activities through the following:

- adoption of a plan for the withdrawal by the CMDT from its public service activities, and adoption of a complementary staffing/organizational plan by end-October 2001;
- preparation of a study on the modalities for the complete withdrawal by the CMDT from the transport of seed cotton, with an initial target of 30 percent for the 2001/02 crop season, by end-October 2001;
- preparation of the terms of reference for the modalities of transfer of the activities identified as being outside the CMDT's core functions by end-November 2001;
- preparation of a study of possible mechanisms to ensure that financing can be provided directly to producer groups by end-December 2001;
- completion of the transfer of the public services by end-June 2002; and
- agreement among the CMDT, private operator, banks, and producer groups on the modalities for credit recovery in the OHVN region by June 2002.

An autonomous zone, to be managed and operated by the private sector, will be created. The zone currently comprising the OHVN has been identified as the primary entity; however it would need to be enlarged to incorporate adjacent areas, so as to build an economically viable entity as follows:

- completion of the terms of reference for the opening up of the autonomous zone to private sector involvement by October 2001;
- launching of bids for the sale of the assets (necessary for the effective installation of a private sector operator) by the CMDT and OHVN by December 2001; and
- completion of sales by June 2002.

A study on the modalities for the complete liberalization of the cotton sector will be prepared by 2005, with

- completion of terms of reference for the study by end-July 2001; and
- completion of the study by end-March 2002.

The short-term pricing mechanism will be overhauled with the implementation of a mechanism for the determination of the producer price that reflects movements in international prices and prices in neighboring countries by end-December 2001.

The CMDT's marketing strategy will be improved by the adoption by the company of a more competitive mechanism for the marketing of cotton fiber.

The organizational and managerial capacity of producer groups will be strengthened, entailing first the preparation of an action plan to do so by end-December 2001.

The market for derivative products will be liberalized through (i) a liberalization of the sale price for cotton seed, and cotton seed oil and meal by June 2001; (ii) launching of the bids for the privatization of the cotton seed oil company (HUICOMA) by end-December 2001; and (iii) completion of the privatization of HUICOMA by end-June 2002.

Medium term: 2003-05

The recommendations of the study for the complete liberalization of the cotton sector will be validated and implemented by opening up the sector to competition and privatizing the CMDT.

Box 3. Mali: Structural Measures

Coverage of structural conditionality in the current program supported by the PRGF arrangement is focused in the areas of the core macroeconomic adjustment, the reform of the cotton sector, and the fight against poverty:

- **tax administration and elimination of price distortions** (transparent price-setting mechanism for petroleum products in line with international prices);
- **safeguard of public finance** (increase in water and electricity tariffs);
- **safeguard of banking system** (plan for the repayment of loan due by the CMDT to banks);
- **medium-term wage policy** (preparation of an organizational audit as a first step for a comprehensive civil service reform, with a view to harmonizing the various salary grids and modernizing the force);
- **cotton sector reform** (crisis resolution plan and a medium-term restructuring plan for the CMDT; plan for the CMDT to focus on its core activities; producer price-setting mechanism based on market conditions; and launching of bids for the privatization of ginneries in one cotton-producing region)[1];
- **public finance management** (mechanism for monitoring HIPC Initiative-related expenditure); and
- **poverty alleviation** (plan for the allocation of HIPC Initiative-related resources).

Relevant structural measures not included in the 2001 program include the following:

- The follow-up on conditionalities in areas related to **energy**, **financial**, and **telecommunications** sectors, as well as **privatization** has been dropped as these are adequately covered in specific World Bank programs.
- The promotion of various aspects of **good governance** is a structural measure pursued by most donors, with the World Bank taking the lead in the reform of budget execution and management, and the establishment of a medium-term expenditure framework. The European Union and France are contributing to the financing of the elections. Nonetheless, there does not exist a coherent plan for improving governance. Such a plan is expected to be part of the full PRSP under preparation.
- The strengthening of the **judicial system** is being addressed through a World Bank technical assistance project. Support is also being provided by Canada.
- All donors have made the **fight against poverty** their priority action; the World Bank is taking the lead in the areas of health and education, rural infrastructure, and the strengthening of farmers' organizations.
- Donors (in particular, France and the Netherlands) have indicated an interest in helping Mali with the **civil service reform.**

Structural areas covered by World Bank lending and conditionality are as follows.

Reform Areas	Timing	Loan Instruments
Cotton sector reform	2001-04 (under preparation)	PRSC I, II, III
Public expenditure management	2001-04 (under preparation)	PRSC I, II, III
Financial sector reform	2000-06	Financial Sector Development project
Education	2000-04	Education sector Expenditure project
Health	1998-04	Integrated Health Sector Invest. proj.
Rural Infrastructure	2000-05	Rural Infrastructure
Urban and decentralization	1996-2003	Urban Dev. and Decentralization
Energy	1996-2001	Selingué Project
Telecommunications	2000-2002	Telecommunications Sector project

[1] The World Bank is taking the lead on the reform of the cotton sector.

Box 4. Mali: Allocation of HIPC-Initiative Related Expenditures (in billions of CFA francs)

	2000		2001	
Sectors	Before HIPC	After HIPC	Before HIPC	After HIPC
Education[1]	65.9	67.0	67.4	73.5
Health[2]	18.7	18.7	17.9	21.3
Social development	4.9	4.9	...	...
Rural development[3]	10.6	10.6	12.0	13.6
Urbanism and environment	11.1	11.1	14.0	14.9
Gender[4]	0.6	0.6	0.7	0.8
Solidarity[5]	...	...	4.4	5.5
Water supply and energy	...	...	2.4	2.6
Enhancement of macroeconomic and social data	...	...	4.5	4.8
Total	111.8	112.9	123.3	137.0

[1] Including to allow for the recruitment of more community teachers and provide educational material to poor areas.
[2] Including for combating AIDS and malaria.
[3] Including to enhance access to safe water.
[4] Including for the fight against the traffic of children and to increase population awareness of gender issues through information and communication campaigns.
[5] Including for providing special assistance to the poor in the north. The casualties of the drought are concentrated primarily in the regions of Mopti, Timbuktu, Gao, and Kidal, located north of the 14th parallel. A recent survey conducted by National Early Warning System has identified 395,000 persons as facing a risk of hunger. In collaboration with the United Nations World Food Program and other donors, the government has already distributed 10,790 tons of food aid to these persons.

35. **The program is designed to move Mali out of the immediate crisis and set it onto a path of growth, starting next year, that should be beneficial for the poor**. As noted in the joint assessment of the I-PRSP (EBD/00/68, 8/11/00), poverty in Mali is predominantly rural. Accordingly, the current program emphasizes measures to liberalize the cotton sector over the medium term.[19] In the short run, measures are to be designed and implemented to lower the CMDT's production costs, raise the share of producer price to the world market price for cotton, and strengthen producer organizations. It is expected that producers' net income would increase starting next year—thus reversing the significant loss of income suffered over the past two years (see Box 1).[20] The fiscal program includes measures that will

[19] The cotton sector affects the livelihood of one-third of the population (see Box 1).

[20] The government announced in April 2001 a producer price of CFAF 200 per kilogram, compared with the price of CFAF 170 per kilogram for the previous crop season. The fiscal program includes a budgetary transfer to the CMDT to compensate for the difference

(continued...)

have a multifaceted positive social impact, while preserving long-term macroeconomic stability. As noted previously, the civil service wage bill will increase by 12 percent from its 2000 level, with the main benefit targeted to workers in the key social sectors (education and health). Magistrates will also benefit from the proposed wage increase, the social impact of which should be to improve the climate for governance within the judicial system. In addition, the program includes a subsidy to the electricity and water utilities in order to limit the impact of the proposed hike in rates of these services on the most vulnerable segments. Finally, the fiscal program includes CFAF 13½ billion in HIPC Initiative-related expenditure targeted to the critical social sectors.

H. Program Monitoring

36. **Prior actions have been set with the objective of ensuring that conditions conducive to the program's success are in place at the time of the second review by the Executive Board.**[21] The authorities adopted on June 15, 2001 a letter of development policy that sets out the broad outline and timetable of the reform plan for the cotton sector. In addition, by June 30, 2001, the authorities are to (1) complete a short-term financial crisis resolution plan for the CMDT; and (2) complete and validate a plan to repay before September 30, 2001 the CFAF 30 billion owed by the CMDT to local banks and guaranteed by the government. In addition, with a view to safeguarding the budgetary objectives, the authorities are to (1) increase water and electricity tariffs by 10 percent and 5 percent, respectively by July 1, 2001, and (2) implement the new taxation system of petroleum products, which reflects changes in import prices automatically in retail prices, by July 12, 2001.

37. The program will be monitored quarterly on the basis of the quantitative performance criteria, quantitative benchmarks, and indicators shown in Table 3 of the MEFP and described in the technical memorandum of understanding, and on the basis of the performance criteria and structural benchmarks shown in Table 4 of the MEFP also described in the technical memorandum of understanding.[22] Progress under the program for 2001 will be assessed in the context of third and fourth reviews under the PRGF arrangement, scheduled to be completed no later than December 31, 2001 and May 31, 2002, respectively.

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between the announced producer price and the price that the CMDT would be able to offer, given its current operating costs and international price.

[21] The staff will provide an update on the status of implementation of these prior actions at the time of the Board meeting.

[22] The justification for allowing a positive limit on nonconcessional loans for 2001 is that the relevant projects relate to rural roads; river-based, small-scale transportation; and rural infrastructure.

Box 5. Mali: Matrix of Policy Reform for the HIPC Initiative Completion Point

Measures	Outcome
Macroeconomic stability	See Sections II, III, IV and V of staff report.
Satisfactory implementation of structural reform	See paragraphs 5, 30-32, and 36-37 of the staff report and Sections V and VI of the MEFP.
Education The ten-year education plan (PRODEC) is being implemented by • Increasing teacher recruitment; • accelerating classroom construction; • increasing gross primary enrollment ratio; • limiting higher education scholarship; and • strengthening the budget allocation.	The government has implemented PRODEC as scheduled, except for classroom construction, where only two-thirds of the planned construction took place. A total of 2396 teachers were hired for the 2000/01 school year (more than the objective). The gross enrollment ratio is estimated at 62 percent for the 2000/01 school year, compared with an objective of 61 percent. Expenditures on higher education scholarship were kept under CFAF 4 billion. Resource allocations to the education sector exceeded PRODEC objectives, with CFAF 69 billion allocated in 2000 (compared with CFAF 65 billion in PRODEC) and CFAF 73.5 billion in 2001 (compared with CFAF 72.8 in PRODEC).
Health The ten-year health plan (PRODESS) is being implemented by • recruitment of health personnel; • budget allocation; • increasing the share of the population with access to health care; • increasing the immunization rate; and raising the number of medically assisted births.	The implementation of the ten-year health plan has been slower than expected. A total of 318 health staff were recruited in 2000 and 434 in 2001, which is below the target set in the HIPC document. Consequently, immunization rates were lower than targeted (53 percent compared with a projection of 58 percent in 2000), although the population's access to health care facilities continued to increase.
Preparation of the full PRSP	Preparation of the full PRSP is ongoing in a participatory way. See Section VII of the MEFP and paragraph 34 of the staff report.

V. Staff Appraisal

38. **After enjoying sustained economic growth in the postdevaluation period, the Malian economy is faced with a severe crisis.** The nation has shown its vulnerability to poor weather, adverse terms of trade shocks, and disturbances in neighboring countries, as well as to the poor management of the cotton parastatal. These developments point to the critical need not only to pursue a reform agenda in order to diversify the country's economic base, but also to liberalize the cotton sector and enhance its competitiveness.

39. **While much progress has been made over the past several years in liberalizing the Malian economy, the liberalization of Mali's cotton sector has lagged behind neighboring countries.** In addition, little progress has been made in implementing lasting cost-saving measures for the CMDT. The boycott of cotton production by farmers last year marked a watershed event in the evolution of the cotton sector in Mali. It forced the

government to fundamentally reconsider its attention to the need for structural reform in the sector. The authorities have embarked on a reform agenda, prepared in close collaboration with the World Bank, that calls for the financial restructuring of the CMDT and improvement of its management and cost structure in the near term, as well as the liberalization of the cotton sector by 2005. It will be important for the authorities to launch public campaigns to build support for the objective of completely liberalizing the sector.

40. **The 2001 budget addresses the crisis in the cotton sector and attempts to dampen its impact on the population.** The resolution of the crisis is critical for the resumption of growth next year. In particular, the steps that the authorities have already started taking to address the crisis in the cotton sector are expected to reestablish confidence among cotton growers, avoid a weakening of the domestic banking system, and ensure the financing of the 2001/02 crop season. The authorities justified granting a partial subsidy to the energy company as a way to attenuate the full impact of significantly higher utility prices on the population and local industry in this crisis year. Nonetheless, the authorities did raise utility prices so as to limit the burden on the budget and safeguard the energy company's financial viability.

41. **With the resumption of growth next year and the return of more normal expenditure patterns, Mali's fiscal position would be expected to improve.** Over the medium term, the elimination of the onetime outlays needed to stabilize the economy in 2001-02 would strengthen the fiscal position and allow the government to rebuild its deposits in the domestic banking system. It would be critical for the authorities to continue taking measures to restrain nonpriority expenditure and to keep the wage bill within the limits of the WAEMU convergence criteria. In this regard, the staff welcomes the authorities' initiative to reform the civil service with a view to harmonizing the various salary grids and modernizing the service.

42. **The staff is encouraged by the authorities' efforts to raise tax revenue.** These include the implementation of a new system for the taxation of petroleum products, as well as the implementation of measures to reinforce tax administration. The government's effort to attract foreign direct investment in the mining sector will start paying off this year and over the medium term in terms of a significant boost to mining sector revenue to the budget. Preliminary indications for the first five months of 2001 are that the revenue target for the year will be met. However, in order to preserve the program's target for the basic fiscal balance, the authorities should stand ready to reinforce revenue mobilization and/or lower nonpriority expenditure in case the revenue target becomes unreachable for any reason. As regards the new taxation system for petroleum products, it will be important for the authorities to make it fully consistent with the final WAEMU guidelines, once they have been ratified by the member countries in the region.

43. **The poverty reduction objectives should remain the government's top priority.** The HIPC Initiative resources freed by assistance under the enhanced HIPC Initiative are being housed in a special account at the central bank and channeled through the budget. The authorities have prepared a supplementary budget to take account of the larger than originally

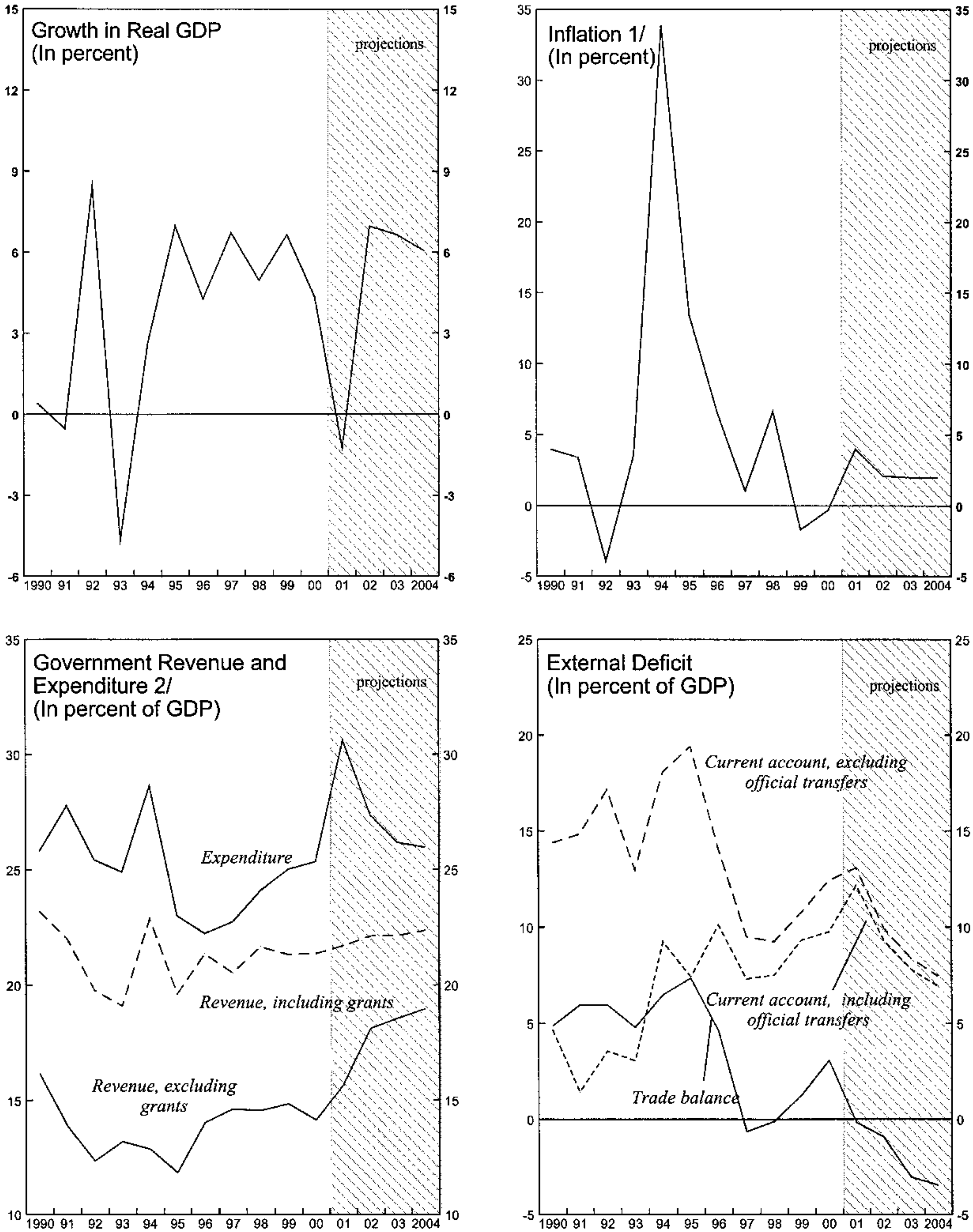
planned HIPC Initiative resources for 2001 and have allocated these resources, as well as all poverty-reducing outlays, in accordance with the priorities set out in the I-PRSP. The full PRSP is scheduled to be completed in the fall of 2001, and the institutional framework set up for its preparation ensures the participation of all segments of the population. Also, issues of good governance and improvement in public expenditure management are on the agenda for discussion with the World Bank in the context of a medium-term expenditure framework. The staff has contributed to the PRSP dialogue in those areas of Fund's expertise and, in particular, has provided detailed comments on the government's proposed macroeconomic framework. The staff is convinced that these efforts, together with the establishment of an effective tracking mechanism for the use of HIPC Initiative-related resources, would be critical to the success of the government's poverty reduction program.

44. **The successful diversification of the Malian economy will require concerted efforts to develop human capital and physical infrastructure, as well as to lower energy costs.** The linking of the Malian power grid to the regional Manantali electricity network in 2001 is expected to significantly lower the cost of electricity and improve its reliability, thus removing a serious impediment to private sector investment and diversification. The planned increase in outlays from HIPC Imitative-related resources to boost human capital and rural infrastructure would be expected to help diversify the economy in due course.

45. **The successful implementation of the program will help to achieve the macroeconomic objectives set out for 2001 and lay the foundations for achieving the growth objective for 2002.** It will be critical for the authorities to maintain the momentum of reform in the cotton sector regardless of the run-up to presidential elections early next year. Donors' support in both 2001 and 2002 will be essential to help the government's effort to emerge from the economic crisis, and foster social peace and the democratization process. The staff recognizes that Mali will continue to face exogenous shocks that may hinder successful program implementation. These include climatic conditions, deteriorating terms of trade, and political developments in neighboring countries. However, the authorities would need to stand ready to take appropriate remedial measures if unexpected shocks, including fiscal tightening, were to occur.

46. The staff recommends that the second review under the PRGF arrangement be completed and the authorities' request for a second annual PRGF-supported program be approved, in view of the satisfactory implementation of the program in 2000, as well as of the appropriate policies envisaged for 2001. In light of the adverse cumulative effects on the economy of exogenous shocks, the staff also recommends the approval of Mali's request for an increase in the resources committed under the PRGF arrangement by a sum representing 5 percent of Mali's quota in the Fund (amounting to SDR 4.665 million), to be disbursed onetime upon completion of the second review. The staff also supports the authorities' request for an extension of the arrangement and the commitment period of the three-year PRGF arrangement, in order to allow the resources committed under the PRGF arrangement to be disbursed.

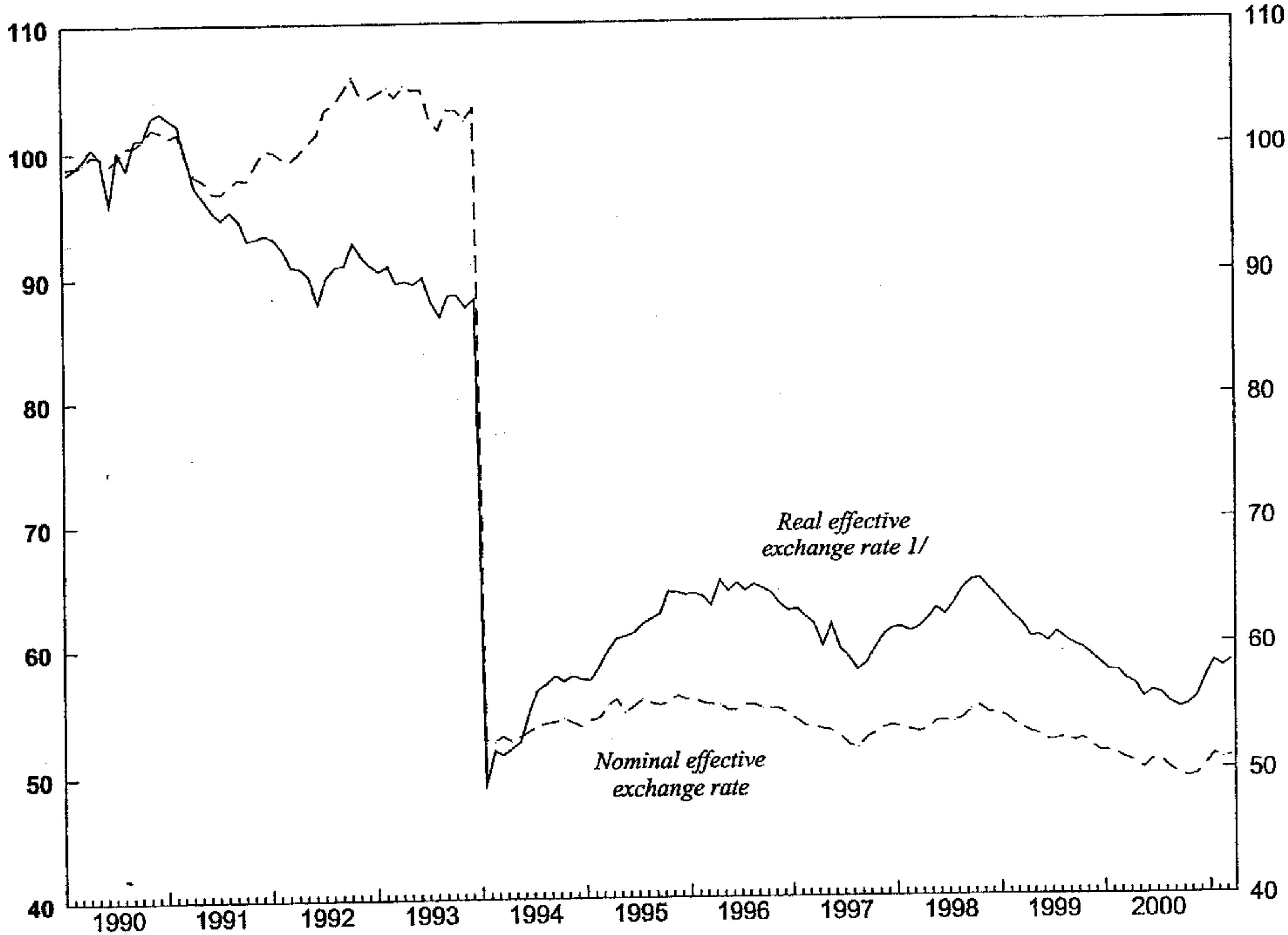
Figure 1. Mali: Main Economic Indicators, 1990-2004



Sources: Malian authorities; and staff estimates and projections.
1/ Percentage change in GDP deflator.
2/ Central government on commitment basis.

Figure 2. Mali: Real and Nominal Effective Exchange Rates, January 1990 - March 2001

(Period average; 1990=100)



Source: IMF, Information Notice System.

1/ Based on relative consumer price indices.

Table 1. Mali: Fund Position During the Period of the PRGF-Arrangement, January 2000 - December 2004

	2000	2001				2002				2003		2004	
		Jan.-March	April-June	July-Sep.	Oct.-Dec.	Jan.-March	April-June	July-Sep.	Oct.-Dec.	Jan-June	July-Dec	Jan-June	July-Dec
	(In millions of SDRs, unless indicated otherwise)												
Fund credit at beginning of period under SAF/PRGF	138.69	141.48	138.99	133.56	133.42	138.10	135.61	134.86	139.12	137.33	132.44	122.42	111.36
Net use of Fund credit	2.79	-2.49	-5.43	4.26	4.68	-2.49	-0.75	4.26	-1.79	-4.89	-10.03	-11.06	-10.62
Loans under:													
Structural Adjustment Facility (SAF)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which repayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Poverty Reduction and Growth Facility (PRGF)	2.79	-2.49	-5.43	4.26	4.68	-2.49	-0.75	4.26	-1.79	-4.89	-10.03	-11.06	-10.62
Disbursements	6.75	0.00	0.00	6.75	11.15	0.00	6.75	6.75	6.75	6.15	0.00	0.00	0.00
Repayments	3.96	2.49	5.43	2.49	6.47	2.49	7.50	2.49	8.54	11.04	10.03	11.06	10.62
Fund credit at end of period under SAF/PRGF	141.48	138.99	133.56	137.82	138.10	135.61	134.86	139.12	137.33	132.44	122.42	111.36	100.74
	(In percent of quota)												
Fund credit at end of period under SAF/PRGF	151.6	149.0	143.1	147.7	148.0	145.4	144.6	149.1	147.2	142.0	131.2	119.4	108.0

Source: IMF, Treasurer's Department.

Table 2. Mali: Revised Schedule of Projected Reviews and Disbursements
Under the PRGF Arrangement, 2000-03

Date	Action	Disbursement
September 2000	Executive Board consideration of the first review under the Poverty Reduction and Growth Facility arrangement and conclusion of the 2000 Article IV consultation	SDR 6.750 million
End-September 2000	Performance criteria	
February 2001	Second review mission under the PRGF arrangement	
April 2001	Follow-up second review mission under the PRGF arrangement	
July 2001	Executive Board consideration of second review under the PRGF arrangement and extension of the commitment period	SDR 6.750 million [+SDR 4.665 million] [1]
End-July 2001	Performance criteria	
October 2001	Third review mission under the PRGF arrangement and 2001 Article IV consultation discussions	
December 2001	Executive Board consideration of the third review under the PRGF arrangement and conclusion of the 2001 Article IV consultation	SDR 6.750 million
End-December 2001	Performance criteria	
February-March 2002	Fourth review mission under the PRGF arrangement	
May 2002	Executive Board consideration of the fourth review under the PRGF arrangement	SDR 6.750 million
June 2002	Performance criteria	
August-September 2002	Fifth review mission under the PRGF arrangement and 2002 Article IV consultation discussions	
November-December 2002	Executive Board consideration of the fifth review under the PRGF arrangement and conclusion of the 2002 Article IV consultation	SDR 6.750 million
End-December 2002	Performance criteria	
February 2003	Sixth review mission under the PRGF arrangement	
April 2003	Executive Board consideration of the sixth review under the PRGF arrangement; final disbursement	SDR 6.750 million

[1] Mali has requested an increase by a sum representing 5 percent of Mali's quota in the Fund (SDR 4.665 million) in the resources committed under the PRGF arrangement, to be disbursed onetime upon completion of the second review at the time of the second review.

Table 3. Mali: Selected Economic and Financial Indicators, 1998-2004 [1]

	1998	1999	2000		2001		2002		2003	2004
			Prog. EBS/00/162	Est.	Prog. EBS/00/162	Rev. Proj.	Proj. EBS/00/162	Rev. Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise specified)									
National income and prices										
Real GDP	4.9	6.6	4.5	4.3	5.6	-1.2	5.1	7.0	6.6	6.0
Nominal GDP (in billions of CFA francs)	1,592.5	1,669.6	1,708.2	1,736.9	1,849.2	1,784.0	1,992.8	1,948.3	2,119.4	2,292.6
GDP deflator	6.7	-1.7	1.8	-0.3	2.5	4.0	2.5	2.1	2.0	2.0
Consumer price index (annual average)	4.1	-1.2	1.2	-0.7	2.0	4.5	2.5	3.1	2.0	2.0
Consumer price index (end of period)	3.0	-1.3	2.9	2.5	2.5	1.9	2.5	2.8	2.4	2.2
External sector										
Exports, f.o.b.	1.0	6.2	2.7	4.7	13.5	25.3	14.3	11.0	16.2	9.2
Imports, f.o.b.	3.4	13.2	17.7	13.0	2.6	8.6	2.3	11.2	6.7	6.5
Export volume	-0.1	17.4	-1.7	-4.3	7.1	7.4	10.9	14.7	9.1	5.3
Of which : nonmining	-11.4	21.7	...	-4.8	7.3	-32.1	...	55.4	3.7	7.2
Import volume	5.6	4.6	2.7	-1.9	3.0	4.6	3.1	8.9	7.3	6.6
Terms of trade	3.3	-13.8	-8.8	-5.0	6.4	12.3	3.8	-5.2	7.2	3.8
Nominal effective exchange rate (average)	1.7	-2.4	...	-4.3	...	...	...	...	...	0.0
Real effective exchange rate (average)	4.4	-4.1	...	-7.4	...	...	...	...	...	0.0
Government budget										
Domestic revenue	11.0	6.9	6.5	-1.0	10.2	16.5	10.2	12.3	11.4	10.6
Current expenditure	0.1	15.1	4.5	3.1	6.8	29.7	6.5	-6.2	2.8	8.7
Capital expenditure and net lending [2]	21.5	4.0	10.2	7.3	3.4	19.5	-0.4	1.0	1.1	6.1
Money and credit										
Net domestic assets [3]	13.8	11.5	18.3	-2.1	9.4	-1.0	-2.4	6.2	...	...
Credit to the government	-0.6	1.1	2.8	-4.2	1.0	6.0	-1.4	1.7	...	...
Credit to the rest of the economy	27.2	14.4	17.6	-2.4	9.3	-9.3	-1.1	7.3	...	...
Broad money (M2)	4.4	1.3	3.8	11.9	7.5	2.8	8.0	9.2	...	...
Velocity (GDP/M2)	4.4	4.6	4.5	4.3	4.5	4.3	4.5	4.3	...	...
Interest rate (end of period) [4]	5.0	5.0	...	6.5	...	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)									
Investment and savings										
Gross domestic investment	21.1	20.0	21.3	21.3	21.7	20.7	21.5	21.2	21.7	22.4
Government	9.2	9.1	9.7	9.5	9.3	11.2	8.6	10.3	9.6	9.5
Nongovernment	11.9	11.0	11.6	11.8	12.4	9.5	12.9	10.9	12.1	12.9
Gross domestic savings	12.8	10.0	6.4	9.3	9.7	10.5	12.6	11.4	13.7	15.5
Government	1.9	1.2	...	0.6	...	-0.7	...	2.1	3.5	3.9
Nongovernment	11.0	8.8	...	8.8	...	11.2	...	9.3	10.2	11.6
Government budget										
Domestic revenue	16.0	16.3	17.0	15.5	17.3	17.6	17.7	18.1	18.6	19.0
Total grants	5.6	5.0	4.4	5.8	3.9	4.1	3.6	4.0	3.8	3.6
Total expenditure and net lending [2]	24.1	25.0	26.1	25.3	25.3	30.6	24.2	27.4	25.6	25.4
Overall balance (commitment basis, excluding grants)	-8.1	-8.7	-9.1	-9.8	-8.0	-13.0	-6.5	-9.2	-7.1	-6.5
Basic fiscal balance [5]	1.3	0.1	0.6	-0.8	1.4	-3.2	2.1	-0.1	1.6	1.9
Basic fiscal balance [6]	1.3	0.1	0.6	-0.7	1.4	-3.2	2.1	-0.1	1.6	1.9
External sector										
Current external balance, excluding official transfers	-9.3	-10.8	-14.6	-12.4	-11.7	-13.9	-8.4	-11.9	-10.2	-8.9
Current external balance, including official transfers	-7.5	-9.3	-13.5	-9.8	-10.3	-13.0	-3.5	-11.3	-9.6	-8.4
Debt-service ratio [7]										
Before debt relief	11.4	12.5	15.4	13.6	14.9	12.4	14.0	13.4	12.0	11.7
After debt relief	11.4	12.5	15.0	13.0	13.5	9.8	12.7	10.5	9.6	9.2
	(In millions of U.S. dollars, unless otherwise specified)									
Overall balance of payments	-38.2	-20.7	-115.5	34.8	-32.6	-52.7	-55.5	-35.6	-5.1	-7.3
Gross international reserves	321.9	303.1	314.1	348.5	303.4	377.3	375.5	404.7	440.5	484.2
(In months of next year's imports [8])	4.6	4.1	3.6	4.3	3.4	4.2	4.0	4.3	4.4	4.4
Exchange regime	The CFA franc is pegged to the euro at the rate of CFAF 655.96= EURO 1.									
U.S. dollar rate (end of period)	590.0	615.8	...	710.0	...	...	...	...	...	...

Sources: Malian authorities; and staff estimates and projections.

[1] The historical GDP figures through 1999 have been revised upward to be fully consistent with the authorities' data. Thus ratios to GDP in the program column may not be strictly comparable with the new ratios. In addition, staff has updated the balance of payments to be fully consistent with the *balance of payments manual* 5th edition and the authorities' presentation.

[2] Including capital outlays financed through external project aid and transfers to the local authorities; data on commitment basis.

[3] Change in percent of broad money at the beginning of the period.

[4] End-of-period interest rate on the West African Monetary Union money market.

[5] Defined as total revenue, excluding grants minus total expenditures and net lending, excluding interest payments and foreign-financed investment.

[6] Defined as footnote 5 above, but also excluding HIPC initiative related expenditure and exceptional expenditure financed by World Bank credit.

[7] In percent of exports of goods and nonfactor services.

[8] Goods and nonfactor services.

Table 4. Mali: Selected National Accounts Indicators[1], 1998-2004

	Composition of GDP in 2000 (in percent)	1998	1999	2000 Est.	2001	2002	2003	2004
					Projections			
	(Annual percentage change in constant prices)							
Primary sector	43.8	2.6	9.0	5.5	-12.2	14.5	6.5	7.0
Food crops	20.2	-5.0	19.7	15.7	-14.0	8.7	8.1	8.0
Industrial crops	7.0	13.5	0.1	-9.2	-43.0	84.5	6.0	8.5
Livestock	10.8	6.9	3.9	1.1	3.2	4.5	5.6	5.6
Fishing	1.1	1.6	1.6	1.4	1.4	1.4	3.0	3.0
Forestry	4.7	2.9	2.9	2.7	2.8	3.5	4.0	4.5
Secondary sector	18.2	6.5	2.4	7.0	20.4	-0.2	9.1	5.3
Industry	5.3	-0.8	-4.1	6.0	-1.5	4.5	6.0	6.5
Mining	5.9	21.9	9.8	11.6	57.1	-7.4	13.9	3.8
Handicrafts	2.3	2.8	1.6	2.5	2.8	3.0	3.8	4.0
Construction and public works	4.7	3.2	2.6	5.0	8.0	6.5	7.0	7.0
Tertiary sector	31.0	5.5	6.2	2.6	0.3	3.1	5.6	5.6
Transportation	5.5	13.9	6.9	3.5	3.5	3.4	3.9	4.0
Trade	14.5	4.2	10.3	2.9	-2.5	3.6	6.5	6.5
Public admininistration	5.5	3.2	-1.9	0.9	2.1	2.2	4.3	4.3
Other services	5.5	4.1	4.1	2.4	2.6	2.5	6.2	6.2
GDP (at factor cost)	93.0	4.3	6.7	4.8	-1.7	7.1	6.8	6.1
Indirect taxes	7.0	13.1	5.8	-1.1	4.5	5.0	5.0	5.0
GDP (at market prices)	100.0	4.9	6.6	4.3	-1.2	7.0	6.6	6.0
Non mining real GDP		4.1	6.5	3.9	-4.9	8.4	6.0	6.3
	(Net financial balances, in percent of nominal GDP)							
Total economy		-7.5	-9.3	-9.8	-13.0	-11.3	-9.8	-8.3
Gross national savings		13.6	10.7	11.5	7.6	9.9	11.9	14.1
Of which: domestic savings		12.8	10.0	9.3	10.5	11.4	13.7	15.5
Gross domestic investment		21.1	20.0	21.3	20.7	21.2	21.7	22.4
Private sector		-1.2	-2.1	-2.6	-0.9	-2.7	-3.3	-2.4
Gross national savings		10.7	8.9	9.2	8.6	8.2	8.8	10.6
Of which: domestic savings		11.0	8.8	8.8	11.2	9.3	10.2	11.6
Gross domestic investment		11.9	11.0	11.8	9.5	10.9	12.1	12.9
Government		-6.3	-7.2	-7.1	-12.1	-8.6	-6.5	-5.9
Gross national savings		2.9	1.8	2.3	-0.9	1.7	3.1	3.5
Of which: domestic savings		1.9	1.2	0.6	-0.7	2.1	3.5	3.9
Gross domestic investment		9.2	9.1	9.5	11.2	10.3	9.6	9.5
Gross national savings		13.6	10.7	11.5	7.6	9.9	11.9	14.1
Memorandum items:	(In percent of nominal GDP)							
External current account balance [2]		-7.5	-9.3	-9.8	-13.0	-11.3	-9.8	-8.3

Sources: Malian authorities; and Fund staff estimates and projections.

Table 5. Mali: Central Government Consolidated Financial Operations, 1998-2002

	1998	1999	2000				2001		2002	
		Est.	Jan-Sep.		Jan-Dec.		Prog.	Rev. Proj.	Proj.	Rev. Proj.
			EBS/00/162	Est.	Prog.	Prel.	EBS/00/162		EBS/00/162	
	(In billions of CFA francs)									
Revenue and grants	344.8	356.0	270.1	266.4	365.0	371.1	392.7	387.1	424.3	431.1
Total revenue	254.9	272.6	214.7	214.6	290.3	269.9	319.9	314.3	352.5	353.1
Budgetary revenue	231.7	247.8	195.5	195.8	265.3	245.5	293.9	288.3	325.5	327.1
Tax revenue	221.3	235.3	185.8	186.0	252.2	233.3	278.7	277.2	310.3	311.7
Of which: oil revenue	33.4	48.3	36.3	29.2	48.3	37.0	45.1	55.0	...	...
Nontax revenue	10.4	12.6	9.7	9.8	13.1	12.2	15.2	11.1	15.2	15.4
Special funds and annexed budgets	23.2	24.8	19.2	18.8	25.0	24.4	26.0	26.0	27.0	26.0
Grants	89.9	83.4	55.4	51.8	74.8	101.2	72.8	72.8	71.8	78.0
Total expenditure and net lending	383.5	417.6	308.8	287.5	445.7	440.1	467.6	546.1	481.6	533.1
Budgetary expenditure	363.9	395.0	291.5	270.4	423.6	417.3	445.6	499.8	458.6	491.1
Current expenditure	167.8	193.2	146.8	135.8	202.0	199.3	215.6	258.4	229.6	242.5
Wages and salaries	60.7	65.3	53.7	53.6	73.1	73.1	78.2	82.0	83.8	87.1
Materials and supplies	24.7	26.7	20.7	17.9	29.0	28.5	31.0	31.0	33.2	31.9
Transfers	38.1	39.6	23.6	20.7	34.7	36.8	38.2	75.3	49.8	50.7
Scholarships	5.3	6.2	4.7	5.7	6.2	6.2	6.2	5.6	6.2	5.6
Social safety net	12.0	11.0	6.5	2.3	10.0	9.9	10.0	10.0	10.0	10.0
Elections cost	2.3	3.4	0.0	0.0	0.0	0.9	3.0	9.0	5.5	7.0
Others	18.5	19.0	12.4	12.7	18.5	19.8	19.0	50.7	28.1	28.1
Of which: cotton sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23.0	0.0	5.0
Communication, transport, energy	22.8	28.6	23.4	20.2	28.8	28.9	30.5	30.1	32.3	31.7
Other current expenditure	9.8	19.1	13.3	12.6	18.0	16.0	19.0	20.8	11.5	21.6
Interest	11.7	14.0	12.1	10.8	18.4	16.0	18.7	19.2	19.1	19.5
Capital expenditure	194.1	199.8	144.0	134.6	220.5	217.1	229.0	240.4	228.0	247.6
Externally financed	149.4	147.4	113.0	98.6	165.0	157.1	174.0	174.0	171.5	178.4
Domestically financed	44.7	52.3	31.0	36.0	55.5	60.0	55.0	66.4	56.5	69.2
PESAP and public enterprises	2.0	2.0	1.0	0.9	1.0	0.9	1.0	1.0	1.0	1.0
Special funds and annexed budgets	23.2	24.8	19.2	18.8	25.0	24.4	26.0	26.0	27.0	26.0
Service on on-lending	-3.6	-2.2	-1.9	-1.7	-2.9	-2.5	-4.0	-11.5	-4.0	-4.1
HIPC expenditures	0.0	0.0	...	0.0	...	0.9	...	13.6	...	20.1
Basic fiscal balance [1]	20.8	2.5	18.9	25.7	9.6	-13.1	26.3	-57.8	42.4	-1.6
Overall fiscal balance										
Commitment basis, including grants	-38.7	-61.5	-38.7	-21.1	-80.6	-69.0	-74.9	-159.0	-57.3	-102.0
Commitment basis, excluding grants	-128.6	-144.9	-94.1	-72.9	-155.4	-170.2	-147.7	-231.8	-129.1	-180.0
Changes in payments arrears	-10.0	-9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment (cash basis)	0.0	11.7	-11.7	-11.7	-11.7	1.6	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis, including grants)	-48.7	-59.1	-50.4	-32.8	-92.3	-67.4	-74.9	-159.0	-57.3	-102.0
Financing	48.7	59.2	39.4	32.7	70.1	67.4	68.3	107.8	57.3	72.8
External financing (net)	58.0	60.3	37.1	28.3	62.7	64.4	73.3	96.0	71.4	73.5
Domestic financing (net)	-9.3	-1.2	2.3	4.4	7.5	3.0	-5.0	11.8	-14.1	-0.7
Banking system	-4.0	1.8	9.4	14.4	8.5	-17.0	3.0	23.8	-6.0	7.3
Of which: net credit to the government	-2.0	3.8	11.2	16.3	10.3	-15.1	3.6	24.4	-5.7	7.3
Privatization receipts	1.2	10.4	1.4	3.6	6.9	20.3	0.0	8.0	0.0	0.0
Nonbank financing	-8.0	-13.4	-8.5	-13.6	-8.0	-0.3	-8.0	-20.0	-8.0	-8.0
Financing gap [3]	0.0	0.0	11.0	0.0	22.2	0.0	6.6	51.2	0.0	29.2
	(In percent of GDP)									
Total revenue and grants	21.7	21.3	...	...	21.4	21.4	21.2	21.7	21.3	22.1
Of which: total revenue	16.0	16.3	...	...	17.0	15.5	17.3	17.6	17.7	18.1
Of which: tax revenue	13.9	14.1	...	...	14.8	13.4	15.1	15.5	15.6	16.0
Total expenditure and net lending	24.1	25.0	...	...	26.1	25.3	25.3	30.6	24.2	27.4
Of which: health and education	3.1	3.1	...	...	3.8	3.9		4.1	4.1	...
defense	2.0	2.0	...	...	2.0	1.9	...	1.9	...	...
Current expenditure	10.5	11.6	...	...	11.8	11.5	11.7	14.5	11.5	12.4
Overall fiscal balance										
Commitment basis, including grants	-2.4	-3.7	...	...	-4.7	-4.0	-4.1	-8.9	-2.9	-5.2
Commitment basis, excluding grants	-8.1	-8.7	...	...	-9.1	-9.8	-8.0	-13.0	-6.5	-9.2
Domestic primary balance [4]	2.0	1.0	...	...	1.6	0.2	2.4	0.0	3.1	0.9
Basic fiscal balance [1]	1.3	0.1	...	...	0.6	-0.8	1.4	-3.2	2.1	-0.1
Basic fiscal balance [5]	1.3	0.1			0.6	-0.7	1.4	-1.5		0.9

Sources: Malian authorities; and staff estimates and projections.

[1] Defined as total revenue excluding grants minus total expenditure and net lending, excluding foreign-financed capital expenditure.

[2] From 2000 onwards reflects Russian debt service on the basis of the 1996 Paris Club stock-of-debt operation.

[3] Expected to be covered by donor assistance

[4] Defined as total revenue excluding grants minus total expenditures and net lending, excluding interest payments and foreign financed investment

[5] Defined as 1 above, but also excluding HIPC related expenditure and exceptional expenditure financed by World Bank Credit

Table 6. Mali: Fiscal Impact of the HIPC Initiative, 2000-04
(In billions of CFA francs, unless otherwise specified)

	2000 Est.	2001 Proj.	2002 Proj.	2003 Proj.	2004 Proj.
1. HIPC Initiative assistance given					
A. Interest due before HIPC Initiative assistance	15.6	19.4	18.6	19.3	19.7
B. Interest paid before HIPC Initiative assistance	15.6	19.4	18.6	19.3	19.7
C. HIPC Initiative assistance on interest (as a result of stock-of-debt operation only)	0.0	0.0	0.0	0.0	0.0
D. Interest due after HIPC Initiative assistance	15.6	19.4	18.6	19.3	19.7
E. Amortization due before HIPC Initiative assistance 1/	42.5	50.6	62.2	64.3	68.5
F. Amortization paid before HIPC Initiative assistance	42.5	50.6	62.2	64.3	68.5
G. HIPC Initiative assistance on amortization (as a result of stock-of-debt operation only)	0.0	0.0	0.0	0.0	0.0
H. Amortization due after HIPC Initiative assistance	42.5	50.6	62.2	64.3	68.5
I. HIPC Initiative assistance provided as grants (to cover debt service due)	0.0	0.0	0.0	0.0	0.0
J. HIPC Initiative assistance as exceptional financing (to cover debt service due)	2.6	14.3	17.9	17.2	18.8
Total HIPC Initiative assistance (C+G+I+J) 1/	2.6	14.3	17.9	17.2	18.8
Total HIPC Initiative assistance (in millions of U.S. dollars) 1/	3.7	20.1	25.4	24.5	26.9
Net cash flow to the budget from HIPC Initiative assistance (B+F-(D+H-I-J))	2.6	14.3	17.9	17.2	18.8
Memorandum items:					
Other donor flows	196.2	192.8	172.0	179.8	186.8
Total net external flows (net external financing less debt service due)	140.7	137.1	109.1	113.3	117.4
2. Functional and other poverty reduction government expenditures 2/					
Baseline pre-HIPC Initiative assistance expenditure projections	74.6	81.7	88.2	93.3	100.7
Post-HIPC Initiative assistance expenditure projections	75.5	95.3	108.3	110.5	119.5
Memorandum items:					
Tax revenue (in percent of GDP)	13.3	15.6	16.0	16.5	17.0
Overall fiscal balance before HIPC Initiative assistance (in percent of GDP)	-3.9	-6.5	-3.9	-3.7	-3.3
Overall fiscal balance after HIPC Initiative assistance (in percent of GDP)	-4.0	-7.3	-5.0	-2.9	-2.5

Sources: Malian authorities; and staff estimates and projections.

1/ Including IMF.
2 /Excludes foreign-financed investment.

Table 7. Mali: Compliance with WAEMU Convergence Criteria, 1998-2004

	Ratio percent	1998	1999	2000 Prel.	2001 Proj.	2002 Proj.	2003 Proj.	2004 Proj.
Primary Criteria								
Basic fiscal balance / GDP	> = 0	1.3	0.1	-0.8	-3.2	-0.1	0.9	1.2
Inflation (annual percentage change)	< = 3	4.1	-1.2	-0.7	4.5	3.1	2.0	2.0
Total debt / GDP in percent	< = 70	111.8	106.3	107.1	110.2	103.4	97.0	92.1
Domestic arrears in billion of CFA francs	< = 0	-10.0	-9.3	0.0	0.0	0.0	0.0	0.0
External arrears in billion of CFA francs	< = 0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary Criteria								
Wages / fiscal revenue in percent	< = 35	27.4	27.8	31.3	29.6	27.9	27.1	26.3
Domestically financed investment / fiscal revenue in percent	> = 20	20.2	22.2	25.7	24.0	22.2	22.2	22.2
Current account deficit (excluding transfers) / GDP in percent	< = 5	9.3	10.8	12.4	13.9	11.9	10.2	8.9
Fiscal revenue / GDP in percent	> = 17	13.9	14.1	13.4	15.5	16.0	16.5	17.0

Source: Malian authorities; and staff estimates and projections.

Table 8. Mali : Monetary Survey, 1999-2002

07/03/01 10:58:32 AM	1999	2000 Sep. Est.	2000 Dec. Prog. EBS/00/162	2000 Dec. Est.	2001 Mar. Est.	2001 Jul.	2001 Sep.	2001 Dec. Prog. EBS/00/162	2001 Dec. Proj.	2002 Mar. Proj.	2002 Jun. Proj.	2002 Dec. Proj.
	(In billions of CFA francs; end of period)											
Net foreign assets	113.3	112.8	85.0	164.5	183.4	181.5	181.2	77.8	179.8	182.9	185.4	192.3
Central Bank of West African States (BCEAO)	94.5	69.3	53.6	121.8	125.3	130.2	133.3	46.4	137.1	140.2	142.7	149.6
Commercial banks	18.7	43.5	31.5	42.7	58.1	51.3	47.9	31.5	42.7	42.7	42.7	42.7
Net domestic assets	251.7	267.9	293.5	243.9	279.1	275.9	268.2	329.1	240.0	295.8	281.8	266.2
Credit to the government (net)	-22.1	-5.9	-11.9	-37.4	-32.3	-1.7	2.4	-8.3	-13.0	-25.4	-25.4	-5.7
BCEAO	71.3	83.9	84.3	75.5	75.9	93.8	98.7	84.4	83.1	87.1	87.1	90.4
Commercial banks	-88.3	-88.1	-91.5	-112.0	-107.0	-94.3	-95.1	-88.0	-95.0	-111.3	-111.3	-95.0
Other	-5.1	-1.7	-4.8	-0.9	-1.2	-1.2	-1.2	-4.8	-1.2	-1.2	-1.2	-1.2
Credit to the economy	291.6	275.8	343.0	284.5	316.3	282.6	270.7	375.0	257.9	326.1	312.1	276.8
Other items (net)	-17.8	-2.1	-37.6	-3.1	-4.9	-4.9	-4.9	-37.6	-4.9	-4.9	-4.9	-4.9
Money supply (M2)	365.0	380.7	378.5	408.5	462.5	457.4	449.4	406.9	419.8	478.7	467.2	458.4
Currency outside banks	123.7	123.0	132.5	148.1	153.5	154.2	154.8	142.4	155.5	164.2	161.9	176.6
Bank deposits	241.3	257.6	246.0	260.3	309.1	303.3	294.5	264.5	264.2	314.5	305.4	281.8
Memorandum items:	(Annual percentage change, unless otherwise indicated)											
Contribution to the growth of broad money												
Net foreign assets	-10.2	3.1	-7.7	14.0	18.1	14.7	18.0	-1.9	3.7	-0.1	0.8	3.0
Net domestic assets	11.5	-3.8	11.4	-2.1	3.9	6.6	0.1	9.4	-1.0	3.6	1.3	6.2
Of which : credit to the central government	1.1	-1.3	2.8	-4.2	-5.0	3.3	2.2	1.0	6.0	1.5	-5.0	1.7
Credit to the economy	14.4	-6.2	17.6	-2.4	7.6	3.7	-1.9	9.3	-9.3	3.1	10.3	7.3
Of which : excluding non reimbursed crop credit	14.4	-6.2	...	-12.7	-2.6	-0.7	-1.9	...	1.3	13.9	23.3	7.3
Money supply	1.3	-0.7	3.7	11.9	22.0	21.4	18.1	7.5	2.8	3.5	2.1	9.2
Currency	-8.6	-7.2	7.1	19.8	21.4	21.3	25.9	7.5	5.0	7.0	5.0	13.5
Deposits	7.3	2.7	2.0	7.9	22.3	21.4	14.3	7.5	1.5	1.8	0.7	6.7
Velocity (GDP/M2)	4.6	...	4.5	4.3	...	...	...	4.5	4.3	...	...	4.3
Currency outside banks /money supply (in percent)	33.9	...	35.0	36.3	...	...	...	35.0	37.1	...	...	38.5
	(In billions of CFA francs)											
Nominal GDP	1,669.6	...	1,708.2	1,736.9	...	...	...	1,849.2	1,784.0	...	...	1,948.3
Non-reimbursed crop credit	0.0	0.0	...	30.0	30.0	12.0	0.0	...	0.0	0.0	0.0	0.0
Credit to the economy excluding non-reimbused crop credit	291.6	275.8	...	254.5	286.3	270.6	270.7	...	257.9	326.1	312.1	276.8

Sources : BCEAO and Fund staff estimates and projections.

Table 9. Mali: Balance of Payments, 1998-2004 1/

	1998	1999	2000		2001		2002	2003	2004
			Prog. EBS/00/162	Est.	Prog. EBS/00/162	Proj.	Proj.	Proj.	Proj.
					(In billions of CFA francs)				
Exports, f.o.b	331.1	351.5	358.0	368.2	406.2	461.4	512.2	595.0	649.5
Cotton fiber	147.8	150.1	131.6	109.1	148.7	78.8	161.5	198.4	241.6
Gold	133.1	142.4	161.1	189.3	188.6	314.8	278.7	316.3	326.6
Other	50.2	59.0	65.4	69.9	69.0	67.7	71.9	80.4	81.4
Imports, f.o.b.	-329.3	-372.8	-428.9	-421.4	-440.1	-457.8	-509.0	-542.8	-577.9
Trade balance	1.8	-21.2	-70.9	-53.2	-33.9	3.6	3.2	52.2	71.6
Services (net)	-159.2	-161.3	-190.4	-172.4	-194.4	-200.0	-210.5	-230.3	-242.0
Factor service (net)	-30.0	-43.2	-30.8	-32.3	-32.9	-90.7	-65.5	-80.2	-90.1
Of which: interest due on public debt	-11.2	-14.0	-17.9	-15.6	-18.0	-19.0	-18.3	-19.1	-19.5
Private transfers (net)	40.0	45.8	42.7	42.1	44.9	39.0	41.0	43.1	56.4
Official transfers (net)	27.6	24.1	18.9	46.4	25.5	16.2	12.2	12.2	12.2
Of which: budgetary grants	19.6	14.6	2.9	32.2	0.0	0.0	0.0	0.0	0.0
Current account balance									
Excluding official transfers	-147.3	-179.9	-249.5	-215.8	-216.3	-248.1	-231.8	-215.2	-204.0
Including official transfers	-119.7	-155.8	-230.6	-169.4	-190.8	-231.9	-219.6	-203.0	-191.8
Capital and financial account	108.3	137.1	153.5	188.0	170.9	181.8	185.1	198.0	184.8
Capital account (net)	73.2	69.8	71.8	69.0	72.8	72.8	78.0	75.8	77.8
Of which: projects grants	70.3	68.8	71.8	69.0	72.8	72.8	78.0	75.8	77.8
Financial account	35.1	67.3	81.7	119.0	98.1	109.0	107.1	122.2	107.0
Private (net)	-22.9	7.0	20.9	57.6	31.0	27.3	51.0	63.5	46.7
Official (net)	58.0	60.3	60.8	61.4	67.1	81.7	56.1	58.7	60.3
Disbursements (net)	83.9	91.7	93.2	95.0	101.2	119.4	100.4	104.0	109.0
Budgetary	4.8	13.1	0.0	6.9	0.0	18.2	0.0	0.0	0.0
Project related	79.1	78.6	93.2	88.1	101.2	101.2	100.4	104.0	109.0
Amortization due on public debt	-25.9	-31.4	-32.4	-33.6	-34.1	-37.7	-44.3	-45.3	-48.7
Errors and omissions	-11.2	6.0	0.0	6.1	0.0	0.0	0.0	0.0	0.0
Overall balance	-22.6	-12.7	-77.0	24.7	-19.9	-50.1	-34.5	-4.9	-7.0
Financing	22.6	12.7	77.0	-24.7	19.9	50.1	34.5	4.9	7.0
Foreign assets (net)	22.6	12.7	53.0	-27.3	7.2	-15.3	-12.5	-12.1	-11.6
Of which: IMF (net)	1.8	6.9	0.5	-5.7	-3.0	5.2	-6.9	-13.6	-19.7
HIPC Initiative assistance 2/	0.0	0.0	1.8	2.6	6.2	14.2	17.8	17.0	18.6
Financing gap	0.0	0.0	22.2	0.0	6.6	51.2	29.2	0.0	0.0
Memorandum items:					(Percentage change)				
External trade									
Exports volume	-0.1	17.4	-1.7	-4.3	7.1	7.4	14.7	9.1	5.3
Of which: nonmining	-11.4	21.7	...	-4.8	7.3	-32.1	55.4	3.7	7.2
Imports volume	5.6	8.0	2.7	-1.9	3.0	4.6	8.9	7.3	6.6
Of which: nonmining import volume	0.5	6.1	...	-3.4	...	2.3	11.9	7.8	7.4
Export unit value	1.1	-9.6	4.5	9.4	6.0	16.6	-3.2	6.5	3.6
Import unit value	-2.1	4.9	14.6	15.3	-0.4	3.9	2.1	-0.6	-0.1
Terms of trade	3.3	-13.8	-8.8	-5.0	6.4	12.3	-5.2	7.2	3.8
					(In percent of GDP, unless otherwise indicated)				
External current account balance									
Excluding official transfers	-9.3	-10.8	-14.6	-12.4	-11.7	-13.9	-11.9	-10.2	-8.9
Including official transfers	-7.5	-9.3	-13.5	-9.8	-10.3	-13.0	-11.3	-9.6	-8.4
External public debt 3/	111.8	106.3	106.8	108.5	102.4	110.5	103.7	97.4	91.9
Debt-service ratio 4/									
Before debt relief	11.4	12.5	15.4	13.6	14.9	12.4	13.4	12.0	11.7
After debt relief (including HIPC Initiative)	11.4	12.5	15.0	13.0	13.5	9.8	10.5	9.6	9.2
Gross international reserves (in billions of CFA francs)	228.6	227.8	208.7	269.1	201.6	289.6	309.0	334.6	365.8
In months of next year's imports 5/	4.6	4.1	3.6	4.3	3.4	4.2	4.3	4.4	4.4
Exchange rate (annual average):									
CFA francs per SDR	800.2	842.0	896.5	936.4	...	...	...	...	...
CFA francs per U.S. dollar	590.0	615.8	662.6	710.0	...	...	...	...	...
Commodity prices:									
Petroleum (crude spot, US dollar per baril)	13.1	18.0	26.4	28.2	23.0	26.8	24.5	22.5	21.5
Gold (US dollar per fine ounce)	294.1	278.9	285.0	279.2	280.0	275.0	275.0	275.0	275.0
Cotton (cents per pound, international price)	65.5	53.1	56.0	59.0	59.0	54.7	59.0	65.0	69.0
Cotton (cents per pound, Malian price)	63.8	49.9	43.0	39.1	51.8	45.0	48.2	58.7	65.5

Sources: Malian authorities; and staff estimates and projections.

1/ This BOP is presented according to the *Balance of Payment Manuel* 5th ed. The presentation of the program was changed accordingly and is therefore different from the presentation in EBS/00/162, 8/11/00.

2/ Sum of original and enhanced HIPC framework for the 2000 estimate and projections; original HIPC only the program. The projections are based on the agreements already reached with the creditors (IMF, World Bank, European Union, OPEC Funds, and Paris Club) and therefore might underestimate the assistance that Mali will finally receive.

3/ Takes into account Russian debt cancellation in 1999; does not take into account HIPC initiative assistance.

4/ In percent of exports of goods and nonfactor services.

5/ Goods and nonfactor services.

Table 10. Mali: External Financing Requirements and Resources, 1998-2004
(In billions of CFA francs, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004
			Est.	Proj.	Projections		
Requirements	170.0	206.7	277.0	317.7	300.9	278.1	264.3
Current account deficit,							
excluding official transfers 1/	147.3	179.9	215.8	248.1	231.8	215.2	204.0
Debt amortization 1/	25.9	31.4	33.6	37.7	44.3	45.3	48.7
IMF repurchases	6.4	7.2	12.1	11.4	19.2	19.1	19.7
Arrears (increase-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in the net foreign assets (increase+) 2/	-20.7	-5.8	21.6	20.5	5.7	-1.5	-8.1
Adjustment 3/	11.2	-6.0	-6.1	0.0	0.0	0.0	0.0
Resources	170.0	206.7	277.0	317.7	300.9	278.1	264.3
Official transfers 4/	27.6	24.1	46.4	16.2	12.2	12.2	12.2
Official project grants 4/	70.3	68.8	69.0	72.8	78.0	75.8	77.8
Long-term public loan disbursement 4/	83.9	91.7	95.0	119.4	100.4	104.0	109.0
Budgetary	4.8	13.1	6.9	18.2	0.0	0.0	0.0
Project related	79.1	78.6	88.1	101.2	100.4	104.0	109.0
Private capital (net)	-20.0	8.0	57.6	27.3	51.0	63.5	46.7
Debt relief, including HIPC initiative assistance 5/	0.0	0.0	2.6	14.2	17.8	17.0	18.6
Debt under negotiation/moratorium	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of IMF resources (ESAF)	8.2	14.1	6.4	16.6	12.3	5.6	0.0
Exceptional financing	0.0	0.0	0.0	51.2	29.2	0.0	0.0
Memorandum item:							
Exchange rate: CFA francs per SDR	800.2	842.0	950.5	....	....	....	....

Sources: Malian authorities; and Fund and World Bank staff estimates and projections.

1/ After debt forgiveness.
2/ Excluding the change in the net position vis-a-vis the Fund.
3/ Errors and omissions.
4/ Includes both existing and expected new commitments.
5/ Sum of original and enhanced HIPC initiative framework for the 2000 estimate and 2001 projection; original HIPC initiative only for the program.

Table 11. Mali. Indicators of Fund Credit and Debt Servicing, 2000-2012
(In percent, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
							Projections						
Outstanding Fund credit/quota 1/	144.4	150.5	142.5	126.5	103.2	83.8	68.0	52.7	37.9	25.8	16.3	8.9	5.4
Outstanding Fund credit/GDP 1/	7.3	7.5	6.6	5.4	4.0	3.0	2.3	1.6	1.1	0.7	0.4	0.2	0.1
Outstanding Fund credit/exports of goods and nonfactor services 1/	27.9	24.3	21.1	16.4	12.3	9.3	7.8	6.3	4.4	3.1	1.9	1.1	0.6
Gross Fund financing/financing needs 1/ 2/	2.2	5.6	4.1	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service to the Fund/exports of goods and nonfactor services 3/	2.9	2.4	3.5	3.1	2.9	2.3	1.9	1.9	1.8	1.5	1.2	1.0	0.0
Debt service to the Fund/total debt service 3/	21.8	18.5	24.8	24.2	23.5	19.4	15.3	17.0	16.0	12.6	11.8	8.7	3.8
Total debt service before rescheduling 3/	13.6	12.4	13.4	12.0	11.7	11.1	11.9	11.3	11.3	12.1	10.2	10.9	10.8
Total debt service after debt relief 4/	13.0	9.8	10.5	9.6	9.2	6.8	7.5	6.8	7.3	8.2	6.2	6.6	7.1
Memorandum item:													
Exports of goods and nonfactor services (in millions of SDRs)	483.3	578.9	630.6	718.7	782.2	839.1	817.4	784.8	800.1	788.4	794.6	785.8	792.3

Sources: IMF, Treasurer's Department; Malian authorities; and staff estimates and projections.

1/ Outstanding Fund credit includes loans and outstanding purchases under the Structural Adjustment Facility (SAF) and the Poverty Reduction and Growth Facility (PRGF).

2/ Financing needs are defined as the sum of the current account deficit, including grants, amortization due, repurchases and repayments of SAF and PRGF to the Fund, targeted accumulations of reserves, and the reduction of external arrears if any.

3/ Debt service, before debt relief, moratoriums, and potential HIPC Initiative assistance (estimated for the period 2000-02), and including SDR charges, as a percentage of exports of goods and nonfactor services.

4/ Debt service, after debt relief, moratoriums, and potential HIPC Initiative assistance (estimated for the period 2000-02), and including SDR charges, as a percentage of exports of goods and nonfactor services.

Table 12. Mali : Restructuring of Public Enterprises 1999-2002 [1]

Enterprises	Activity	Government's Share: In millions of CFA francs	Government's Share: In percent	Government's Share: Objectives by end-2002 (in percent)	Measure	Date
Portfolio at end-1998: 31 nonbank enterprises		83,660				
Privatization and liquidation in 1999		786.4	(2.4 percent of portfolio at end-1998)			
1. SMPC	Chemical	388.5	55.5	0	Privatization	June
2. SOMACO-SA	Canning	60.0	20.0	0	Privatization	June
3. SEMA-SA	Equipment	28.8	12.0	0	Privatization	June
4. MALITAS	Travel agency	75.1	28.3	0	Privatization	June
5. Hotel de l'Amitié	Hotel	...	100.0	0	Privatization	December
6. SLMPT	Public equipment leasing	234.0	80.0	0	Liquidation	December
7. ORT	Hotel management	...	100.0	0	Liquidation	December
Remaining portfolio at end-1999: 24 nonbank enterprises						
Privatization, liquidation, and restructuring in 2000		16,071	(19.2 percent of portfolio at end-1998)			
1. SONAREM	Mining research	11,893.0	100.0	0	Liquidation	January
2. SONATAM	Tobacco	1,747.7	100.0	0	Partial privatization	March
3. EDM	Electricity and water	2,430.0	97.2	< 40	Partial privatization	December
Remaining portfolio at end-2000: 22 nonbank enterprises						
Restructuring programmed for June 2000-2002		17,857	(20.1 percent of portfolio at end-1998)			
1. SOTELMA	Telecommunications	8,792.0	100.0	< 50	Partial privatization	September 2001
2. UMPP	Pharmaceutical products	2,551.0	100.0	0	Privatization	2002
3. ADM	Airport management	1,653.0	100.0	100	Privatization of management	March 2002
4. ITEMA	Textile	100.0	33.3	0	Privatization	2002
5. HUICOMA	Oil and Soap	3,078.5	40.0	0	Partial privatization	2002
6. AIR MALI	Travel	200.0	10.0	0	Privatization	2002
7. SUKALA	Sugar and alcohol	400.0	40.0	20	Partial privatization	March 2002
8. SONAM	Naval traffic right	33.8	12.8	0	Privatization	2002
9. SONATAM	Tobacco	1,048.6	60.0	0	Privatization	2002
Remaining portfolio at end-2002: 18 nonbank enterprises		48,757.5	(58.3 percent of portfolio at end-1998)			
1. CMDT	Cotton	19,500.0	60.0	60		
2. OPAM	Food management	11,738.0	100.0	100		
3. SOTELMA	Telecommunications	< 4,396.0	< 50	< 50		
4. RCFM	Railway	2,945.0	100.0	100		
5. EDM	Electricity and water	< 972.0	< 40	< 40		
6. ONP	Post office	2,208.1	100.0	100		
7. SUKALA	Sugar and alcohol	400.0	40.0	20		
8. SEMOS-SA	Mining	1,962.0	18.0	18		
9. ADM	Airport management	1,653.0	100.0	100		
10. COMANAV	River transportation	1,567.0	100.0	100		
11. ITEMA	Textile	100.0	33.3	20		
12. PPM	Pharmac. prod. market	400.0	100.0	100		
13. COMATEX	Textile	300.0	20.0	20		
14. Office du Niger	Agricultural development	240.8	100.0	100		
15. PMU-Mali	Horse racing	225.0	75.0	75		
16. CESPA	Film production	141.9	100.0	100		
17. ACI	Real estate	6.2	50.0	50		
18. SOMISY-SA	Mining	2.5	20.0	20		

Source : Malian authorities.

[1] Of the six banks in the government's portfolio, the following are scheduled to be fully privatized by 2004: *Banque Malienne de Crédit et de Dépôt* (BMCD), *Banque de Développement du Mali* (BDM-SA), *Banque Commerciale du Sahel* (BCS-SA), and *Banque d'Investissement du Mali* (BIM-SA).
The government will keep minority shareholdings in the agricultural bank *Banque Nationale du Crédit Agricole* (BNDA), the housing bank *Banque de l'Habitat du Mali* (BHM), and the financing institution for small and medium-sized enterprises (CI).

Table 13. Mali: Selected Social and Demographic Indicators

	Latest Single Year			Same Region/Income Group	
	1970-75	1980-85	1993-98	Sub-Saharan	Low-income
Population			(In units indicated)		
Total population, midyear (millions)	5.9	7.4	10.6	627.3	3,536.4
Growth rate (annual percentage change)	2.0	2.3	2.4	2.2	1.4
Urban population (percent of population)	16.2	21.0	28.7	33.3	30.5
Total fertility rate (births per woman)	7.1	7.1	6.5	5.4	3.1
Income					
GNP per capita (US dollar)	130	180	250	510	520
Consumer price index (1995=100)	..	..	111	128	136
Income/consumption distribution					
Share of income or consumption	..	..	..	..	..
Gini index	..	..	50.5	..	..
Lowest quintile (percent of income or consumption)	..	..	4.6	..	..
Highest quintile (percent of income or consumption)	..	..	56.2	..	..
Public expenditure			(In percent of GDP)		
Health (percent of GDP)	..	..	2.0	1.5	1.3
Education (percent of GNP)	..	3.2	2.2	4.1	3.2
Social security and welfare (percent of GDP)	..	1.7	..	..	..
Net primary school enrollment rate			(In percent of age group)		
Total	17	19	38	..	86
Male	21	24	45	..	89
Female	12	14	31	..	82
Access to safe water			(In percent of population)		
Total	..	..	37	..	..
Urban	..	..	36	..	..
Rural	..	..	38	..	..
			(In percent, under 12 months, unless otherwise indicated)		
Immunization rate					
Measles	..	..	56	58	80
DPT	..	..	52	53	82
Child malnutrition (percent under 5 years)	..	..	27	..	..
Life expectancy at birth			(In years)		
Total	39	43	50	50	63
Male	37	43	49	49	62
Female	41	44	52	52	64
Mortality			(In units indicated)		
Infant (per 1,0000 live births)	203	180	117	92	68
Under 5 (per 1,000 live births)	391	292	218	151	92
Adult (15-59)					
Male (per 1,000 population)	537	454	404	432	235
Female (per 1,000 population)	416	362	325	383	208
Maternal (per 100,000 live births)	..	..	580	..	..

Source: World Bank, *World Development Indicators* 2000, available on CD-ROM

Bamako, July 9, 2001

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. On August 6, 1999, the Executive Board of the International Monetary Fund approved a third three-year arrangement for Mali under the Enhanced Structural Adjustment Facility (ESAF).[1] This arrangement was in support of Mali's economic and financial adjustment program for the period April 1, 1999–March 31, 2002. In accordance with this arrangement, the government of Mali has conducted, with a Fund mission, a second review of the program covering the period April 1, 2000–December 31, 2000. The review covered progress made in implementing the program during 2000, as well as the outlook and economic and financial measures to be implemented by end-2001. The government of Mali remains determined to implement the policies and measures described in the interim poverty reduction strategy paper, as well as in the memorandum of economic and financial policies attached to this letter, together with a technical memorandum of understanding, which supplements the memoranda of July 12, 1999 and August 11, 2000, respectively.

2. Mali is going through a difficult period, owing to the crisis in the cotton sector, insufficient rainfall for the 2000/01 season, the hike in oil prices last year, and problems in neighboring countries. As a result, real GDP growth in 2000 was only 4.3 percent and is expected to decline by about 1 percent in 2001. In order to restore the conditions for strong, durable, and more equitable economic growth, the government of Mali is determined to prepare and implement during the period April 1, 2001–December 31, 2002 the policies and measures that were set out in the interim poverty reduction strategy paper (I-PRSP), and to ensure that, with the enhancement of additional policies and measures, especially in the cotton sector, Mali can return to an average annual real growth rate of 5 percent over the medium term. To this end, the government has prepared the attached memorandum, setting forth its economic and financial objectives and policies for the period from April 2001 to end-2001.

3. The government remains committed to widely disseminating its memorandum of economic and financial policies for 2001 and authorizes the IMF to publish it as well and to place it on its website.

[1] The Enhanced Structural Adjustment Facility (ESAF) was renamed the Poverty Reduction and Growth Facility (PRGF) in November 1999.

4. All quantitative performance criteria set for September 2000 and quantitative benchmarks set for end-June, end-September, and end-December 2000 were met, as well as the two structural performance criteria under the arrangement. However, there were delays in implementing some structural reforms, in particular the structural benchmark entailing preparation of a set of measures to enhance transparency and efficiency in the financial management of the Compagnie Malienne pour le Développement des Textiles (CMDT) and to lower its production costs. The government has reached an understanding with the IMF staff that the preparation by June 30, 2001 of a short-term crisis resolution plan for the CMDT and the preparation by end-June 2001 of a plan for the repayment of CFAF 30 billion owed by the CMDT to the domestic banking system will constitute prior actions for completion of the second review. The preparation of a medium-term financial restructuring plan by end-December 2001 constitutes a structural performance criterion. The CMDT has already started making progress in improving its internal management and marketing strategies, as well as in lowering its operating cost. The international call for bids to open up the telecommunications sector to competition by granting at least one cellular telephony operating license to private operators has been postponed to October 2001, with approval from the World Bank.

5. We have reached an understanding on the economic and financial measures to be implemented in order to ensure that the economic objectives of the program for the remainder of 2001 are met. They are set forth in the attached memorandum of economic and financial policies (attachment I). It is to be noted that the increase in the government's expenditure in 2001 reflects primarily onetime outlays to stabilize the economy, as well as to foster social peace and the democratization process. In light of the cumulative impact on the economy of the various shocks and the large financing need that has arisen, the government of Mali is requesting a 5 percent increase in access to quota in the Fund (amounting to SDR 4.665 million), to be disbursed onetime upon the completion of the second review.

6. To allow sufficient time for the disbursement of resources committed under the three-year PRGF arrangement, the government requests an extension of the arrangement and commitment period from the original date of April 14, 2002 to April 14, 2003.

7. The government will provide the IMF with any information it may request on progress made in implementing its economic and financial policies and in achieving the program objectives, as described in the technical memorandum of understanding, also attached (attachment II).

8. The government of Mali believes that the policies and measures spelled out in the attached memorandum of economic and financial policies will enable it to achieve its program objectives. Nevertheless it will adopt any additional measures that may prove necessary for this purpose. The government of Mali will, of its own accord or at your request, consult with the IMF on the adoption of any further measures that may be deemed appropriate. Mali and the International Monetary Fund will also conduct a review of the country's economic program supported by the PRGF arrangement, which is scheduled to be

completed no later than December 31, 2001, as well as a review scheduled to be completed no later than May 31, 2002.

Sincerely yours,

/s/

Bacari Koné
Minister of Economy and Finance
Chevalier de l'Ordre National

Attachments: Memorandum of economic and financial policies for 2001 and technical memorandum of understanding

MALI

Memorandum of Economic and Financial Policies for 2001

Bamako, July 9, 2001

I. Introduction

1. Mali is going through a difficult period. The current economic and social conditions are dominated by a crisis in the cotton sector, inadequate rainfall, the hike in oil prices last year, and problems in neighboring countries. The cotton sector crisis was caused by depressed international cotton prices and weaknesses in the management of the Compagnie Malienne pour le Développement des Textiles (CMDT). Given the importance of this sector to the Malian economy, the authorities are determined to introduce a series of short- and medium-term reforms to restructure the CMDT and liberalize the cotton sector, in order to improve its competitiveness. The objective of this reform is to ensure that Mali returns to an average annual growth rate of at least 5 percent in the medium term, thereby enabling it to reduce poverty.

II. Recent Economic Developments

2. Because of the difficulties confronting Mali, real GDP growth decelerated to 4.3 percent in 2000 from 6.6 percent in 1999. Inflation, which had remained moderate during the first three quarters on a year-on-year basis, picked up slightly toward the end of 2000 in anticipation of a drop in cereal production in 2001. Nevertheless, the average annual inflation rate was -0.7 percent in 2000. The volume of imports, excluding from the mining sector, declined by about 3½ percent in 2000. Despite increased gold exports, the decrease in the overall volume of exports was sharper than expected. Thus, the current account deficit (excluding grants) fell by about 1½ percent of GDP from 1999.

3. In the fiscal sector, the basic balance reached a deficit of CFAF 13.1 billion in 2000, compared with the program target of a CFAF 9.6 billion surplus. While the program target for fiscal revenue were met for the first three quarters of 2000, there was a shortfall for the whole year that is estimated at 1.1 percent of GDP. The hike in petroleum prices in the world market, as well as the stabilization of retail prices through the continued application of a taxation mechanism (based on administered prices), resulted in a revenue loss equivalent to 0.7 percent of GDP for the year. Expenditure restraint over the first three quarters of 2000 made it possible, however, to exceed the target for the basic balance of 0.4 percent of GDP during this period.

4. Credit to the economy declined in 2000 from its end-1999 level, mainly because of the decline in noncrop credit. The difficulties faced by the CMDT explain the accumulation of crop credits (for 1999/2000), which amounted to CFAF 30 billion outstanding at end-September 2000, and for which the commercial banks obtained a government guarantee. The cotton sector crisis had an adverse impact on the microfinance sector, which, although accounting for less than 3 percent of loan activity, saw its bad loans double in number in the first nine months of 2000. At the same time, the government improved its net position with the banking system, largely because of the proceeds from privatization and budgetary support grants received in December 2000. Broad money rose by about 12 percent, essentially reflecting a significant increase in the net foreign assets of the banking system.

5. All the quantitative criteria and benchmarks were met in 2000 (Table 1). The two structural performance criteria envisaged in the program were met (Table 2); these relate to (i) the adoption of a new taxation system for petroleum products that automatically reflects changes in import prices in retail prices; and (ii) the adoption of an action plan to rehabilitate the financial situation of the retirement fund, Caisse de retraite du Mali (CRM) and the social security agency, Institut national de prévoyance sociale (INPS), based on recommendations contained in their audits. In addition, the sale of 60 percent of the capital of the electricity utility, Energie du Mali (EDM), was completed in December 2000. The new commercial court judges (whose ranks now include representatives of the banking and insurance sectors) were sworn in as scheduled. However, the drawing up of a set of measures to enhance the transparency and efficiency of the CMDT's financial management and to lower its production costs was delayed in 2000. The government has reached an understanding with the IMF that the preparation of a short-term crisis resolution plan for CMDT by June 30, 2001 and the preparation of a plan to repay the CFAF 30 billion owed by CMDT to the domestic banking system by end-June 2001 will constitute prior actions for completion of the second review. The preparation of a medium-term restructuring plan by end-December 2001 constitutes a structural performance criterion for the fourth disbursement. The CMDT has already started making progress in improving its internal management and marketing strategies, as well as in lowering its operating cost. In the telecommunications sector, the international call for bids to grant at least one cellular telephony operating license to a private operator has been postponed until October 2001, with approval from the World Bank.

III. Macroeconomic Framework for 2001

6. The cotton sector crisis had a destabilizing effect on the Malian economy, and the government is determined to get a handle on this difficult situation. The significant drop in cotton production in 2000/01 is expected to cause a slowdown in industrial activity and domestic trade. The loss in earnings by cotton producers of about 40 percent in 2001 (coupled with the 16 percent drop during the previous crop year) is also expected to have a negative impact on the demand for services. It is anticipated that real GDP will decline by about 1 percent in 2001, largely owing to the cotton sector crisis, the decrease in cereal production, and adverse secondary effects.

7. The balance of payments is characterized in 2001 by the contrasting trends for gold and cotton. On the one hand, the mining sector is in full expansion, with two new mines opening up. On the other hand, cotton sector exports are contracting sharply. Mining sector imports are also increasing significantly, while other imports are slumping, owing to the negative repercussions on disposable income of the slowdown in cotton sector activity. The net result is an improvement in the trade balance, which should be practically in equilibrium. However, the current account balance is projected to worsen because of increasing imports of services in the gold sector and the transfers abroad of investment income from this sector. This deterioration is nonetheless projected to be offset by substantial capital inflows, especially in the gold sector, and by a sustained level of foreign aid.

IV. Program Targets for 2001

8. The basic fiscal balance will register a deficit of 3.2 percent of GDP in 2001, as against the surplus of 1.4 percent initially programmed, mainly because of a higher level of spending, as well as lower revenue. The increase in government expenditure reflects primarily onetime outlays to stabilize the economy, as well as to foster social peace and the democratization process. The authorities will take all necessary steps to avoid any easing of expenditure controls. In light of the adverse cumulative impact on the economy of the various shocks and the large financing need that has arisen, the government of Mali is requesting a 5 percent increase in access to quota in the Fund (amounting to SDR 4.665 million), to be disbursed onetime upon completion of the second review. If this request is approved, a financing gap of CFAF 51.2 billion would still remain.

9. The overall level of expenditure is higher than initially programmed, reflecting higher outlays financed by resources freed by the assistance provided under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative), an increase in the wage bill, transfers to cover the investment needs of the EDM, the decision by the Malian authorities to change the treatment of value-added tax (VAT) reimbursements, an upward revision of the costs of the elections, and the cost to the budget related to the financial restructuring of the cotton sector. Thus, fiscal expenditure now includes VAT reimbursements to mining companies (formerly considered to be cash transactions and so classified as nonbank financing). The wage bill will rise from CFAF 73 billion in 2000 to CFAF 82 billion in 2001, following a revision of the pay scales and an increase in bonuses and allowances for certain staff categories (including magistrates, teachers, and health sector employees). Expenditure also explicitly includes CFAF 10.5 billion for a financial transfer to the EDM to compensate for the lack of an across-the-board increase of rates for water and electricity. In order to limit this financial support, the Malian authorities decided to raise the rates for water by 10 percent and for electricity by 5 percent effective July 1, 2001. The government also transferred CFAF 11 billion to the EDM to finance the connection of the Malian electricity network to the Manantali Dam network, and CFAF 7 billion to the CMDT (both of which financed by a World Bank credit). The cost of the elections has been increased by CFAF 6 billion over the programmed amount (to CFAF 9 billion in 2001), owing to the costs of conducting an administrative electoral census, as well as a constitutional referendum planned for September 2001. The costs associated with restructuring the cotton sector include

CFAF 18 billion to repay the 1999/2000 crop credit (equivalent to 60 percent of the total amount due to the banks) and CFAF 5 billion to compensate for the CMDT's operating losses in 2001 as a result of the government's decision to raise the producer price to CFAF 200 per kilogram.

10. To cover these outlays, the authorities are anticipating fiscal revenue of CFAF 288.3 billion in 2001. In spite of the economic crisis, this target should be met in part because increased activity in the mining sector will bring in CFAF 18.9 billion in dividends and other income, as against CFAF 8.3 billion in 2000. The Malian authorities have implemented most of the reforms needed to improve the structure of the tax system with the adoption of the common external tariff (CET) and a single-rate VAT. As such, the measures to be adopted to enhance the collection of revenue will be mainly of an administrative nature. Thus, since January 1, 2001, the single taxpayer identification number has been used systematically by all tax administrations, which has improved communication among the various assessment and collection agencies. The National Directorate for Internal Taxes (DNI) has taken steps to bring the informal sector into the tax base and has allocated additional staff and resources to the tax recovery service, which should improve the tax yield. Finally, other proposals are also being examined, including an excise tax increase on tobacco products.

11. The Malian authorities are to take a significant step forward with the introduction of a new petroleum product taxation mechanism on July 12, 2001. This system would allow changes in import prices to be passed through to retail prices. This tax mechanism for petroleum products is broadly consistent with the West African Economic and Monetary Union (WAEMU) guidelines with regard to the taxation of these products.

12. The authorities are aware that additional efforts will be necessary in the coming years to keep spending under control. The wage bill will continue to be maintained within the limits set under the WAEMU convergence criteria. Spending on the elections in 2001 will be restricted to the amount specified of CFAF 9 billion. The authorities will limit capital expenditure on the African Soccer Cup (CAN) to CFAF 10 billion per year until 2002, while capital expenditure from domestic sources in 2001, excluding HIPC Initiative-related resources, will increase by about CFAF 6.4 billion from the 2000 level. Most of this increase goes to priority spending in social sectors, in line with the targets established in the ten-year programs for education (PRODEC) and health (PRODESS), and for the basic infrastructure development program. Other current spending will also be revised downward, in particular by capping scholarships at CFAF 5.6 billion per year as envisaged under PRODEC and by reducing transfers and other current expenditure to levels compatible with government revenues.

13. Monetary policy conducted at the regional level by the Central Bank of West African States (BCEAO) will continue to be prudent, in accordance with its objectives regarding the CFAF franc-euro exchange rate and the consolidation of the WAEMU's external position. An increase in broad money of about 2.8 percent is planned for 2001. This increase is expected to be matched by a rise in the foreign assets of the central bank and an increase in

lending to the government. The net lending to the government takes into account measures to repay the remaining crop credit owed by the CMDT to the banks (CFAF 12 billion). The government of Mali is seeking an equitable burden sharing arrangement with the 40 percent partner in the CMDT. Pending a satisfactory conclusion of these negotiations, and in order to preserve the soundness of the banking system, the government has issued treasury bills to securitize the reimbursement of the CFAF 12 billion that should be the partner's share in the crop credit. The government undertakes the commitment to reimburse the banking system immediately upon receipt of the contribution from the partner. The monetary objectives of the program are described in Appendix I, Attachment II.

V. Reform Of The Cotton Sector

14. The government of Mali reaffirms its commitment to implement a policy of liberalizing the economy, which implies that the government will withdraw from the productive, industrial, and commercial sectors, to the benefit of the private sector. The government reiterated at the time of the participatory forum (*Etats Généraux*) for the cotton sector, held in April 2001, that the cotton sector could not remain excluded from this policy of liberalization. In accordance with the principal conclusions of the participatory forum, the Malian authorities have prepared, in close collaboration with the World Bank, the broad outline of a plan for the reform of the cotton sector and have drafted a short-term financial crisis resolution plan for the CMDT.

15. The reform of the cotton sector has the following main objectives:

- to lower production cost;
- to establish a market-based pricing mechanism based on free negotiations among economic agents;
- to strengthen producers' organizations so that they can play a more important role in the management of the sector;
- to enhance participation of the private sector, producers, and local government agencies in the development of the sector; and
- to increase the contribution of the cotton sector to the national economy, thereby helping the fight against poverty and improving the standard of living of the population.

16. To reach these objectives, the strategy adopted by the government is based on the following main components: (i) refocusing the CMDT's operations on ginning and marketing, its core activities linked to the cotton sector; and (ii) completing the liberalization of the sector in the medium term. The refocusing of the company on its core activities will entail notably the withdrawal of the CMDT from the provision of extension services; its progressive withdrawal from its public service activities (the responsibility to provide inputs and equipment, and transportation); and a subsequent scaling down of the size of the company. Moreover, the government reaffirms its commitment to follow a policy of liberalizing the economy and to foster a broader involvement of producers in the management of the sector, in particular by opening up the capital of the CMDT to producers

and employees; the government also reaffirms its commitment to strengthen participation of producers in the provision of the services they need (such as advice on rural development, and the supply of inputs, equipment, and transportation services).

17. During the period 2001-02, the key actions will be (i) preparation and implementation of a financial restructuring plan for the CMDT; (ii) initiation of a program to refocus the CMDT on its core activities in the cotton sector; (iii) implementation of measures that have been identified to strengthen producers' managerial and organizational capabilities; (iv) preparation of a study for an autonomous region and the completion of the terms of reference for the opening up of the Office de la Haute Vallée du Niger (OHVN) region (which will eventually be enlarged to incorporate adjacent areas) to a private sector enterprise; (v) preparation of a study of the steps and options for the complete liberalization of the cotton sector over time; (vi) adoption and implementation of a mechanism for the determination of the producer price for seed cotton that reflects movements in international prices and takes into account prices offered in the sub-region; (vii) completion of a study of the modalities for the transfer of extension services; and (viii) implementation by the CMDT of a more competitive mechanism for marketing cotton fiber for export, namely, one that maximizes receipts. In addition, an institutional reform of the cottonseed oil subsector will be implemented by June 2002 at the latest, with the liberalization of the sale price for cottonseed. The cottonseed oil public enterprise, HUICOMA, will be privatized by June 2002 at the latest.

18. Over the medium term (2003-05), the conclusions and recommendations of the study referred to in point (v) in paragraph 17 will be validated and implemented in order to complete the liberalization of the cotton sector by opening up the sector to competition and by privatizing the CMDT.

VI. Other Structural Reforms

19. In order to control the civil service wage bill more effectively over the medium term, to improve the efficiency of the civil service, and to harmonize the wage scales, the authorities will undertake a diagnostic study of the medium-term wage policy in the civil service. In this context, an action plan for reform of the civil service will be drawn up and discussed with Mali's development partners by March 31, 2002. In the meantime, the government will complete an organizational audit of the civil service by November 2001.

20. The Malian authorities are continuing to improve the transparency of the government budget. They have already made up for the delay in preparing the final audited budget accounts *lois de règlement* and sent them to the National Assembly. In April 2001, Mali also hosted an international seminar organized by the IMF in cooperation with AFRISTAT (Economic and Statistical Monitoring Agency for Sub-Saharan Africa) on the theme of the General Data Dissemination System. In addition, the authorities agreed to allow an IMF mission to undertake an assessment of the transparency of government finances, in the context of the Report on the Observance of Standards and Codes (ROSC).

21. The authorities are determined to persevere in their efforts to limit the government's role in the productive sector. For 2001, the main actions will involve granting a cellular telephony license to a private operator and placing the entire Mali-Senegal railway network under a concession arrangement. Based on the timetable for completing these tasks, the proceeds from privatization in 2001 are expected to be about CFAF 8 billion.

VII. POVERTY REDUCTION

22. The authorities prepared an interim poverty reduction strategy paper in 2000, which was considered by the Executive Boards of the International Monetary Fund and the World Bank in September of that year. The government has started the preparation of a full PRSP. This PRSP, which will become the unique frame of reference for Mali's development policies and strategies, will take into account some of the weaknesses identified in the interim PRSP. The government has designed a strategy for broad participation and has established the institutional framework and timetable for preparation of the final PRSP, which is expected to be completed by September 30, 2001. Eleven working groups were created and the preliminary reports of their work submitted in May 2001.

23. The HIPC Initiative-related resources are integrated into the government budget and are monitored on both the revenue and the expenditure sides, as well as with respect to physical execution. A specific budget line item was inserted into the 2001 budget for monitoring HIPC Initiative-related resources. The prioritization of poverty-related spending (including of HIPC Initiative-related resources) is based on the priorities established through the participatory process in the context of preparing the interim PRSP and, later, the full-fledged PRSP. The PRSP Steering Committee, which is under the supervision of the Minister of Economy and Finance, will prepare by September 30, 2001 a table detailing the poverty reduction programs to be implemented during the period 2002 to 2005.

24. The ways and means of transferring resources to the technical ministries will follow regular government spending and accounting procedures. The authorities have drafted a memorandum describing the terms and conditions for the transfer and the monitoring mechanisms, in order to ensure the proper utilization of these resources in 2001. In the context of the PRSP, it is envisaged that a monitoring mechanism will be prepared and implemented and regular evaluation reports drafted. The adoption of this new mechanism for monitoring HIPC Initiative-related expenditures will be a structural benchmark for end-December 2001. The introduction of a mechanism to track poverty-related expenditures in the 2002 budget will complement ongoing efforts to harmonize the management of public expenditures relative to budget laws and codes in the context of the WAEMU framework. These reforms, scheduled for implementation by January 2002, will enhance transparency in the execution and monitoring of poverty-related expenditure in general.

25. In addition to the measures to improve efficiency in poverty-related spending, the government has, with the support of its development partners, decided to gradually implement the procedures for the medium-term expenditure framework (MTEF). To support this MTEF, and to respond to the need for efficiency in the use of poverty-related resources,

the government will prepare and implement an action plan under the PRSP to improve governance and transparency in fiscal management. Mali's eventual participation in the GDDS, as a result of ongoing collaboration with the IMF staff, will lend further support to the government's efforts at improving fiscal transparency,

VIII. Prior Actions

33. The following measures will constitute prior actions for the completion of the second review under the Poverty Reduction and Growth Facility (PRGF) arrangement:

- adoption by the authorities of a letter of development policy for the reform of the cotton sector;
- completion of a short-term plan for resolving the financial crisis of the CMDT;
- completion and validation of a plan to repay before September 30, 2001 the CFAF 30 billion owed by the CMDT to local banks and guaranteed by the government;
- increases in water and electricity tariffs by 10 percent and 5 percent, respectively; and
- implementation of the new taxation system of petroleum products that automatically reflects changes in import prices in retail prices.

IX. Performance Criteria And Benchmarks

26. Program implementation will be monitored by means of the quantitative and structural performance criteria and benchmarks that are described in detail in the attached Tables 3 and 4 and in the technical memorandum of understanding (appendix I, attachment II).

Table 1. Mali: Quantitative Performance Criteria and Benchmarks, April 1 to December 31, 2000

	June		September			December		
	Benchmarks	Est.	Performance Criteria	Adjusted Prog.	Actual	Benchmarks	Adjusted Prog.	Actual
	(In billions of CFA francs)							
A. Quantitative performance criteria and benchmarks								
1. Ceiling on net credit to the government 1/ 2/ 3/	21.7	7.5	11.2	20.8	16.3	10.3	-1.9	-15.1
2. Cumulative change in government payments arrears 4/ 5/								
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. New external borrowing at terms of one year or more 3/ contracted or guaranteed by the government or public enterprises 6/ on nonconcessional terms 7/ 8/	6.9	0.0	15.0	15.0	0.0	30.0	30.0	8.0
Of which: public enterprises 6/	4.2	0.0	9.0	9.0	0.0	15.0	15.0	0.0
4. Outstanding short-term external loans (less than one year) 9/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Financial performance indicators								
1. Cumulative tax revenue 4/	121.6	119.9	185.8	185.8	183.2	252.2	252.2	233.3
2. Cumulative wage bill 3/	36.5	35.0	53.7	53.7	53.6	73.1	73.1	73.1
3. Basic overall fiscal balance 4/ 10/	11.7	24.2	18.9	18.9	25.8	9.7	9.7	-13.2
Memorandum item:								
External budgetary assistance during the year 11/	2.9	2.9	15.4	5.8	5.8	26.9	39.1	39.1

1/ The program provides that external budgetary assistance, excluding project aid, will in 2000, on a cumulative basis, reach CFAF 2.9 billion by June 30, CFAF 15.4 billion by September 30, and CFAF 26.9 billion by December 31, 2000. The ceilings for these dates will be adjusted downward by the amounts of excess external budgetary assistance received. In the event of a shortfall in external budgetary assistance, as defined above, the ceilings will be adjusted upward accordingly, but not exceeding CFAF 10 billion at September 30 and CFAF 15 billion at December 31, 2000.

2/ Excluding the cotton sector stabilization fund and excluding changes in the amounts of consolidated pubic debt securities held outside the Malian banking system.

3/ Maximum.

4/ Minimum.

5/ These performance criteria will be monitored on a continuous basis.

6/ The public enterprises in question are: CMDT, SOTELMA, EDM, RCFM.

7/ Excluding debt relief obtained in the form of rescheduling or refinancing.

8/ Including planned loans on nonconcessional terms to be contracted with the West African Development Bank, the African Development Bank, and the Caisse de Coopération Française in 2000.

9/ With the exception of normal import credits and debt relief.

10/ Overall balance, on a commitment basis, excluding grants and externally financed capital expenditure.

11/ Excluding use of Fund resources.

Table 2. Mali: Structural Performance Criteria and Structural Benchmarks, 2000

Measure	Scheduled dates	Implementation
A. Structural Performance Criteria		
• Adoption of a new system of taxation of petroleum products automatically reflecting changes in import prices in retail sales prices.	October 31, 2000	Done.
• Adoption of an action plan to rehabilitate financially the Malian Retirement Fund (CRM) and the National Social Security Institute (INPS), based on audit recommendations.	October 31, 2000	Done.
B. Structural Benchmarks		
• Preparation of a set of measures to improve the transparency and efficiency of the Compagnie Malienne de Développement et de Textiles--CMDT's financial management and reduce its manufacturing costs, in accordance with the conclusions and recommendations of the aforementioned financial audit.	September 30, 2000	Done. The World Bank concluded that the authorities' proposed approach was inadequate and is working with them to strengthen it.
• International call for bids to grant at least one cellular operating license to a private operator.	November 30, 2000	Postponed to October 2001 (with World Bank approval).
• Appointment of new judges to the commercial courts, including representatives of the banking and insurance sectors.	September 30, 2000	Done.

Table 3. Mali: Quantitative Performance Criteria and Benchmarks
for the period March 31 to December 31 2001 and indicative benchmarks for the period March 31 to June 30, 2002
(billions of CFAF)

	2001				2002	
	March Est.	July Performance Criteria	September Benchmarks	December Performance Criteria	March Indicative target	June Indicative target
A. Quantitative performance criteria and benchmarks						
1. Ceiling on net credit to the government 1/ 2/ 3/	5.1	35.7	39.9	24.4	12.0	12.0
2. Cumulative change in government payments arrears 4/ 5/						
Domestic	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0
3. New external borrowing at terms of one year or more 3/ contracted or guaranteed by the government and public enterprises 6/ on nonconcessional terms 5/ 7/ 8/	8.5	10.0	15.0	25.0	...	...
of which : public enterprises 6/	8.5	8.5	8.5	8.5	...	...
4. Outstanding short-term external loans (less than 1 year) 5/ 9/	0.0	0.0	0.0	0.0	0.0	0.0
B. Financial performance indicators						
1. Cumulative tax revenue 4/	63.4	153.4	202.5	277.2	65.5	140.3
2. Cumulative wage bill 3/	18.7	47.8	61.5	82.0	21.8	43.6
3. Overall basic fiscal balance 4/ 10/	13.3	1.6	-5.4	-44.2	-11.9	2.7
Memorandum item:						
External budgetary assistance during the year 11/	0.0	4.3	14.6	51.2	...	...
HIPC debt relief	2.3	4.7	8.0	14.3	3.6	5.8
Expenditure financed with HIPC-related resources	0.4	4.7	8.0	13.6	3.6	6.8
Balance of HIPC-related resources 12/	3.5	1.6	1.6	2.3	2.3	1.3

1/ The adjustment factors are described in paragraphs 7 and 8 of the Technical Memorandum of Understanding
2/ Excluding the cotton sector stabilization fund and changes in the amounts of consolidated debt securities held outside the Malian banking system
3/ Maximum.
4/ Minimum.
5/ These performance criteria will be monitored on a continuous basis.
6/ The public enterprises in question are: CMDT, SOTELMA and RCFM.
7/ Excluding debt relief obtained in the form of rescheduling or refinancing.
8/ See paragraph 19 of the Technical Memorandum for the donors concerned.
9/ Excluding normal import credits and debt relief.
10/ See paragraph 34 of the Technical Memorandum for definition.
11/ Excluding use of Fund resources.
12/ At end-December 2001, the balance was CFAF 1.6 billion.

Table 4. Mali: Structural Measures Constituting Prior Actions, Performance Criteria, and Structural Benchmarks, 2001[1]

Measures	Date of Completion
A. Prior Actions	
1. Adoption by the authorities of a statement of development policy for the reform of the cotton sector.	June 15, 2000[2]
2. Completion of a short-term financial crisis resolution plan for the Compagnie Malienne de Développement et de Textiles (CMDT).	June 30, 2001
3. Completion and validation of a plan to repay before September 30, 2001 the CFAF 30 billion owed by the CMDT to local banks and guaranteed by the government.	June 30, 2001
4. Increase in water and electricity tariffs by 10 percent and 5 percent, respectively.	July 1, 2001
5. Implementation of the new taxation system of petroleum products that reflects changes in import prices automatically in retail prices	July 12, 2001
B. Structural Performance Criteria	
1. Completion of a financial restructuring plan for the CMDT for the period 2002-05 identifying measures to lower the company's production costs and improve its financial management.	December 31, 2001
2. Launching of the call for bids for the sale by CMDT and OHVN of the assets (comprising of ginneries, trucks and other agricultural equipments) necessary for the installation of a private operator in the OHVN zone.	December 31, 2001
C. Structural Benchmarks	
1. Adoption of a plan for the annual allocation of HIPC-related resources for the period 2002-05.	September 30, 2001
2. Adoption of a plan for the CMDT to withdraw from its public service activities (comprising of rural roads, infrastructure and water supply) with a corresponding staffing/organizational plan.	November 30, 2001
3. Completion of an organizational plan for the civil service.	November 30, 2001
4. Introduction in the 2002 draft budget of specific codes to track HIPC-related expenditures.	November 30, 2001
5. Adoption and implementation of a mechanism for the determination of the producer price for seed cotton that reflects movements in the world market price and takes into account producer prices being offered in neighboring countries in the sub-region.	December 31, 2001

[1] Additional details are provided in the TMU.

[2] The measure was completed on June 15, 2001.

INTERNATIONAL MONETARY FUND

MALI

Technical Memorandum of Understanding

July 9, 2001

1. This technical memorandum of understanding defines the quantitative and structural performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program-monitoring purposes.

I. Definitions

2. Unless otherwise indicated, the government is defined as the central administration of the Republic of Mali and does not include local administrations, the central bank, or any other public entity with autonomous legal personality that is not included in the table of government financial operations (TOFE).

3. The definitions of "debt" and "concessional borrowing" for the purposes of this memorandum of understanding are as follows:

(a) As set out in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00), debt is understood to mean a current, that is, not contingent, liability created under a contractual agreement calling for the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services according to an established repayment schedule; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under this definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(b) **A loan is considered concessional** if, on the date the contract is signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

II. Quantitative Performance Criteria

A. Net Bank Credit to the Government

Definition

4. Net bank credit to the government is defined as the balance between the debts and claims of the government vis-à-vis the central bank and commercial banks. The scope of net credit to the government is that used by the Central Bank of West African States (BCEAO) and is consistent with established Fund practice in this area. It implies a broader definition of government than that specified in paragraph 2. Claims of the government include the CFA franc cash balance, postal checking accounts, secured liabilities (*obligations cautionnées*), and all deposits with the BCEAO and commercial banks of public entities, with the exception of industrial or commercial public entities (EPIC) and public enterprises, which are excluded from the calculation. Government debt to the banking system includes all debt to these same financial institutions. Deposits of the Cotton Stabilization Fund and government securities held outside the Malian banking system are not included in the calculation of the net bank credit to the government.

5. At end-March 2001, net bank credit to the government as defined above stood at CFAF 32.3 billion.

6. The change in net bank credit to the government at the date indicated is defined as the difference between the stock on the date indicated and the stock at the end of the previous year. This change was CFAF 5.1 billion as of March 31, 2001.

Adjustment factor

7. The ceiling on the change in net bank credit to the government vis-à-vis the banking system will be adjusted if external budgetary assistance exceeds or falls short of the programmed amount. Budgetary assistance is defined as grants, loans, and debt relief (excluding project loans and grants, IMF resources, and debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). The ceiling will be adjusted downward by the amount by which budgetary assistance exceeds the programmed amount. Conversely, the ceiling will be adjusted upward by the amount by which budgetary assistance falls short of the programmed amount. This upward adjustment may not exceed CFAF 1 billion at end-July 2001, CFAF 3 billion at end-September 2001, and CFAF 10.5 billion at end-December 2001. In the context of the program, cumulative external budgetary assistance is expected to reach CFAF 4.3 billion on July 31, 2001, CFAF 14.6 billion on September 30, 2001, and CFAF 51,2 billion on December 31, 2001. In addition, the authorities will reimburse the banking system as soon as the shareholder, which holds 40 percent of the capital in the CMDT, makes its contribution (CFAF 12 billion) for the repayment of CFAF 30 billion owed by the CMDT to banks.

8. The ceiling on the change in the net bank credit to the government will be adjusted by the difference between the amount of unspent HIPC Initiative resources programmed and the actual unspent amounts. If the actual amount exceeds (falls short of) the programmed amount, the ceiling will be reduced (increased) by the difference between the actual amount and the programmed amount.

Performance criteria and indicative targets

9. The ceiling on the change in net credit to the government is established as follows: CFAF 35.7 billion as at July 30, 2001; CFAF 39.9 billion as at September 30, 2001; CFAF 24.4 billion as at December 31, 2001; CFAF 12.0 billion as at March 31, 2002; and CFAF 12 billion as at June 30, 2002. The ceiling is a performance criterion at end-July and end-December 2001, a benchmark as at end-September 2001, and an indicative target for end-March 2002 and end-June 2002.

Reporting deadline

10. Provisional data on net credit to the government, including a detailed list of the bank account balances of other public entities, will be transmitted on a monthly basis within the four weeks following the end of the month. The definitive data will be provided within an additional four weeks after the provisional data have been reported.

B. Nonaccumulation of External Public Payments Arrears

Definition

11. External payments arrears are defined as the sum of (i) external payments due, and (ii) unpaid for external liabilities of the government, and (iii) foreign debt held or guaranteed by the government. The definition of external debt provided in paragraph 3(a) applies here.

Performance criterion

12. Under the program, the government will not accumulate external payments arrears, with the exception of arrears arising from debt under renegotiation or being rescheduled. The performance criterion on the nonaccumulation of external payments arrears will be monitored on a continuous basis throughout the program period.

C. Nonaccumulation of Domestic Public Payments Arrears

Definition

13. Domestic payments arrears are duly certified domestic expenditure commitments for which a payment authorization has been issued (*depenses ordonnancées*) but for which payment has not been made within 90 days of the date of the payment authorization. Domestic arrears also include expenditure commitments to public enterprises for which the payment authorization has been issued but for which payment has not been made within the same 90-day period.

Performance criterion

14. Under the program, the government will not accumulate domestic payments arrears. This criterion will be monitored on a continuous basis.

Reporting deadline

15. The government will report to the IMF staff any accumulation of domestic arrears as soon as the 90-day deadline is reached. Moreover, the government will minimize payment delays and will provide, at the request of IMF staff, data on expenditure commitments, payment orders, and payments.

D. Ceiling on Nonconcessional External Debt with a Maturity of One Year or More Newly Contracted or Guaranteed by the Government and/or Public Enterprises

Definition

16. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85)

(8/24/00) but also to commitment contracted or guaranteed for which no value has yet been received.

17. The concept of "government" for the purposes of this performance criterion includes government as defined in paragraph 2, public institutions of an administrative nature (EPA), public institutions of a scientific and/or technical nature, public institutions of a professional nature, public institutions of an industrial and/or commercial nature (EPIC), and local governments.

18. In addition to the government, the public enterprises authorized to contract, guarantee or secure nonconcessional borrowing in the context of the program are CMDT, SOTELMA, and RCFM. No other public enterprise shall contract, guarantee, or otherwise secure nonconcessional borrowing.

Performance criterion

19. A ceiling is set for nonconcessional borrowing. It relates only to borrowing from the West African Development Bank (BOAD), Crédit Commercial de France (CCF), the French Development Agency (AFD), and the Fund of the Economic Community of West African States (ECOWAS). The government and the above-mentioned public enterprises will not contract nonconcessional debt with other creditors.

20. The cumulative ceiling applicable to the government and the above-mentioned public enterprises from December 31, 2000 until July 31, 2001 is CFAF 10.0 billion; CFAF 15.0 billion until September 30, 2001; and CFAF 25.0 billion until December 31, 2001.

21. The cumulative ceiling applicable only to the above-mentioned public enterprises for the period from December 31, 2000 to July 31, 2001 is CFAF 8.5 billion; CFAF 8.5 billion until September 30, 2001; and CFAF 8.5 billion until December 31, 2001.

Reporting deadline

22. Information on any borrowing (terms and creditors) contracted or guaranteed by the government and/or the above-mentioned public enterprises shall be transmitted each month within four weeks following the end of the month.

E. Ceiling on Short-Term External Debt Newly Contracted or Guaranteed by the Government and/or Public Enterprises

Definition

23. The definitions in paragraphs 16 and 17 also apply to this performance criterion.

24. Short-term external debt is debt with a contractual term of less than one year. Import-related loans and debt relief operations are excluded from this performance criterion.

Performance criterion

25. In the context of the program, the government and public enterprises will not contract, guarantee or secure short-term nonconcessional external debt.

26. As of March 31, 2001, the government of Mali and public enterprises have no short-term external debt.

III. Quantitative Indicators

27. The program also includes indicators on government tax revenues, the civil service wage bill, and the basic fiscal balance.

A. Floor for Tax Revenues

Definition

28. Government tax revenues are defined as those that appear in the government financial operations table (TOFE).

Indicators

29. Quantitative performance indicators for tax revenues are set at CFAF 153.4 billion as of July 31, 2001; CFAF 202.5 billion as of September 30, 2001; CFAF 277.2 billion as of December 31, 2001; CFAF 65.5 billion as of March 31, 2002; and CFAF 140.3 billion as of June 30, 2002.

Reporting deadline

30. The government shall report tax revenues to IMF staff each month in the context of the TOFE.

B. Ceiling on the Wage Bill

Definition

31. The **wage bill** includes all public expenditure on wages, bonuses, and other benefits or allowances granted civil servants employed by the government, the military, and other security forces, and includes all similar expenditure with respect to special contracts and other permanent or temporary employment with the government. The wage bill excludes, however, wages paid under externally funded projects and transfers to local communities for the payment of teachers' salaries.

Indicators

32. The quantitative performance indicators for the wage bill are set at CFAF 47.8 billion at July 31, 2001; CFAF 61.5 billion at September 30, 2001; CFAF 82 billion at December 31, 2001; CFAF 21.8 billion at March 31, 2002; and CFAF 43.6 billion at June 30, 2002.

Reporting deadline

33. The government shall report the wage bill to IMF staff each month in the context of the TOFE.

C. Floor on the Basic Fiscal Balance Excluding HIPC Initiative Related-Expenditure

Definition

34. The basic fiscal balance is defined as the difference between total revenues, excluding grants and privatization receipts, and total expenditure plus net lending, excluding capital expenditure financed by foreign donors and HIPC Initiative-related expenditures.

Indicators

35. The floors for the performance indicators for the basic fiscal balance are set at CFAF 1.6 billion at July 31, 2001; CFAF -5.4 billion at September 30, 2001; CFAF -42.2 billion at December 31, 2001; CFAF -11.9 billion at March 31, 2002; and CFAF 2.7 billion at June 30, 2002.

Reporting deadline

36. The authorities will report monthly to IMF staff, in the context of the TOFE, provisional data on the basic fiscal balance. These data will be taken from the balances of treasury accounts for the items that are used to calculate this balance. The final data will be provided as soon as the final balances for these accounts are available, but not later than four weeks after the reporting of the provisional data.

IV. Structural Criteria and Benchmarks

A. Completion of a Medium-Term Financial Restructuring Plan for the CMDT for the Period 2002-05 Identifying Measures to Lower the Company's Production Costs and Improve its Financial Management (Structural Performance Criterion)

37. By December 31, 2001 at the latest, the government will prepare a detailed medium-term financial restructuring plan for the CMDT.

B. Launching of the Call for Bids for the Sale by CMDT and OHVN of Assets (Comprising of Ginneries, Trucks and Agriculture Equipments) Necessary for the Installation of a Private Sector Operator in the OHVN Zone (Structural Performance Criterion)

38. By December 31, 2001, the government will launch the call for bids for the sale by the CMDT and OHVN of the assets necessary for the effective installation of a private sector operator in the zone currently comprising the OHVN, which will eventually be enlarged to incorporate adjacent areas.

C. Adoption of a Plan for the Annual Allocation of HIPC Initiative Resources for the Period 2002-05 (Structural Benchmark)

39. By September 30, 2001 at the latest, the government will submit to IMF staff a plan for the annual allocation of HIPC Initiative resources for the period 2002-05. The plan will be prepared in the context of the poverty reduction strategy paper.

D. Adoption of a Plan for the CMDT to Withdraw Gradually from it Public Service Activities (Comprising of Rural Roads, Rural Infrastructure and Water Supply) (Structural Benchmark)

40. By October 31, 2001 at the latest, the government will adopt a plan calling for the progressive withdrawal by the CMDT from its public service activities (rural road construction/maintenance, digging of village wells, supply of irrigation systems, etc.), and it will adopt a corresponding staffing/organizational plan, with in each case appropriate supporting measures.

E. Completion of an Organizational Plan for the Civil Service (Structural Benchmark)

41. By November 30, 2001 at the latest, the government will submit to IMF staff the results of an organizational plan of the civil service.

F. Introduction in the 2002 Draft Budget of Specific Codes to Track HIPC Initiative-Related Expenditures (Structural Benchmark)

42. The draft 2002 budget submitted to the National Assembly will incorporate specific codes to allow tracking of HIPC Initiative-related expenditures.

G. Adoption and Implementation of a Mechanism for the Determination of the Producer Price for Seed Cotton that Reflects Movement in the World Market Prices and Takes into Account Producer Prices Offered in Neighboring Countries in the Subregion (Structural Benchmark)

43. By December 31, 2001 at the latest, the government will adopt and implement a mechanism for the determination of the producer price for seed cotton that reflects

movements in international prices and takes into account producer prices being offered in neighboring countries in the subregion.

V. Additional Information for Program Monitoring

A. Government Finances

44. The government will provide IMF staff with the following:

- the TOFE and a breakdown of budgetary revenue and expenditure, including priority expenditure (health, education, and basic infrastructure), and distinguishing HIPC Initiative-related expenditure (these data will be forwarded monthly within six weeks following the end of the previous month for the TOFE and twelve weeks for the breakdown of HIPC-related expenditure);

- quarterly data on the implementation of the public investment program, including a breakdown of the sources of financing (these data will be transmitted within eight weeks following the end of the quarter); and

- monthly data on debt service, including a breakdown of principal, interest, and relief obtained under the HIPC Initiative (these data will be transmitted within four weeks following the end of the month).

B. Monetary Sector

45. The government will each month, within four weeks following the end of the month, unless otherwise indicated submit the following:

- the summary accounts of the BCEAO ;

- external assets and liabilities of the BCEAO (within eight weeks);

- summary accounts of commercial banks;

- summary accounts of the banking system;

- lending and deposit interest rates, and the BCEAO's intervention rates and reserve requirement; and

- prudential ratios for bank and nonbank financial institutions (within six weeks), and, if necessary, these same indicators for individual institutions.

C. Balance of payments

46. The government will provide IMF staff with the following:

- any revisions of the balance of payments data (including services, private transfers, official transfers, and capital transactions) as soon as the revisions are made; and
- preliminary annual balance of payments data within 12 months of the end of the year concerned.

D. Real sector

47. The government will provide IMF staff with the following:

- the harmonized monthly consumer price index disaggregated by category of expenditure every month within two weeks after the end of the month;
- the national accounts within nine months after the end of the year; and
- any revision of the national accounts.

Table 1. Mali: Summary of Data to Be Reported

Data Type	Tables	Frequency	Time Frame
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of the national accounts	Variable	8 weeks following the revision
	Disaggregated consumer price indices	Monthly	End of month + 2 weeks
Government finance	Net bank credit to the government, including the list of bank accounts of public entities	Monthly	End of month + 4 weeks (provisional); end of month + 8 weeks (final)
	TOFE		End of month + 6 weeks
	Breakdown of budgetary revenue and expenditure in the context of the TOFE.	Monthly	End of month + 6 weeks (TOFE)
	Separate report on expenditure financed with HIPC Initiative resources.	Monthly	End of month + 12 weeks
	Execution of investment budget	Quarterly	End of quarter + 8 weeks
	Tax revenues in the context of the TOFE	Monthly	End of month + 6 weeks
	Wage bill in the context of the TOFE	Monthly	End of month + 6 weeks
	Basic fiscal balance in the context of the TOFE	Monthly	End of month + 6 weeks
Monetary and financial data	Summary accounts of the BCEAO, summary accounts of banks, and accounts of the banking system	Monthly	End of month + 4 weeks (provisional); end of month + 8 weeks (final)
	Foreign assets and liabilities of the BCEAO	Monthly	End of month + 8 weeks
	Lending and deposit interest rates, BCEAO intervention rates, and BCEAO required reserve rates	Monthly	End of month + 4 weeks
	Bank prudential ratios	Monthly	End of month + 6 weeks
Balance of payments	Balance of payments	Annually	End of year + 12 months
	Revisions of balance of payments	Variable	8 weeks following each revision
External debt	Breakdown of all new external borrowing	Monthly	End of month + 4 weeks
	Debt service, indicating amortization, interest payments, and relief obtained under the HIPC Initiative	Monthly	End of month + 4 weeks

Mali: Relations with the Fund

As of May 31, 2001

I. Membership Status: Joined: 09/27/1963; Article VIII

II. General Resources Account:	SDR Million	%Quota
Quota	93.30	100.0
Fund Holdings of Currency	84.47	90.5
Reserve position in Fund	8.83	9.5

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	15.91	100.0
Holdings	.21	1.3

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
Enhance Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	126.81	135.9

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	08/06/1999	08/05/2002	46.65	13.50
ESAF	04/10/1996	08/05/1999	62.01	62.01
ESAF	08/28/1992	04/09/1996	79.24	79.24

VI. Projected Obligations to Fund: Under the Repurchase Expectations Assumptions [1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue		Forthcoming			
	05/31/2001	2001	2002	2003	2004	2005
Principal		9.0	21.0	21.1	21.7	18.2
Charges/interest		.9	1.1	1.0	.9	.8
Total		9.9	22.1	22.1	22.6	19.0

[1] Repurchase expectations apply to purchases after November 28, 2000 in the credit tranches, including the Compensatory Financing Facility, and under the Extended Fund Facility. Repurchases in the credit tranches and the Extended Fund Facility are expected to be completed in 2 ¼ - 4 years and 4 ½ - 7 years, respectively. The Fund has the option of extending the repurchase expectations upon request by members.

Mali: Relations with the Fund

VII. **Exchange Rate Arrangement**

Mali is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the union, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, was pegged to the French franc at the rate of CFAF 50 = F 1 from 1948 until early 1994. Effective January 12, 1994, the CFA franc was devalued, and the new parity set at CFAF 100 = F 1. Effective January 1, 1999, the CFA franc was pegged to the euro at a rate of CFAF 655.96 = EUR 1. On June, 27 2001, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 954.03. As of June 1, 1996, and in conjunction with its WAEMU partners, Mali accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

VIII. **Article IV Consultations**

Mali is on the standard 12-month Article IV consultation cycle. The 2000 Article IV consultation was completed by the Executive Board on September 6, 2000 (EBS/00/162).

IX. **HIPC Initiative-related issues**

On September 6, 2000, the Executive Board decided that Mali had reached the completion point under the original Heavily Indebted Poor Countries (HIPC Initiative) and the decision point under the enhanced initiative. Cumulative assistance under the original and enhanced frameworks would amount to US$523 million in end-1998 net present value (NPV) terms, reducing the NPV of debt outstanding at end-1998 to US$906 million (63 percent of present HIPC Initiative debt stock). During the discussion most Directors commented on the optimistic date proposed by the authorities for a completion point of the enhanced HIPC by June 2001. The authorities have now indicated September 2001 as the date for completing the full PRSP. It is therefore expected that the completion point of the enhanced HIPC will be presented to the Board with the third review of the PRGF in December 2001.

X. **Technical Assistance**

Department	Type of Assistance	Time of Delivery	Purpose
STA	Staff	July 17-29, 1991	Assisting through multitopic technical assistance mission in the elaboration of a statistical action plan.

Mali: Relations with the Fund

STA	Expert	May 16-June 19, 1992 and April 30-May 21, 1993	Strengthening the capacity of the national agency of the Central Bank of West African States (BCEAO) to compile balance of payments statistics.
FAD	Staff and expert	November 9-26, 1992	Improving fiscal performance in the framework of the ESAF program.
FAD	Resident expert	September 1993-September 1994	Advising the Minister of Finance and Commerce on the reform of the tax department.
FAD	Staff expert	April 9-13, 1995	Advising the Minister of Finance and Commerce on improving tax administration and revenue and reviewing long-term technical assistance.
STA	Resident expert	May 1995-August 1996	Providing assistance and training to strengthen the capacity to compile national accounts.
FAD	Staff and expert	September 18-October 2, 1995	Advising the Minister of Finance and Commerce on strengthening tax and customs administration.
FAD	Staff	April 22-26, 1996	Examining proposals for the reform of direct taxation.
FAD	Staff	May 26-June 2, 1997	Following up on previous FAD mission's recommendations in the area of tax administration.
STA	Staff	June 16-27, 1997	Improving the national accounts statistics.

Mali: Relations with the Fund

STA	Staff to BCEAO headquarters	July 30-August 11, 1997	Improving quality and timeliness of monetary statistics.
FAD	Staff and expert	March 24-April 18, 1998	Advising on fiscal implications of the common external tariff and the reform of indirect taxation, and following up on earlier recommendations on the reform of tax policy and administration.
FAD	Staff and expert	August 11-November 10, 1998	Following up on previous FAD mission on direct and indirect tax reforms, including the value-added tax (VAT).
STA	Staff/BCEAO	February 4-17, 1998	Assisting with statistical organization and management.
FAD	Panel expert	July 1999–July 2000	Assisting in the implementation of the unified VAT.

X. Resident Representative

Mr. Williams, the current Resident Representative, took up this assignment in September 1998. Previously, a Resident Representative was stationed in Bamako between 1982 and 1991, from October 1993 until October 1995, and from July 1996 to August 1998.

Mali: Relations with the World Bank Group

(As of May 31, 2001)

1. Statement of IDA credits as of May 31, 2001

Credit Number	IDA Fiscal Year	Purpose	Commitments[1]	Undisbursed
			(In millions of U.S. dollars)	
Number of credits closed: 55			874.1	
P001747	1993	Private Sector Assistance	12.0	2.0
P001730	1994	Transport Sector	65.0	8.0
P001751	1994	Agricultural Research	20.0	0.6
P001755	1995	Agro-processing TRD	6.0	1.1
P001735	1996	Economic Management	85.4	0.2
P034617	1996	Sélingué Rehabilitation	27.3	4.7
P001746	1996	Vocational Education	13.4	4.5
P046651	1997	Regional Power	17.1	7.0
P001738	1997	Irrigation Promotion	4.2	2.6
P001750	1997	Urban Development and Decentralization	80.0	42.3
P035617	1998	Grassroots Hunger/Poverty	21.5	10.7
P040652	1999	Integ. Health Sector Investment	40.0	33.1
P058770	2000	Improving Learning in Primary Schools	3.8	3.1
P001748	2000	Financial sector development	21.0	19.3
P041723	2000	Rural infrastructure	115.1	108.9
P040650	2001	Education sector expenditure program	45.0	44.3
		Total[2]	576.8	
		Of which: repaid	152.1	
		Total held by IDA[3]	963.2	
		Total undisbursed		292.3

[1] Less cancellations
[2] Projects under execution
[3] Total commitments including closed credits

Mali: Relations with the World Bank Group

Statement of IFC investments as of May 31, 2001

Fiscal Year	Borrower	Type of Business	Original Gross Commitments Loan	Equity 1
			(In millions of U.S. dollars)	
1992	Société Minière de Syama (SOMISY)	Mining	0.00	0.47
1994	AEF Hotel de Bamako	Tourism	0.22	0.00
1995	La Société d'Exploitation des Mines d'Or de Sadiola, S.A.	Mining	7.00	4.80
1996	African Enterprise Fund	"One-stop" on-lending to small enterprises	0.52	0.00
1997	SEF 3T		0.02	0.00
1997	SEF Grand Hotel	Tourism	1.11	0.00
1998	RANDGOLD	Mining	0.00	17.23
1999	PAL Rabelais	Tourism	0.20	0.00
2001	SEF Fibromat		0.11	0.00
	Total gross commitments		9.18	22.50

2. World Bank Group Operations

As of May 31, 2000 IDA has extended 71 credits to Mali (including Africa Facility, special funds and supplementary credits) totaling US$1450.8 million. The current IDA portfolio in Mali consisted of 16 projects under implementation, in the amount of US$576.8 million (US$491.4 million of investment projects and US$85.4million for adjustment operation). The undisbursed amount totaled US$292.4 million. In addition, as of May 31 2001, the portfolio held by the International Finance Corporation for Mali consists of 9 operations totaling US$9.18 million in loans and US$22.50 million in equity. Mali Joined MIGA on October 5, 1990.

In support of Mali's effort to restructure its economy, IDA has approved a structural adjustment credit, an economic recovery credit, an economic management credit, and sector adjustment operations in the public enterprise, education, and agriculture sectors. The Bank has also provided technical assistance to strengthen the Malian institutions responsible for the design and implementation of economic and financial policies.

Source: The World Bank Group.

Downside Risk Scenarios

As seen in 2000, Mali is highly vulnerable to droughts and adverse terms of trade shocks. These developments contributed in large part to a deterioration in Mali's external and budgetary accounts, as well as in its growth performance in 2000. With a view to testing the sensitivity of the baseline forecast to these shocks, an analysis was performed under two scenarios: (i) a low-growth scenario caused by a severe drought; and (ii) a permanent drop in the international price of cotton. While both shocks begin in 2001 and continue through the forecast period, their impact is felt starting only in 2002 because production and prices relevant for 2001 are already known from the previous crop year (which runs from May to April).

Scenario 1 – severe drought through 2004.

The primary adverse direct impact is assumed to be on cotton and cereal production, as well as on livestock production, all-starting in 2002. Related activity, such as commerce and transport would also expected to feel an indirect impact.

The effect of the drought on specific sectors is as follows:

- **Cotton.** The baseline scenario already takes only 90 percent of the government projection throughout the period. In the drought scenario, the rebound in cotton production in 2002 is limited to 75 percent (compared with 84½ percent in the baseline scenario). From 2003 onward, the average growth rate is limited to 4 percent (compared with an average of 7 percent growth per year in the baseline scenario).
- **Cereal.** It is assumed that production is only 75 percent of the level in the baseline scenario for 2002, and that it grows on average by 3 percent from 2003 onward.
- **Livestock.** Production is lower by 25 percent in 2002 (compared with the baseline) and in subsequent years in order to take into account the natural delays in the reconstitution of the herd after a drought (typically five to seven years).
- **Secondary effects.** It is assumed that transport and commerce grow by 20 percent lower than in the 2002 baseline and then rebound to their historical average growth of respectively, 3 percent and 1 percent during 2003-04.

Scenario 2 – low world price for cotton

The following assumptions are made:

- The world cotton price is 10 percent lower than the baseline scenario on a permanent basis.
- The pass-through mechanism that is expected to be implemented in 2002 in the context of the cotton reform would translate into a lower producer price starting in 2003. Assuming a price elasticity of about 0.5 for cotton, production also would decline in this scenario, starting in 2003.

The main results of these two downside risk scenarios are shown in the box below. Under both scenarios, it is assumed that government expenditure remains unchanged, that the government neither takes steps to curtail expenditure in the face of declining revenue, nor raises expenditure on social safety net outlays to accommodate the impact of the crisis on the population. In addition, under both scenarios, imports decline with the fall in real GDP. In the first scenario, however, it is assumed that cereal imports increase to maintain a minimum subsistence level of food needs.

The main effects of the two alternative scenarios are as follows:

- **The impact of bad weather is severe.** Relative to the baseline scenario, real GDP on average per year during 2002–04, is almost 2 percentage points lower, the current account deficit is 1½ percentage points worse, the basic budgetary balance is about ½ of 1 percent more deteriorated, and the budgetary financing gap is CFAF 14½ billion wider.

- The largest impact of the **low world price scenario** is on the current account balance, followed by the impact on the government budget. Export revenue from cotton drops by 3 percent in 2002, 4 percent in 2003, and 6 percent in 2004. Relative to the baseline scenario, the current account deficit is on average per year during 2002–04, about 1 percentage point worse and the budgetary financing gap about CFAF 5½ billion wider.

Box 1. Mali: Impact of Poor Weather and Low Price Scenarios, 2001-04

	2001	2002	2003	2004
		Projections		
Real GDP 1/				
Baseline	-1.2	7.0	6.6	6.0
Bad weather	-1.2	5.2	4.7	3.9
Low cotton price	-1.2	7.0	6.1	5.8
Current account balance 2/ 3/				
Baseline	-13.9	-11.9	-10.3	-8.8
Bad weather	-13.9	-13.2	-11.6	-10.7
Low cotton price	-14.0	-12.8	-11.4	-10.4
Budgetary financing gap 4/				
Baseline	51.2	29.2	0.0	0.0
Bad weather	51.2	39.8	11.2	22.1
Low cotton price	51.2	30.2	6.0	9.6
Basic fiscal balance 2/				
Baseline	-3.2	-0.1	1.6	1.9
Bad weather	-3.2	-0.6	1.1	1.0
Low cotton price	-3.2	-0.1	1.3	1.5

1/ In percent.
2/ In percent of GDP.
3/ Excluding grants.
4/ In billions of CFA francs.

Statement by the IMF Staff Representative
July 25, 2001

1. This statement reports on implementation of the prior actions for the second review under Mali's Poverty Reduction and Growth Facility Arrangement and the presentation of the second annual program under this arrangement, as specified in EBS/01/113, Appendix I, Attachment I, paragraph 33, and reports on the authorities' consent to publication.

2. Documentation received from the Malian authorities confirms that:

- The statement of development policy for the reform of the cotton sector (which provides a broad outline of the reform plan for the sector, summarized in Box 2 of EBS/01/113) was adopted by the government on June 6, 2001.

- A short-term financial crisis resolution plan for the *Compagnie Malienne de Développement et de Textiles* was completed and presented to the donor community on June 14, 2001.

- A plan to repay before September 30, 2001 the CFAF 30 billion owed by the CMDT to local banks and guaranteed by the government was completed and validated by these banks on June 30, 2001.

- The increase in water and electricity tariffs by 10 percent and 5 percent, respectively, became effective on July 1, 2001.

- The implementation of the new taxation system of petroleum products (that automatically reflects changes in import prices in retail prices) became effective on July 12, 2001.

3. Accordingly, staff has determined that all the stipulated prior actions have been taken.

4. With regard to the new taxation system for petroleum products, the specific tax rates that have been applied are significantly lower than the understandings staff reached with the authorities. As a consequence, a shortfall of petroleum tax revenue is now projected for 2001, estimated at CFAF 6 billion (0.3 percent of GDP). In a letter to the staff, dated July 20, 2001, the authorities have provided data that indicate that the surplus in non-petroleum tax revenue registered in the first half of 2001 will more than compensate for the shortfall in petroleum tax revenue. The better-than-programmed non-petroleum tax revenue performance in the first half of the year reflects higher-than-projected increased tax yield from administrative measures (described in paragraph 22 of EBS/01/113, and paragraph 10 of EBS/01/113, Appendix I, Attachment I) being implemented.

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5. Finally, the authorities have consented to the publication by the Fund of the staff report, in addition to the publication of the letter of intent, the memorandum of economic and financial policies, and the technical memorandum of understanding.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
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International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves Loan of US$14.4 million under PRGF Arrangement for Mali

The Executive Board of the International Monetary Fund (IMF) completed the second review of Mali's program under Mali's Poverty Reduction and Growth Facility (PRGF)[1] arrangement.

In order to help Mali address the hardship stemming from the various shocks that have hit the economy since last year, the Executive Board approved an increase in the resources committed under the PRGF arrangement by SDR 4.665 million (about US$5.9 million). The Executive Board also extended the commitment period of the PRGF arrangement to August 5, 2003.

The completion of this review and commitment of additional resources, thus enables Mali to draw a total of SDR 11.415 million (about US$14.4 million), under the arrangement immediately.

Mali's three-year program was originally supported under the Enhanced Structural Adjustment Facility (ESAF), approved on August 6, 1999 (see Press release 99/39) for SDR 46.65 million (about US$58.7 million). So far, Mali has drawn SDR 13.50 million (about US$17 million) under the PRGF arrangement.

Following the Board discussion on Mali, Eduardo Aninat, Deputy Managing Director and Acting Chairman, said:

"Developments in 2000 were adversely affected by a crisis in the cotton sector, an increase in oil prices, a drought, and the impact of other developments in the region. These shocks caused a slowdown in economic activity, lowered government revenue, and widened the external sector deficit.

[1] On November 22, 1999, the IMF's concessional facility for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), was renamed the Poverty Reduction and Growth Facility (PRGF), and its purposes were redefined. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a poverty reduction strategy paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework of macroeconomic, structural, and social policies to foster growth and reduce poverty. Malian authorities are implementing their poverty reduction strategy along the lines described in the interim PRSP. They aim to produce their full PRSP by September 2001. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

"Notwithstanding these shocks, program implementation was broadly satisfactory. Progress was made in the implementation of structural reforms, with the privatization of the energy company and the appointment of new associate judges at the commercial courts. However, delays were encountered in the preparation of a satisfactory action plan to reform the CMDT (the cotton company). Remedial steps are now being taken to improve the company's internal management and marketing strategies, and to lower its operating costs. In addition, the Malian authorities have prepared a reform agenda for the cotton sector in close collaboration with the World Bank, that envisages its complete liberalization by 2005.

"Reflecting the cumulative impact of the above-mentioned shocks, real GDP is projected to decline by about 1 percent in 2001. The external sector deficit is projected to deteriorate further owing to the sharp drop in the volume of cotton exports. The budgetary deficit is also projected to worsen in 2001, reflecting increased outlays related to restructuring of the cotton sector and higher election costs. In an effort to limit the weakening of the budgetary situation, the authorities will reduce nonpriority spending and reinforce their tax collection efforts.

"The structural program for 2001 focuses on the reform of the cotton sector, including the preparation of a medium-term financial restructuring of the CMDT and preparation for the privatization of the assets in one cotton-producing region. Other structural measures are designed to further civil service reform and to establish a mechanism for monitoring the use of resources freed by assistance under the enhanced HIPC Initiative. The government is pursuing its poverty reduction strategy, in line with the interim PRSP, and has made efforts to raise the share of poverty-reducing outlays.

"Resolution of the crisis in the cotton sector will be critical for the resumption of growth and the return to a sustainable fiscal path. The steps being taken by the authorities to address the weakness in the cotton sector are expected to reestablish confidence among cotton growers, avoid a weakening of the domestic banking system, and ensure the financing of the 2001/02 crop season."

Recent Economic Developments

The cotton sector crisis was triggered by depressed world prices for cotton fiber, weaknesses in the management of the cotton Compagnie Malienne de Développement des Textiles (CMDT), and the producers' decision to boycott the cotton farming to protest the low producer price paid by the CMDT.

Real GDP growth slowed to about 4 percent in 2000 from 6 ½ percent in 1999, but inflation remained subdued. The real affective exchange rate continued to depreciate, contributing to gains in external competitiveness.

Revenue performance in 2000 was adversely affected by the hike in oil price and slowdown in the economy. As a result, the basic budgetary balance turned into a deficit of 0.8 percent of GDP.

Nonetheless, higher-than-expected privatization receipts and budgetary assistance helped the authorities meet the expenditure program in 2000.

Program Summary

The cotton sector crisis had a destabilizing effect on the Malian economy. The authorities are determined to tackle this difficult situation. Total expenditure will be higher than originally programmed due to the cost to the budget of restructuring the cotton sector. In fact, the increase in government expenditure reflects primarily onetime outlays to stabilize the economy, as well as to foster social peace and the democratization process. To cover these outlays, the authorities are anticipating fiscal revenue of CFA 288.3 billion in 2001. In spite of the economic crisis, this target should be met in part because increased activity in the mining sector will bring in CFA 18.9 million in dividends.

On the fiscal front, the basic fiscal balance is expected to reach a deficit of 3.2 percent of GDP in 2001, as against the surplus of 1.4 percent initially programmed. The authorities are aware that additional efforts will be necessary in the coming years to keep spending under control.

The government of Mali reaffirms its commitment to implement a policy of liberalizing the economy, which implies that the government will withdraw from the productive, industrial, and commercial sectors, to the benefit of the private sector. But the key structural reform will be in the cotton sector. The reform of the cotton sector aims at lowering production prices, establishing a market-based pricing mechanism, strengthening producers' organizations, enhancing the participation of the private sector, and increasing the contribution of the cotton sector to the national economy.

The authorities are implementing their poverty reduction strategy along the lines described in the interim poverty reduction strategy paper (I-PRSP). A special treasury account has been opened at the Central Bank of West African States (BCEAO) to house HIPC Initiative resources freed by assistance under the initiative. The allocation of social spending reflects the priorities set out in the I-PRSP and poverty-related outlays have increased by 1.2 percentage points of GDP between 2000 and 2001.

Mali joined the IMF on September 27, 1963, and its quota[2] is SDR 93.30 million (about US$118 million). Its outstanding use of IMF credit currently totals SDR 126.81 (about US$160 million).

[2] A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weights, its access to IMF financing, and its share in the allocation of SDRs.

Mali: Selected Economic and Financial Indicators, 1998-2002

	1998	1999	2000	2001	2002
			Est.	Projections	
	(Annual percentage change, unless otherwise specified)				
National income and prices					
Real GDP	4.9	6.6	4.3	-1.2	7.0
GDP deflator	6.7	-1.7	-0.3	4.0	2.1
Consumer price index (annual average)	4.1	-1.2	-0.7	4.5	3.1
External sector					
Exports, f.o.b.	1.0	6.2	4.7	25.3	11.0
Imports, f.o.b.	3.4	13.2	13.0	8.6	11.2
Real effective exchange rate (average)	4.4	-4.1	-7.4	...	...
Government budget					
Domestic revenue	11.0	6.9	-1.0	16.5	12.3
Current expenditure	0.1	15.1	3.1	29.7	-6.2
Capital expenditure and net lending	21.5	4.0	7.3	19.5	1.0
Money and credit					
Net domestic assets	13.8	11.5	-2.1	-1.0	6.2
Broad money (M2)	4.4	1.3	11.9	2.8	9.2
	(In percent of GDP, unless otherwise specified)				
Investment and savings					
Gross domestic investment	21.1	20.0	21.3	20.7	21.2
Gross domestic savings	12.8	10.0	9.3	10.5	11.4
Government budget					
Domestic revenue	16.0	16.3	15.5	17.6	18.1
Total expenditure and net lending	24.1	25.0	25.3	30.6	27.4
Overall balance (commitment basis, excluding grants)	-8.1	-8.7	-9.8	-13.0	-9.2
Basic fiscal balance	1.3	0.1	-0.8	-3.2	-0.1
External sector					
Current external balance, excluding official transfers	-9.3	-10.8	-12.4	-13.9	-11.9
Current external balance, including official transfers	-7.5	-9.3	-9.8	-13.0	-11.3
Debt-service ratio					
Before debt relief	11.4	12.5	13.6	12.4	13.4
After debt relief	11.4	12.5	13.0	9.8	10.5
	(In millions of U.S. dollars, unless otherwise specified)				
Overall balance of payments	-38.2	-20.7	34.8	-52.7	-35.6

Sources: Malian authorities; and IMF staff estimates and projections.