

Mali: 2001 Article IV Consultation, Third Review Under the Poverty Reduction and Growth Facility, Third Annual Program, and Request for Modification of Performance Criteria—Staff Report; Staff Statement; Public Information Notice and News Brief on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2001 Article IV consultation with Mali and third review under PRGF, third annual program, and request for modification of performance criteria, the following documents have been released:

- the staff report for the 2001 Article IV consultation, third review under the Poverty Reduction and Growth Facility, third annual program, and request for modification of performance criteria, prepared by a staff team of the IMF, following discussions that ended on **November 13, 2001**, with the officials of Mali on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on November 30, 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 **December 17, 2001**, updating information on recent economic developments.
- the Public Information Notice (PIN) and a News Brief summarizing the **views of the Executive Board as expressed during the December 17, 2001 Executive Board discussion** of the staff report that concluded the Article IV consultation.

The policy of publication of Article IV staff reports and PINS allows for the deletion of market-sensitive information.

The document(s) listed below have been or will be separately released

Joint Staff Assessment of the Poverty Reduction Strategy Paper Preparation Status Report
Letter of Intent*
Memorandum of Economic and Financial Policies*
Poverty Reduction Strategy Paper Preparation Status Report
Selected Issues and Statistical Annex
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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**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

MALI

**Staff Report for the 2001 Article IV Consultation, Third Review Under the Poverty
Reduction and Growth Facility, Third Annual Program,
and Request for Modification of Performance Criteria**

Prepared by the African Department

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

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November 30, 2001

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EXECUTIVE SUMMARY

Recent development and prospects for the remainder of 2001

- The growth-oriented adjustment strategy that has been in place since the early 1990s has provided a boost to economic growth. This strategy also contributed to a reduction in the incidence of poverty by about 7½ percentage points during 1996-2000.
- Program implementation to date has been satisfactory, with all quantitative performance criteria and benchmarks observed through end-July 2001. Structural measures have been implemented in the cotton sector and with respect to the taxation of petroleum products, the pricing of public utilities, and the tracking of expenditures from HIPC Initiative resources. In addition, a plan has been prepared for the allocation of HIPC Initiative resources during 2002-05.
- Real GDP is expected to stagnate in 2001, owing to the cumulative effects from last year of the drought and the sharp drop in cotton production. Inflation jumped to 6.3 percent (year on year) in July 2001, reflecting a food shortage, but with improved prospects for cereal, inflation is decelerating. The current account balance, excluding grants, for 2001 is expected to deteriorate by about 1 percentage point of GDP relative to 2000 on account of the drop in cotton exports and a rise in profit transfer from mining companies.
- Tax revenue slightly exceeded the program target during January–September 2001. During the same period, overall budgetary outlays were kept below the program target, and the basic fiscal balance registered a small surplus.
- For the last quarter of 2001, a shortfall is envisaged in program financing, and the bulk of expected budgetary assistance will be disbursed at the end of 2001. With a view to safeguarding to a maximum the original objectives of the program, a package of measures was designed, entailing a combination of revenue mobilization, the postponement of some expenditure to the first quarter of 2002, and the issuance of treasury bills.

Prospects and program for 2002

- There is evidence that the satisfactory implementation of the program to date has restored confidence in the cotton sector. Real GDP growth is projected to reach 6.7 percent in 2002, reflecting a rebound in cotton production, and inflation is expected to decelerate.
- With the deterioration in the world cotton outlook, the macroeconomic framework is projected to weaken relative to the baseline scenario, as growth projections have been scaled back during 2002-05. Notwithstanding the rebound in cotton production in 2002, the current account balance is expected to deteriorate relative to the baseline scenario, owing to the sharp decline in private transfers and the hike in the transfer of profits of mining companies. Also, the pace of fiscal consolidation in 2002 and over the medium term will be slower than in the baseline, owing primarily to the deficit in the cotton sector. Finally, the prospects of Mali's contributing to official reserves of the monetary union have diminished.
- The 2002 budget reflects efforts to lower poverty, addresses the problems in the cotton sector, foster the democratization process, minimize the social impact of the program to liberalize the economy, and start the fiscal consolidation process. The degree of fiscal consolidation in 2002 will inevitably be smaller than originally projected, owing largely to

the increased outlays related to the cotton sector and the social plans. In order to compensate for part of these additional expenditures, the authorities aim to mobilize additional revenue, while maintaining current expenditure at a strict minimum. The basic fiscal deficit is expected to narrow by 0.7 percentage point of GDP over 2001.

- The structural reform program focuses on two critical areas: the cotton sector and public expenditure management. A key measure is the completion of a study on the steps and options necessary for the liberalization of the cotton sector. In view of the envisaged application of the market-based price mechanism for producer prices, the cotton monopsonist is expected to deepen its cost-cutting efforts. The reform of public expenditure management will focus on improving the external control system, as well as the coding system in order to identify poverty-related spending.

Staff appraisal

- The staff is encouraged by the return of producer confidence in the cotton-growing areas following the steadfast implementation of the program. With a view to safeguarding to the maximum the original objectives of the program, the authorities will implement a revised plan to deal with the identified shortfall in budgetary assistance in the last quarter of 2001. The resolute implementation of the revised plan would ensure the return of macroeconomic stability, as well as stability in the run-up to the elections early next year.
- It will be critical for the authorities to maintain the momentum of reform in the cotton sector during the run-up to presidential elections. The early implementation of delayed key structural performance criteria and benchmarks will measure the authorities' resolve to move ahead with reform in the sector. The staff views the completion of a study on the steps and options necessary for the liberalization of the cotton sector as a critical ingredient of the PRGF-supported program in the second half of 2002. The staff expects that the participatory process that has been used to plan and implement the cotton sector reform agenda will be a critical ingredient in ensuring that the reform program is picked up by the government that takes office in the second half of 2002.
- The staff views the fiscal stance for 2002 as appropriate in order to achieve the objectives of the program. The staff commends the authorities' efforts to raise tax revenue. However, in order to meet the program's targets, the authorities should stand ready to reinforce revenue mobilization and/or lower nonpriority expenditure, in case the revenue target becomes unreachable.
- The preparation of the full PRSP is at an advanced stage but, as indicated in the joint staff assessment of the PRSP preparation status report, still requires work in certain areas. The staff is encouraged by the authorities' efforts to ensure the 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. The discussions for the 2001 Article IV consultation, as well as on the third review and the third annual program under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), were held in Bamako during October 8-24, 2001; technical discussions on the program continued in Washington during November 1-2, 2001 and were concluded on November 13, 2001.¹ The staff also discussed the authorities' draft PRSP preparation status report. Mali's three-year arrangement under the PRGF, in an amount equivalent to SDR 46.65 million (50 percent of quota), was approved on August 6, 1999 (EBS/99/129; 7/16/99). Mali reached the decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) on September 6, 2000. Cumulative assistance under the original and enhanced HIPC Initiative frameworks would amount to US\$523 million in end-1998 net present value (NPV) terms, thereby reducing the NPV of debt outstanding at end-1998 to US\$906 million (63 percent of pre-HIPC Initiative debt stock). Mali is on the standard 12-month consultation cycle, and the last Article IV consultation was concluded on September 6, 2000.

2. The second review under the PRGF was completed by the Executive Board on July 25, 2001. On that occasion, Mali's request was approved 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). In completing the second review and discussing the program for 2001, Directors noted that the resumption of growth would require strong implementation of structural reforms in the cotton sector, continued pursuit of sound macroeconomic policies, and improved governance. To date, three disbursements, two in an amount equivalent to SDR 6.750 million and one in an amount equivalent to SDR 11.415 million, have been made under this arrangement. Mali's outstanding use of Fund resources at end-September 2001 amounted to the equivalent of SDR 135.7 million (145.5 percent of quota).

3. In the attached letter and memorandum of economic and financial policies (MEFP), dated November 30, 2001 (Appendix I, Attachment I), the Minister of Economy and Finance

¹ The mission met with Mr. Sidibé, Prime Minister of Mali. Mr. Aninat participated in some policy discussions. The Malian representatives included Mr. Koné, Minister of Economy and Finance, Mr. Traoré, the National Director of the Central Bank of West African States (BCEAO), and other senior officials. The mission also met with representatives of commercial banks, labor unions, and the private sector. The staff team consisted of Mr. Ghura (head-AFR), Ms. Gaye, Mr. Krichene, Mr. Zejan; (all AFR), and Mr. Hartley (PDR). The Resident Representative, Mr. Williams, and the World Bank resident mission's economist, Mr. Diabaté, fully participated in the mission. Mrs. Diallo, the resident mission's staff assistant, provided secretarial assistance. Ms. Carvalho (AFR) offered research assistance at Headquarters. The mission worked closely with a parallel World Bank team that was in Bamako.

reviews developments during the first seven months of 2001 and sets out the measures to be implemented during the remainder of 2001, as well as for the first half of 2002, in order to achieve the objectives of the revised program. A 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.

4. The World Bank is preparing a third structural adjustment credit (SAC III) in the amount of \$70 million, expected to be presented to the World Bank Board of Executive Directors in December 2001. Disbursements under this credit will be in three tranches (one tranche is expected in 2001, and two in 2002) and will contribute to covering the financing gap. A summary of Mali's relations with the World Bank Group is presented in Appendix III.

5. 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 various technical assistance missions. 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 A description of Mali's statistical database is provided in Appendix IV.

II. RECENT ECONOMIC PERFORMANCE AND PROGRAM IMPLEMENTATION

A. Background and Program Implementation

6. **The authorities noted that the program for 2001 was designed to address the economic crisis and dampen its impact on the population, as well as to foster the democratization process.** The economic crisis had been brought on by problems in the cotton sector,³ the hike in oil prices, a drought, and tensions in neighboring Côte d'Ivoire. The resolution of the problems in the cotton sector was deemed critical for the resumption of growth and the return to a sustainable fiscal path. The program included measures to reestablish confidence among cotton growers, avoid a weakening of the domestic banking system, and ensure the financing of the 2001/02 (April–March) crop season. As described below, there is evidence that the satisfactory implementation of the program to date has restored confidence in the cotton sector, thereby setting the stage for the resumption of growth next year.

² Under the safeguards assessment policy, the Central Bank of the West African States (BCEAO), of which Mali is a member, is subject to a full Stage-One safeguards assessment. See Appendix II, Section VIII, for an update on the status of the assessment.

³ The cotton sector crisis was triggered by weaknesses in the management of the cotton monopsonist (CMDT) and the decision by a majority of producers to boycott production in order to protest the low producer price paid by the CMDT, and it was compounded by depressed world prices for cotton fiber.

7. **The implementation of the program through July 2001 was satisfactory**, notwithstanding the current economic difficulties. All end-July 2001 quantitative performance criteria and quantitative benchmarks were observed (Table 1 of the MEFP).⁴ A number of **structural measures have been implemented** since the beginning of the year (para. 7 and Table 2 of the MEFP). The authorities prepared an action plan for the reform of the cotton sector. They also prepared and executed a short-term financial rescue plan for the Compagnie Malienne de Développement des Textiles (CMDT). In addition, they implemented a new, transparent taxation mechanism for petroleum products, raised the rates for water and electricity, prepared a plan for the allocation of resources freed up under the enhanced HIPC initiative, and introduced codes in the 2002 budget to track HIPC Initiative related expenditures⁵. Nonetheless, as detailed below in the MEFP (paras. 11-12), the reform agenda for the cotton sector will encounter delays, as it has taken longer than expected to secure donor financing to launch the relevant studies.

B. Economic and Political Development

8. **The authorities noted that real GDP would stagnate in 2001** on account primarily of the cumulative effects from last year of the above-mentioned shocks (Table 3 and Figure 1). This development is in sharp contrast to the sustained growth of about 5 percent per annum registered during the postdevaluation period, 1994-2000 (see Box 1 for an analysis of the sources of growth in Mali since 1980). On the **inflation front**, reflecting the food shortage that resulted from the drought and the increase in water and electricity rates, price pressures surged during the first seven months of the year, with consumer price inflation reaching 6.3 percent (year on year) in July 2001. However, with the improved prospects for cereal production this crop season, inflation decelerated to 5½ percent (year-on-year) in September 2001.

9. The **real exchange rate** appreciated somewhat in the first nine months of 2001, reflecting primarily the pick-up in domestic inflation. However, the staff concurred with the authorities that, given the low inflation recorded during the past five years, the gains in external competitiveness achieved through the 1994 devaluation have been largely preserved. **Trade data** show that the value of gold exports for the first six months of 2001 more than doubled (compared with the same period last year). However, nongold exports declined sharply over the period, mainly reflecting the drop in cotton exports. In addition, merchandise imports increased significantly over the first six months of 2001 (compared with the same period last year), driven to a large extent by

⁴ Preliminary data indicate that the end-September 2001 quantitative benchmarks were also observed.

⁵ The current emphasis given in the program to the tracking of expenditures financed by HIPC resources is not a substitute for a more comprehensive tracking (see para. 32).

Box 1. Mali: Sources of Economic Growth

Mali, a landlocked Sahelian nation, is one of the least developed countries in the world. The Malian economy, which is predominantly rural and is highly dependent on cotton, is subject to severe cyclical droughts. **Key constraints to sustained growth in Mali** include a low level of human capital, inadequate infrastructure, and high energy costs. Starting in the early 1990s, with the change of political regime to a democratic system, the government decided to transform and modernize the economy from a state-controlled system into one increasingly governed by market forces. Structural reforms were implemented in the areas of price and trade liberalization; tax reform; legal and regulatory reform; and the liberalization of the rice sector. Mali also benefited from the reform of monetary policy and the strengthening of bank supervision at the regional level. The CFA franc was devalued in 1994 at the zone-wide level and Mali implemented structural reforms in the postdevaluation period, namely, in the legal and regulatory areas, and the public enterprise sector.

A **growth accounting framework** is used for the analysis of the **sources of economic growth**. The following production function is used: $Y=AL^{0.6}K^{0.4}$, where Y is real GDP, A is total factor productivity (TFP), L is labor, and K is physical capital. The capital stock series was constructed by using the perpetual inventory accumulation framework, and assuming a constant depreciation rate of 6 percent and a capital-output ratio of 1.5 in 1967.

Mali: Sources of Economic Growth (In percent)			
	1980-85	1986-93	1994-2000
Real GDP growth	-0.3	3.2	5.2
Factor accumulation 1/	1.7	3.6	3.2
Solow residual 2/	-2.0	-0.4	2.0
Memorandum items:			
Investment-GDP ratio	15.4	20.2	22.1
Real investment growth	2.9	12.7	4.8
1/ Accumulation of labor and capital, using factor shares of 0.6 and 0.4 respectively.			
2/ Residual from the growth accounting exercise.			

The **main results of the analysis** are provided in the accompanying table. These results are fairly robust to small variations in the coefficients underlying the production function. It should be noted up-front however, that there are a number of weaknesses to this exercise, most notably the lack of data on the capacity utilization and unemployment rate, which are needed to adjust the capital stock and labor force series, respectively. Hence, the results need to be viewed as indicative. They are summarized as follows:

- **Factor accumulation explained the bulk of output growth before the devaluation** of the CFA franc in 1994, with little or no role played by total factor productivity. A large increase in capital stock made possible the boost in average output growth between 1980-85 and 1986-93. Major investment efforts were undertaken to raise cotton production, which increased by about 7 percent per year on average during 1986-93, compared with an average decline of about 1 percent per year in the preceding subperiod. The bulk of the increase in cotton production was the result of an expansion in acreage.
- **The 1994 devaluation provided a significant boost to output growth.** While factor accumulation continued to play a large role in the postdevaluation period (1994–2000), TFP growth played an enhanced role, explaining about one-fifth of output growth. The boost in TFP growth may have partly been the result of the lagged effects of the structural reforms implemented in the early 1990s.
- **Output growth in the postdevaluation period (1994-2000) was to a large extent export led,** with export volume growth increasing from about 6½ percent on average during 1986-93 to 8 percent during 1994-2000. The contribution to overall growth of the secondary and tertiary sectors was enhanced during the postdevaluation period.
- **Maintaining a sustained real GDP growth rate of 5 percent per year in the period ahead would require TFP growth of about 2 percent per year.** The liberalization of the cotton sector, as well as efforts to diversify the economy, will be critical in this regard. Competition will need to be introduced and fostered at various stages of cotton production. Boosting annual average potential output growth beyond 5 percent will require concerted efforts by the authorities to diversify the sources of economic growth and attract foreign direct investment.

an expansion in petroleum products and imports of machinery and equipment by mining companies.

10. **On the political front**, the next legislative and presidential elections are scheduled for mid-2002. President Konaré is serving the last of his two five-year terms in office. The vote would mark the country's first transition from one democratically elected president to another. 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. A referendum on a new constitution is expected to be held in the period ahead, the key objectives of which are to reinforce nationwide representation in the national assembly and to strengthen the judicial system.⁶ The staff acknowledged the authorities' view that a continuation of the efforts to address the ongoing economic difficulties and to foster social peace would be essential for a peaceful vote.

C. Fiscal Stance

11. **The fiscal program was on track during the first nine months of 2001.** The basic fiscal balance⁷ registered a small surplus, in contrast with a deficit projected in the program. Tax revenue is estimated to have reached CFAF 204½ billion during January-July 2001, slightly exceeding the programmed target, notwithstanding the shortfall in petroleum sector revenue (estimated at about CFAF 6 billion) (Table 5). The better-than-programmed nonpetroleum tax revenue performance in the first half of the year reflects a higher-than-projected increase in the tax yield from administrative measures in the areas of domestic tax service and nonpetroleum-based import duties.⁸ Nontax revenue was also slightly higher than programmed. Despite the higher-than-programmed execution of domestically financed investment during the first seven months of 2001 (by CFAF 6 billion), overall budgetary outlays through July 2001 were kept below the program target: current expenditures are estimated at CFAF 163 billion for that period (versus CFAF 177½ billion in the program). In

⁶ Currently, each deputy in the National Assembly is elected by popular vote within her/his 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 corepresentatives of their constituencies by the political party that won the majority of the popular vote. In addition, the new constitution calls for reinforcement of the judicial system by the separation of judicial functions into three autonomous bodies (Supreme Court, Commercial Court, and Constitutional Court).

⁷ Defined as total revenue (excluding grants) minus total expenditure and net lending (excluding foreign-financed investment).

⁸ These include the intensified use of the unique taxpayer identification numbering system and enhanced use of information technology at customs and border checkpoints.

addition, expenditure execution from resources freed up under the enhanced HIPC Initiative was broadly on target.

D. Monetary Development and the Financial Sector

12. **On the monetary front**, money supply increased sharply during the first nine months of 2001, reflecting a sharp rise in deposits and an increase in currency in circulation. The counterpart of the increase in money supply was an increase in the net foreign assets (NFA) of the domestic banking system. In addition, credit to the economy increased appreciably during the first nine months of 2001—registering a growth rate of 5½ percent (year on year) (Table 8) The central bank's NFA remained stable during this period owing to small cotton export proceeds and the absence of significant foreign assistance.

13. **The health of the banking system has been safeguarded** following the preparation and execution of an action plan by the government in June 2001 to repay the CFAF 30 billion owed by the cotton parastatal (CMDT) to the banking system. While the ratio of nonperforming loans was about 24 percent at end-June 2001, it had declined from its higher level at end-1998, mainly owing to more efficient recovery actions and better risk assessment in extending new credits. Nonetheless, between end-December 2000 and end-June 2001, the quality of banks' portfolio deteriorated somewhat due to the crisis in the cotton sector. The still-high level of nonperforming loans is partly due to the carryover by the BDM-SA (Banque de Développement du Mali) of a stock of bad loans from a liquidated bank. **Microfinance** has grown in recent years to fund microprojects in the informal sector, with preference given to low-income groups and individuals (Box 2).

III. REVISED PROGRAM FOR REMAINDER OF 2001

14. **The primary objectives of the program for 2001 were to address the economic crisis and dampen its impact on the population.** The execution of onetime outlays related to achieving the program's objectives was to be done primarily during the last quarter of 2001 as the program had envisaged that the bulk of donor assistance to close the financing gap was to reach Bamako during this period. In the event, notwithstanding the satisfactory implementation of the program thus far, a shortfall is envisaged in program financing (0.7 percent of GDP) for 2001,⁹ moreover, the bulk of expected budgetary assistance will be disbursed only at the end of 2001. With a view to safeguarding to the maximum the original objectives of the program the authorities designed a package of measures, entailing a combination of revenue mobilization (0.1 percent of GDP) and postponement of expenditure

⁹ This shortfall stems from technical delays in launching the international bids for a second cellular telephone operating license, as well as delays in the disbursements of budgetary assistance from one donor, owing to problems with the procedural steps. The bids for the second cellular license were issued in September 2001; the process is expected to be completed early next year.

(0.5 percent of GDP) to the first quarter of 2002. To tackle the remaining shortfall (0.1 percent of GDP), the ceiling on the net credit to the government would need to be raised by CFAF 2.8 billion for December 2001. In order to meet this financing need, as well as the more general financing need to manage the cash-flow constraints (arising because the bulk of the remaining donor assistance would not come until the end of 2001), amounting to an estimated CFAF 32 billion, the authorities are to issue treasury bills and resort to central bank financing on a temporary basis.¹⁰ The authorities have already drawn CFAF 29 billion from the central bank in order to relieve the cash-flow pressures resulting from the delays in financing.¹¹

Box 2. Mali: Development in Microfinance

The microfinance sector has emerged since the mid-1980s to mobilize small savings and finance microprojects in the informal sector in both urban and rural areas, with preference given to low-income groups and individuals. The sector, which has grown rapidly in recent years, encompasses (i) mutual savings and loans institutions (*institutions mutualistes*), governed by their members and whose main activity is savings mobilization; (ii) autonomous village banks (*caisses villageoises d'épargne et de crédit autogérées*), governed by the villages; and (iii) direct credit institutions (*institutions de crédit solidaire*), whose main activity is to provide credit to meet the needs of small borrowers.

There are currently 342 such microfinance institutions, with a total membership of about 406,000 individuals. At end-2000, total savings collected by these institutions amounted to CFAF 14 billion, while total loans were CFAF 17 billion. The gap in resources was financed by borrowing from the banking sector and external resources (e.g., World Bank credit). The sector's overall performance is satisfactory, with a credit recovery rate exceeding 90 percent and an average ratio of nonperforming loans to total loans of 7.0 percent.

The government intends to assist the expansion of the sector. Policies are aimed at (i) making microfinance institutions comply fully with the laws and regulations governing their activity, (ii) providing training in management and accounting, and (iii) fostering cooperation between formal commercial banks and the microfinance system. The ongoing World Bank program on the reform of the financial sector is expected to strengthen the framework for microfinance.

¹⁰ In view of the time needed to prepare for a first-time application for the issuance of treasury bills as well as the liquidity needs of the local banks arising from the financing of the cotton harvest, a combination of central bank financing and issuance of treasury bills is inevitable. It is to be noted that the 1998 decision by the West African Economic and Monetary Union (WAEMU) Council of Ministers to eliminate statutory advances from the BCEAO becomes effective on January 1, 2002 (para. 20 of the MEFP).

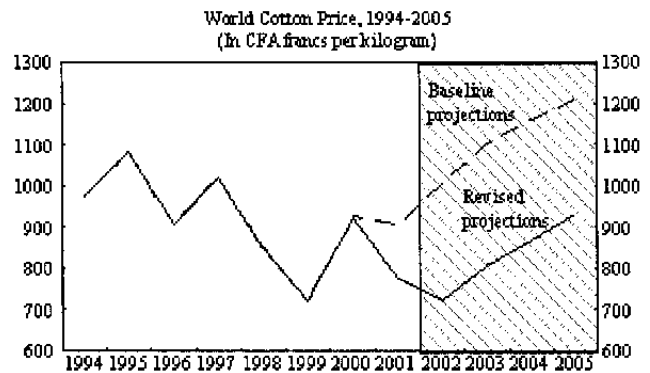
¹¹ There are reasonable assurances from donors (World Bank, EU, France, Netherlands, Sweden) that the remaining external assistance (CFAF 39.5 billion) will be mobilized by end-December 2001.

15. **In line with the authorities' s request, the staff propose a change in the program's quantitative criteria and benchmarks to make room for the inevitable changes stemming from the shortfall in financing.** Total revenue is to be somewhat higher as noted above, while the expenditure level will be lower in 2001 (relative to the original program). The postponement of expenditure to next year pertains to the CFAF 10 billion, which is to be transferred to the BDM-SA in the first quarter of 2002. As discussed above, the ceiling on the net credit to the government will be raised by CFAF 2.8 billion. Central bank advances are to be reimbursed as a priority action with the effective disbursement of the budgetary assistance, and the treasury bills would also need to be redeemed with the arrival of this assistance.

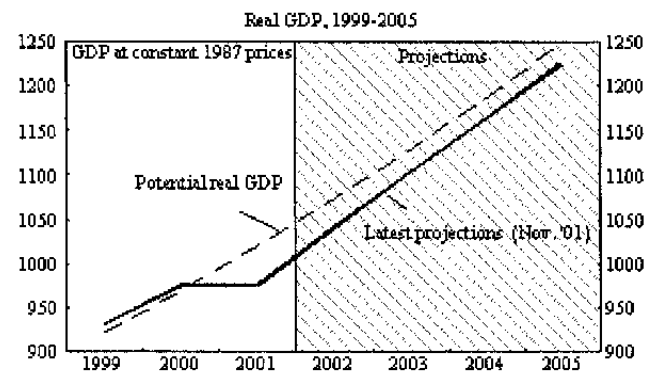
16. **The structural reform schedule for the cotton sector** will encounter delays because it will take longer than expected to obtain donor financing for the various related studies (see paras. 11-12 and Table 2 of the MEFP). The measures that were due to be completed by end-December 2001, but that are expected to be delayed, will become prior actions for the fourth review. The other structural measures are envisaged to be completed as scheduled.

IV. MEDIUM-TERM FRAMEWORK

17. **The authorities noted that, since the last review of the program in July 2001, world market conditions had worsened for cotton,** a commodity that accounts for about one-third of Mali's export revenue. Because of an abundant international supply of cotton fiber and a weakening of world demand (compounded by the September 11 events), the price for cotton fiber for 2002 has tumbled by about 30 percent relative to the baseline scenario (of July 2001) (see figure above). In addition, the outlook for cotton over the medium term is also weaker than in the baseline scenario.



18. **Despite ongoing reforms in the cotton sector, the prospects for Mali's economic growth will be adversely affected in the period ahead by the slowdown in world demand.** The prospects for maintaining the high producer price for cotton (of CFAF 200 per kilogram prices) beyond the 2001/02 season are uncertain. Should world price fall even further the producer price for the 2002/03 season would need to be lowered.



This uncertainty would have an adverse impact on cotton production; accordingly, for 2003, production is projected to decline. Mali's potential real GDP growth rate is estimated at 5 percent per annum (Box 1). Nonetheless, with the stagnation of real GDP in 2001, combined with the adverse impact of the slowdown in the world economy, economic growth is projected to be lower by about 0.8 percentage point per annum through 2005 (relative to the baseline scenario), implying that the real GDP level will be below its potential for the foreseeable future (see figure above).¹² This slower-than-expected growth would inevitably hurt the government's effort to lower poverty, notwithstanding the resources freed up as a result of the HIPC Initiative and the government's own efforts to boost poverty-reducing spending.

19. As Mali is operating below its potential output, the risk for demand-pull inflation remains limited, regardless of the expansionary fiscal stance taken during 2001–02. Given Mali's membership of the West African Economic and Monetary Union (WAEMU), which has a fixed exchange rate vis-à-vis the euro, its inflation rate is expected to converge to the average rate in the euro area over the medium term. For 2002, in view of the expected rebound in cereal output, the consumer price index (CPI)-based inflation rate is projected to slow to 3 percent on a period-average basis (compared with the 4½ percent projected in 2001) (see table below).

Mali: Key Macroeconomic Indicators, 2000-05 (Annual percentage change, unless otherwise indicated)								
	2000	2001		2002		2003	2004	2005
	Est.	Prog.	Proi.	Proi.	Rev. Proi.		Proi.	
Real GDP growth	4.3	-1.2	0.1	7.0	6.7	5.0	5.4	5.4
Real GDP growth (baseline scenario) 1/	4.3	-1.2	...	7.0	...	6.6	6.0	6.0
CPI inflation (annual average)	-0.7	4.5	4.6	3.1	3.0	2.0	2.0	2.0
Basic fiscal balance 2/ 3/	-0.8	-3.2	-2.4	-0.1	-1.7	0.5	0.9	1.1
Current account balance 2/ 4/	-12.4	-13.9	-12.9	-11.9	-12.5	-11.1	-9.8	-8.7
Export volume growth	-2.3	7.4	16.0	14.7	13.9	4.4	4.0	6.3
Import volume growth	-1.9	4.6	9.0	8.9	8.3	5.2	5.2	4.2

1/ Baseline scenario of July 2001.
2/ In percent of GDP. The historical GDP series through 2000 has been revised to be fully consistent with the authorities' data. Thus old ratios to GDP are not strictly comparable with the new ones.
3/ Total revenue (excluding grants) minus total expenditure and net lending (excluding foreign financed investment).
4/ Excluding official transfers.

20. With the deterioration in the cotton outlook, Mali's fiscal position will inevitably deteriorate in 2002 and over the medium term (relative to the baseline scenario). In addition, the government budget for 2002 envisages new social outlays to bolster its retrenchment program in the context of the liberalization of the cotton sector and the

¹²For real GDP to rebound to its potential level by, say, 2004, real GDP would have to grow by about 6.8 percent per year during 2002-04. In the revised projections, however, real GDP is projected to grow by 6 percent during this period.

privatization of public enterprises. The balanced financial situation of the cotton sector for 2002, that had been projected in the baseline scenario is now expected to turn into a deficit. The government fiscal position, in turn, is projected to deteriorate in order to accommodate part of this deficit and the higher social outlays. Given Mali's membership in WAEMU, with its fixed exchange rate, the government is aware that it will have to accommodate part of these increased costs by making adjustments to the budget profile and continuing the pursuit of structural reforms. In this regard, it will (i) continue the reform of the cotton sector, with a view to lowering production costs and minimizing the government's contingent liabilities from the sector; and (ii) pursue fiscal adjustments to accommodate part of the additional budgetary costs of the lower cotton revenue and higher social outlays. The cotton monopsonist (CMDT) is to continue its cost-cutting measures that it started in 2000 (see para. 7 of the MEFP). These measures are all the more important in view of the intended introduction of a new pricing mechanism for the producer price of cotton (which would be expected to move in tandem with movements in the international price and prices in neighboring countries) for the 2002/03 (April–March) crop season.

21. The authorities noted that in order to help with the budget consolidation process, they would continue their effort to mobilize revenue and maintain nonpriority outlays at a strict minimum. 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 WAEMU convergence criteria, the basic fiscal balance is expected to strengthen, but at a lower rate than envisaged in the baseline scenario.

22. On the external front, the sharp rise in cotton exports in 2002 would more than compensate for the projected 19 percent decline in gold exports. The transfer of profits (from previous years) of gold-mining companies will, however, offset to a significant extent the positive impact of the rise in exports on the current account balance. Over the medium term, the current account deficit is projected to narrow, albeit at a slower pace than in the baseline scenario, reflecting the adverse impact on exports of the weakness in world demand (Table 9). Export growth is projected to slow to about 5 percent per annum during 2003–05, in contrast to the 6½ percent forecast in the baseline scenario. With the projected slower pace of economic recovery during 2002–05, import volumes are projected to grow at a slightly slower pace than in the baseline scenario. 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 who are already providing debt relief, Mali's debt-service obligations would fall from about 12½ percent of exports good and nonfactor services to about 9 percent between 2000 and 2005.¹³ The revised external projections assume that the bilateral agreement with Russia will be finalized, and the debt service due on pre-cutoff-date debt will commence.¹⁴

¹³ This takes into account debt relief from the IMF, the World Bank, the African Development Bank, IFAD, BOAD, the European Union, and the Paris Club. Mali has

(continued)

V. POLICY DISCUSSIONS FOR 2002

23. **Crop surveys indicate that cotton production will more than double in 2001/02, reflecting a boost in cotton growers' confidence following the significant increase in the producer price and the good rainfall.**¹⁵ The producer price was raised to CFAF 200 per kilogram in 2001/02 (from CFAF 170 per kilogram last year) by the government as an exceptional measure to boost confidence and reverse the significant income decline over the previous two years. The combined volume and producer price hike in 2001/02 should raise cotton producers' income significantly in 2001/02, thus contributing to a pickup in consumption.¹⁶ However, in view of the uncertain outlook for the world cotton market, it is assumed that households in cotton-growing regions and elsewhere will use the increased income in 2001/2002 to smooth their consumption over the coming years. Thus, even though cotton output is now envisaged to exceed 575,000 tons in 2001/02 (versus the 450,000 tons projected in the baseline scenario), real GDP is projected to grow by only 6.7 percent in 2002 (compared with 7 percent in the baseline scenario).

A. Fiscal Policy

24. **The staff concurs that the 2002 budget reflects efforts to lower poverty, address the problems in the cotton sector,**¹⁷ **foster the democratization process, minimize the social impact of the program to liberalize the economy, and start the fiscal consolidation process.** The degree of fiscal consolidation in 2002 will inevitably be smaller than originally projected, owing largely to the increased outlays related to the cotton sector and social plans. In order to compensate for part of these additional expenditures, the authorities aim to mobilize more revenue (relative to the baseline scenario), including by raising the specific

reached agreement with most Paris Club creditors and most multilateral creditors on debt rescheduling. Negotiations are ongoing between the Russian and Malian authorities following the 1996 Paris Club rescheduling agreement. A draft bilateral agreement exists but has not been signed yet, owing to divergences of opinion on the interest rate to be used. Discussions with non-Paris Club bilateral creditors have yet to start.

¹⁴ The Malian authorities have contacted the Russian authorities to continue negotiations on a bilateral agreement. In view of the financial difficulties facing Mali, the program makes the assumption that US\$ 2million will be paid in 2002, and that the remaining debt service due will be deferred.

¹⁵ This increase represents a technical rebound in production following the crisis in the cotton sector last year, when production declined by half.

¹⁶ About one-third of the Malian population depends directly on cotton for its livelihood.

¹⁷ These problems started last year with the boycott of production and have now been compounded by the slowdown in the world economy.

tax rate on petroleum products. The authorities assured that current expenditures (excluding HIPC Initiative-related outlays) would need to be kept at a strict minimum. The basic fiscal balance is now projected to reach a deficit of 1.7 percent GDP in 2002 (in contrast with a projection of near balance in the baseline scenario), but this would represent an improvement of 0.7 percentage point of GDP relative to 2001 (see Table below). A financing gap of CFAF 50.6 billion (2.4 percent of GDP) would remain for which financing assurances have been received from Mali's main donors.¹⁸

	2000	2001		2002	
	Est	Prog.	Proj.	Proj.	Rev. Proj.
Total revenue	14.9	17.6	16.7	18.1	17.6
Fiscal revenue	12.9	15.5	14.8	16.0	15.5
Total expenditure and net lending 2/	15.6	20.9	19.1	18.2	19.3
Of which: current expenditure	11.0	14.5	13.1	12.4	13.1
Of which: exceptional outlays 3/	0.1	1.8	1.2	0.7	2.1
Basic fiscal balance 4/	-0.7	-3.2	-2.4	-0.1	-1.7

1/ In percent of GDP. The historical GDP series through 2000 has been revised upward to be fully consistent with the authorities' data. Thus old ratios to GDP are not strictly comparable with the new ones.
2/ Excluding foreign-financed investment.
3/ Related to the cotton sector crisis, elections, and social plans.
4/ Total revenue (excluding grants) minus total expenditure and net lending (excluding foreign-financed investment).

25. **The authorities noted that total expenditure in 2002 was higher than in the baseline scenario**, owing to (i) larger HIPC Initiative-related spending plans, (ii) increased expenditures in the social sectors (health and education), (iii) increased transfers to the cotton sector (including from the shifting of expenditures from 2001), and (iv) additional expenditures for social plans associated with the government's scheme to liberalize the cotton sector and privatize several public enterprises (para. 16 of the MEFP).¹⁹ Notwithstanding these additional outlays, total current expenditure relative to GDP will be kept out its level in 2001. The wage bill is projected to increase by 6.2 percent. In addition, the authorities will limit capital spending on the African soccer cup (CAN) to CFAF 10 billion, while domestically financed investment outlays (excluding CAN-related capital expenditure) are projected to increase by 6.7 percent. In the context of the

¹⁸ Financing assurances have been received from the World Bank, the European Union, and Sweden. The Malian authorities are also pursuing discussions with the French and Dutch authorities on budgetary assistance.

¹⁹ Representatives of the labor unions expressed their broad support for ongoing plans to liberalize the economy and privatize public enterprises, but indicated the need for reasonable severance payments and training to help workers who had been laid off start new income-generating activities.

government's stated primary objective to fight poverty, continued efforts to compress non priority outlays²⁰ will allow more resources to be devoted to the social sectors in line with the interim poverty reduction strategy paper (I-PRSP) goals. Priority spending is expected to increase by 0.2 percentage point of GDP relative to 2001. Most of this increase will go 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.

26. **The authorities and the staff understood that, in order to meet the increased expenditure need, revenue mobilization would need to be stepped up.** Thus, tax revenue is projected to increase by about 0.6 percentage point of GDP. The new taxation system for petroleum products is expected to show its impact over a full year in 2002, and, with the economic rebound expected next year, petroleum tax revenue is projected to contribute significantly to the revenue effort. As regards the mobilization of nonpetroleum tax revenue, since Mali has already implemented the common external 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 18 of the MEFP. In addition, reflecting the pickup in economic activity, nontax revenue is expected to increase by 0.2 percentage point of GDP in 2002.

B. Monetary Issues and Domestic Financing

27. **Monetary policy at the regional level will continue to be guided by the objective of preserving the peg of the CFA franc to the euro.** Nonetheless, while each member country of WAEMU is expected to contribute to the community's reserve buildup in order to safeguard this peg, in view of the weaknesses in the world economy, the prospects of Mali's contributing to official reserves have diminished (relative to the baseline scenario). As such in 2002, Mali's contribution to this objective will be nearly nil. Moreover, in view of its financing needs, the government will be a net borrower from the domestic banking system to the tune of CFAF 7.3 billion. Overall credit to the economy is projected to increase by about 5½ percent. Broad money is projected to increase by 9.2 percent in 2002, in line with the nominal GDP growth rate. To facilitate the implementation of the WAEMU Council of Ministers' decision to eliminate statutory advances from the Central Bank of West African States (BCEAO) and to permit full substitutability between bank financing and treasury bills or bonds, the key performance criterion on the change in net credit to the government will be replaced from 2002 onward with a performance criterion on net domestic financing (bank and nonbank).

²⁰ Nonpriority outlays relate inter alia to maintenance of government buildings and vehicles, the purchase of materials for the functioning of the public administration, and local and international travel by government officials.

C. Structural Reforms

28. On the structural front, the staff concurred with the authorities' strategy of focusing on two critical areas in the 2002 program: the continued **reform of the cotton sector** and the improvement of the **public expenditure management** system, along the lines recommended by the fiscal ROSC/AAP mission.²¹ Measures in the areas related to the financial and telecommunication sectors, as well as privatization, the judicial system, and good governance are covered (or are expected to be covered) in specific programs supported by the World Bank and other donors' (Box 3). The World Bank is also taking the lead in the area of cotton sector reform, and Fund staff will take into account Bank staff's views on progress in the implementation of these reforms. In addition, the authorities intend to continue their efforts to reform the civil service (see para. 32 of the MEFP).

29. **The objectives and strategy for the reform of the cotton sector** are described in detail in the government's MEFP (paras. 23-28).²² As noted in paragraph 17, in view of the delays in securing financing for launching a number of related studies, the completion of most reform measures set out for the period July 2001-June 2002 has been delayed by about three months (see paras. 11-12 of the MEFP). A key action for the program for the first half of 2002 is the completion of a study on the steps and options necessary for the liberalization of the cotton sector (**structural benchmark**). Another key action relates to the effective application for the 2002/03 crop season of a mechanism to determine producer prices that reflects movements in international prices and prices in neighboring countries (**structural benchmark**). The reform agenda for the period beyond June 2002 will be negotiated between the World Bank and the government that will assume power after the next presidential and legislative elections, to be held in the second quarter of 2002.

30. **In the area of public expenditure management**, the ROSC/AAP mission found that Mali had taken important steps to improve fiscal transparency. The Assessment and Action Plan report demonstrates that, for most indicators, Mali has a satisfactory or acceptable capacity to track poverty-reducing expenditures (Box 4). Nonetheless, there remain areas in which public expenditure management would need to be improved (paras. 29-31 of the MEFP). The priorities for the first half of 2002 are as follows:

- The **system of external control** is slated for reinforcement with the expected creation of an independent commercial court and new personnel hiring. The adoption by the government of the draft audited budget act (*Loi de Règlement*) for 2000 would be

²¹ An FAD technical assistance mission visited Bamako in July 2001 and prepared a Report on the Observance of Standards and Codes (ROSC) and an Assessment and Action Plan (AAP) on the capacity of the public expenditure management system to track poverty-reducing public expenditures under the enhanced HIPC Initiative.

²² For details of the reform see Box 2 of EBS/01/113 (July 9, 2001).

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, public expenditure management, and the fight against poverty. In particular, the measures focus on:

- **The strengthening of external control of the public expenditure management and governance** (adoption by the government of the audited budget for 2000);
- **poverty alleviation and strengthening of internal control of the public expenditure management** (completion of study to code all poverty-related spending);
- **medium-term wage policy** (plan for the reform of the civil service, with a view to harmonizing the various salary grids and modernizing the force); and
- **cotton sector reform** (completion of a study on the steps and options necessary for the liberalization of the cotton sector and effective application of the pricing formula for producer prices).¹

Relevant structural measures not included in the 2001 program are being dealt with as follows:

- Measures in areas related to the **energy, financial, and telecommunications** sectors, as well as **privatization** are covered in specific World Bank-supported 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 in 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, and rural infrastructure, and in 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)	Poverty reduction support credit (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 Project
Urban development 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 in the reform of the cotton sector.

a key test of the government's resolve to continue reinforcing external control (structural performance criterion).

- A study on the modalities to incorporate in the 2003 budget law a budget codification to identify all poverty-related spending is to be completed by end-June 2002 (structural benchmark).²³

Box 4. Mali: Capacity to Track Poverty-Reducing Expenditure			
	Level to Be Achieved in Budget Management ¹	Evaluation ¹	Has Level Been Achieved?
Budget presentation and preparation			
Comprehensiveness			
1. The consolidated statements adhere to Government Finance Statistical (GFS) standards for general government.	A	B	
2. Government activities are not conducted through extrabudgetary operations to a significant degree.	A	A	Yes
3. Budget execution is very close to forecasts (in terms of level and appropriation by function).	B	B	Yes
4. The budget includes donor-financed current and capital expenditures.	A	B	
Classification			
5. The budget classification are administrative, economic, and functional.	B	B	Yes
6. Poverty-reducing expenditures are clearly in the budget.	A	B	
Projections			
7. Medium-term projections are included in the budget cycle.	A	B	
Execution			
Internal controls			
8. The stock of arrears is low, and the accumulation of new arrears in the previous year is low.	A	A	Yes
9. Internal control is effective and efficient.	A	A	Yes
10. The tracking is validated to supplement internal controls.	B	B	Yes
Reconciliation			
11. Bank and accounting data are systematically reconciled.	A	A	Yes
Budget execution data			
Tracking expenditure during the year			
12. The ministries' internal statements are received within four weeks of the end of the referenced period.	B	B	Yes
13. The regular statements are categorized by functional classifications.	A	C	
Final audited accounts			
14. Accounts are closed within two months of the end of the fiscal year.	A	B	
15. The accounts are audited and presented to parliament within 12 months of the end of the fiscal year.	B	C	

Source: FAD ROCS/HIPC Initiative mission to Mali in July 2001.
 // A=Satisfactory; B=Acceptable; C=To be improved.

31. For the remainder of 2002, the authorities noted that they would continue efforts to standardize the budget nomenclature of the decentralized government with that of the central government, and to improve the coding system for the program budget. In addition, in the context of the SAC III program with the World Bank, the authorities are to continue expediting the production of treasury balances, refining their medium-term expenditure framework, proposing an action plan to enhance governance and transparency in public

²³ The authorities have requested Fund technical assistance to help them with this task.

resource management, and undertaking a functional and technical study to design an integrated financial management information system.

D. Poverty Reduction

32. **Poverty reduction remains the government's key priority** (see paras. 2 and 35-8 of the MEFP). The authorities are implementing their poverty reduction strategy along the lines described in the (I-PRSP). Budgetary allocations to priority sectors (health, education, and rural development) have increased continuously, reflecting the sectoral priorities described in the I-PRSP (Box 5). In addition, the program reinforces the objective of poverty reduction through measures to (i) raise the income of farmers in cotton-growing regions; (ii) allocate outlays to social plans in the context of the government's liberalization and privatization programs; and (iii) promote transparency in the use of public funds in general, and the allocation of poverty-related spending (including with respect to the use of HIPC Initiative resources) (Box 6) in particular. **Important progress has been made in the preparation of the full PRSP**, as reflected in the authorities' status report on the preparation of the full PRSP. The preparation of the PRSP, including the regional debate, is now expected to be completed in late 2001, although the staff is of the view that this time line is ambitious. Progress in meeting the floating completion point conditionalities under the enhanced HIPC Initiative is shown in Box 7.

Sectors	2000		2001		2002	
	Before HIPC	After HIPC	Before HIPC	After HIPC	Before HIPC	After HIPC
Education ¹	51.4	52.1	52.8	59.6	57.6	68.8
Health ²	17.1	17.1	20.0	22.7	21.7	26.2
Social development	1.3	1.3	3.7	3.7	4.9	6.3
Rural development ³	14.9	14.9	17.0	18.5	15.7	18.1
Urbanism and environment	22.6	22.6	25.1	25.9	27.9	28.8
Gender ⁴	0.6	0.6	0.9	1.0	0.8	1.3
Water supply and energy	3.0	3.0	10.1	10.2	2.7	3.6
Other ministries ⁵	0.0	0.0	0.0	1.5	0.0	3.6
Total	110.9	111.6	129.6	143.1	131.3	156.7

1 Including to allow for the recruitment of more community teachers and provide educational material to poor areas.
2 Including to combat AIDS and malaria.
3 Including to enhance access to safe water. Excluding crisis-related outlays.
4 Including to fight against the trafficking of children and to increase population awareness of gender issues through information and communication campaigns.
5 Including for projects in other ministries related to macroeconomic and social data improvement, commerce and transport, professional training, and arts and crafts.

Box 6. Mali: Poverty and Social Impact Analysis

About two thirds of the population in Mali live below the poverty line, with about one-fifth living in extreme poverty. The majority of the poor live in rural areas. The government's current economic program, supported by the PRGF arrangement, reinforces the growth-oriented adjustment strategy in place since the early 1990s that led to a boost in economic growth during the period 1994-2000 (see Box 1), and contributed to a reduction in the incidence of poverty by about 7½ percentage points between 1996 and 2000. The government's poverty reduction strategy will continue to be driven by **growth-oriented adjustment**, with increased emphasis on reinforcing an enabling environment for private sector development. The 2001-02 program is designed to attenuate the impact of the immediate crisis and restore Mali to a path of sustained growth. In addition to the beneficial impact of growth on poverty reduction, other measures taken by the government will have a larger direct impact on poverty reduction, especially in rural areas, by shifting expenditure more in favor of education, health, and rural development (Box 5). The program for 2002 includes CFAF 25½ billion in HIPC Initiative-related expenditure targeting the critical social sectors.

The adjustment measures included in the PRGF-supported program with Mali are designed to minimize any significant adverse effects on the poor. The government **revenue mobilization** effort will sustain the increase in poverty-related spending, while allowing Mali to return to the path of fiscal consolidation. Mali has already implemented the common external tariff and introduced a single-rate value-added tax, as the programmed increase in revenues will be achieved primarily through administrative measures. The impact on the poor of the implementation in July 2001 of the new pricing mechanism for petroleum products is expected to be limited because the products most used by the poor (kerosene and butane gas) are the least taxed. The program also emphasizes the **reinforcement of public expenditure management**, in particular for outlays to poverty reduction programs. These reforms, together with a decentralization of expenditure commitments and more emphasis on transparency and accountability, should increase efficiency in the allocation and targeting of resources to the poor.

Since poverty in Mali is predominantly rural, the government's program emphasizes measures to **liberalize the cotton sector** over the medium term. **The cotton sector affects the livelihood of one-third of the population.** Measures are being implemented to lower the production costs of the cotton company (CMDT), raise the share of the producer price to the world market price for cotton, and strengthen producer organizations. In the context of the program, 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 allows for a budgetary transfer to the CMDT to compensate for the difference between the announced producer price and the price that the CMDT would be able to offer, given its current operating costs and the international price. With the higher producer price and other measures to boost producers' confidence, cotton production is projected to jump by over 100 percent in the current crop year. As a result, producers' net income will more than double in 2002, thus reversing the significant loss of income suffered over the past two years. Nonetheless, after 2002, in view of the uncertainties in the world cotton market, the prospects for maintaining high producer prices are weaker.

Other reforms in the areas of **privatization**, the **financial sector** (including the reform of microcredit institutions), **telecommunications**, and the **judiciary and governance** (see Box 3) are being pursued in the context of programs with the World Bank and other donors. In order to limit the social impact of the privatization programs and the liberalization of the cotton sector, the government's budget for 2002 has made allowance for severance payments. The linking of the Malian power grid to the regional Manantali electricity network is expected to keep energy costs stable and ensure a reliable supply, while allowing for the electrification of a large number of villages—an outcome that would be beneficial for private sector development and employment creation. The liberalization of the telecommunications sector and the granting of added cellular licenses would also be beneficial to business. The development of a sound **microfinance sector** would be expected to help the poor improve their income-generating activities (Box 2). On the **governance** side, the government's creation of an anticorruption unit in 1999 should have a positive impact on the poor because they are often the first victims of small-scale corruption.

Box 7. Mali: Compliance with Enhanced HIPC Completion Point Conditionalities	
Measures	Outcome
Macroeconomic stability	See Sections II, III, IV and V of staff report.
Satisfactory implementation of structural reform	See paragraphs 7, 28-31 of the staff report and Sections II and III of the MEFP. Mali has continued to make advancement in the implementation of structural reforms. Privatizations of public enterprises in key sectors of the economy-energy, water, and banking-have been achieved, and other privatizations are underway.
Education The ten-year education plan (PRODEC) is being implemented by <ul style="list-style-type: none"> • 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 (higher 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 <ul style="list-style-type: none"> • 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. Recruitment of more health workers is underway though lagging somewhat due to constraints in producing health workers at the public training agencies.
Preparation of the full PRSP	Preparation of the full PRSP is ongoing in a participatory way. See status report and JSA.

E. Program Monitoring

33. The program will be monitored on the basis of quarterly quantitative performance criteria, quantitative benchmarks, and indicators shown in Table 1 of the MEFP and described in the technical memorandum of understanding, as well as on the basis of the structural performance criteria and structural benchmarks shown in Tables 2 and 3 of the MEFP and also described in the technical memorandum of understanding. Progress under the program for the remainder of 2001 and the first half of 2002 will be assessed in the context of

the fourth and fifth reviews under the PRGF arrangement, scheduled to be completed no later than June 30, 2002.

VI. REGIONAL INTEGRATION AND TRADE REGIME

34. **The staff concurred with the authorities that Mali had made progress in respecting WAEMU's convergence criteria in recent years** (Table 7). By the end of 2001, Mali is projected to respect three out of five primary criteria—it is expected to miss the criteria on the basic fiscal balance and total debt. With the slowdown in the world economy, convergence to the criterion on basic fiscal balance (at a nonnegative level) is now expected in 2003. Achieving compliance with other criteria implies continuous adjustment efforts over the medium term. In particular, the government needs to follow prudent fiscal policies and lower its financing needs 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.

35. Mali accepted the obligations of Article VIII, Sections 2, 3, and 4 effective June 1, 1996. Mali's exchange system, common to all members of WAEMU, is free of restrictions on making payments or transfers for current international transactions. In addition, Mali does not engage in multiple currency practices. Mali's trade regime is relatively open. The country shares a common trade regime with other members of the WAEMU. The common external tariff (CET) was adopted in January 2000. Mali is compliant with the tariff rate structure of the union and has effectively implemented the dismantling of internal tariffs. Imports to Mali are not subject to quantitative restrictions. Concerning common safeguard measures established by the WAEMU, Mali does not implement the decreasing protection tax to provide temporary and declining protection for selected products, nor does it apply the compensatory import levies. While a common antidumping legislation for the WAEMU still has to be prepared, Mali does not implement antidumping tariffs unilaterally. Mali is a signatory of the Cotonou Convention²⁴, and as such Malian exports to the European Union generally enjoy non-reciprocal preferential treatment in the form of exemption from import duties. Likewise, Malian goods enjoy non-reciprocal preferential access to the markets of developed countries other than the European Union member states under the generalized system of preferences. At the WAEMU level, Mali does not officially experience legal or regulatory impediments for its exports.

VII. STAFF APPRAISAL

36. **After enjoying sustained economic growth in the postdevaluation period (1994–2000), economic activity will stagnate in 2001.** However, the satisfactory

²⁴ The convention regulates relations between the European Union and the African, Caribbean and Pacific (ACP) countries in the areas of trade cooperation and development aid.

implementation to date of the government's program has succeeded in boosting producer confidence in the cotton-growing areas. Crop surveys indicate that cotton production will rebound to an all-time high in 2001/02, helped by the hike in producer prices and the good weather. With a view to safeguarding to the maximum the original objectives of the program—entailing, *inter alia*, efforts to stabilize the economy and dampen the impact of the crisis on the population—the authorities will implement a revised plan to deal with the identified shortfall in budgetary assistance in the last quarter of 2001. The steadfast implementation of the revised program would ensure the return of macroeconomic stability and economic growth, as well as peace and stability in the run-up to the elections next year.

37. **The sluggish world economy is expected to keep the pace of economic activity in Mali below its potential level for the foreseeable future, notwithstanding the pickup in real GDP growth in 2002.** With the collapse of cotton price in the world market, the prospects for maintaining high producer prices—which is critical to fight against poverty—beyond the 2001/02 season are now uncertain. However, the prospects for keeping these prices high, while maintaining the equilibrium of the cotton sector would be enhanced with the continuation of cost cutting measures by the CMDT as well as the transfer of its noncore activities to the private sector.

38. **The authorities should also steadfastly implement the reform plans for the cotton sector.** The participatory process that has been used to plan and implement the reform agenda will be a critical ingredient in ensuring that the reform program is picked up by the government that takes office in the second half of 2002. Looking ahead, the completion of a study on the steps and options necessary for the liberalization of the cotton sector (expected in March 2002) would be a critical ingredient for the PRGF-supported program in the second half of 2002. The results of the study would be important for the negotiation of the reform agenda for the cotton sector with the new government through 2005—the remainder of the envisaged reform period.

39. **The 2002 budget appropriately reflects efforts to lower poverty, address the problems in the cotton sector, and minimize the social impact of the liberalization of the economy.** It also starts the process of fiscal consolidation, although the degree of tightening will be smaller than originally projected. The staff is encouraged that the authorities aim to mobilize additional revenue and to maintain nonpriority spending at a strict minimum in order to compensate for part of the additional outlays. The authorities justified the outlays for the social plans related to the liberalization of the economy as necessary in order to ease the burden on laid-off workers and to provide them with the means to start their own income-generating activities if they so wished.

40. **The slowdown in the world economy is expected to have an adverse impact on the degree of fiscal consolidation attainable over the medium term.** Nonetheless, the elimination over the medium term 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.

41. **The staff welcomes the authorities' resolve to continue improving the transparency of their public expenditure management system.** These efforts will promote the efficient use of scarce public resources and continue to strengthen the enabling environment needed to attract private investment. The staff is encouraged by the authorities' focus on improving the external control system, as well as the coding system in order to identify all poverty-related spending.

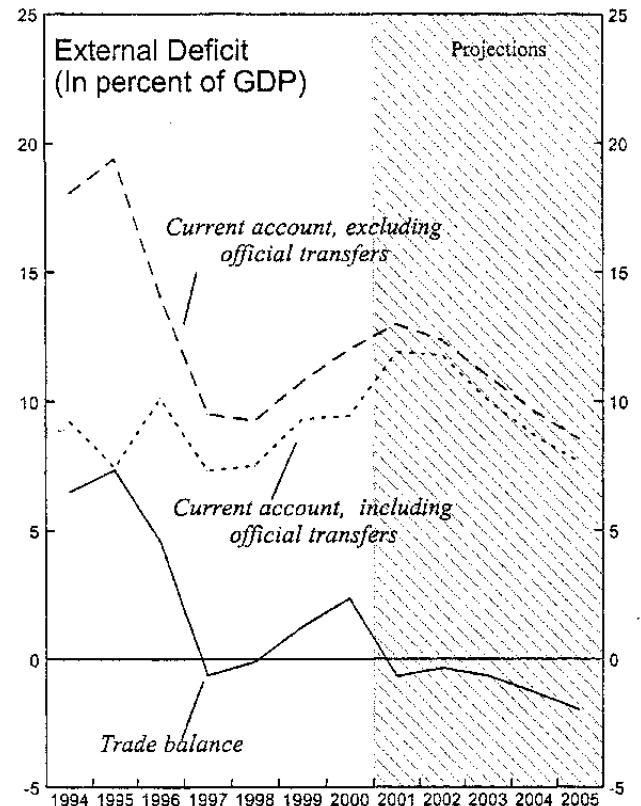
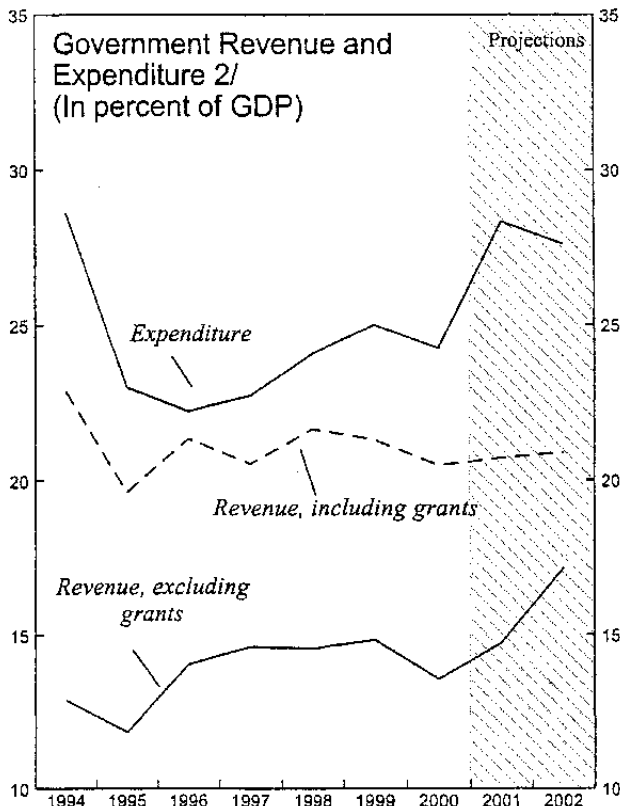
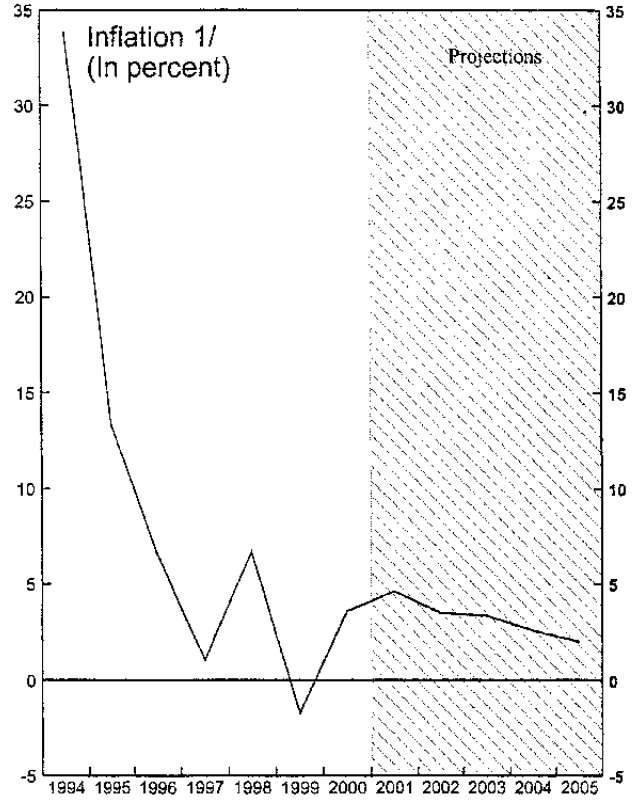
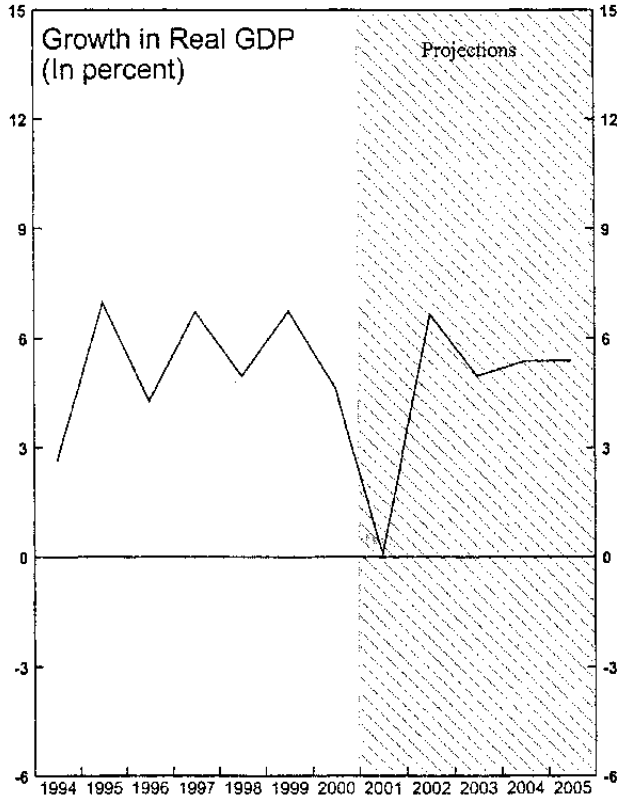
42. **Mali has shown its vulnerability to exogenous shocks, including poor weather and adverse terms of trade shocks.** These developments point to the critical need to diversify the country's economic base. While Mali has largely maintained the gains in external competitiveness it achieved after the devaluation of the CFA franc in 1994, the successful diversification of the Malian economy will require the development of human capital and physical infrastructure, as well as lower energy and telecommunications costs. The linking of the Malian power grid to the regional Manantali electricity network is expected to keep electricity costs from rising rapidly and to improve its reliability. In addition, the planned liberalization of the telecommunications sector would be expected to foster efficiency gains and reliability of service. The planned increase in outlays from HIPC Initiative-related resources to boost human capital and rural infrastructure would help in efforts to diversify the economy.

43. **The poverty reduction objectives should remain the government's top priority.** The staff is encouraged that budgetary allocations to priority sectors (health, education, and rural development) have increased continuously, reflecting the sectoral priorities described in the interim PRSP. In addition, the program reinforces the objective of poverty reduction through measures to raise the income of cotton farmers, allocate outlays to social plans related to the liberalization and privatization programs, and promote transparency in the use of public funds for poverty reduction.

44. **The staff recognizes that Mali will continue to face exogenous shocks that may hinder successful program implementation.** However, the authorities would need to stand ready to take appropriate remedial measures, including fiscal tightening, if such shocks were to occur. In view of the satisfactory implementation of the program through July 2001 and the determined efforts of the Malian authorities to achieve the program objectives, as well as the appropriate policies envisaged for 2002, the staff recommends that the third review under the PRGF arrangement be completed.

45. The staff proposes that the next Article IV consultation be held on the standard 12-month consultation cycle.

Figure 1. Mali: Main Economic Indicators, 1994-2005

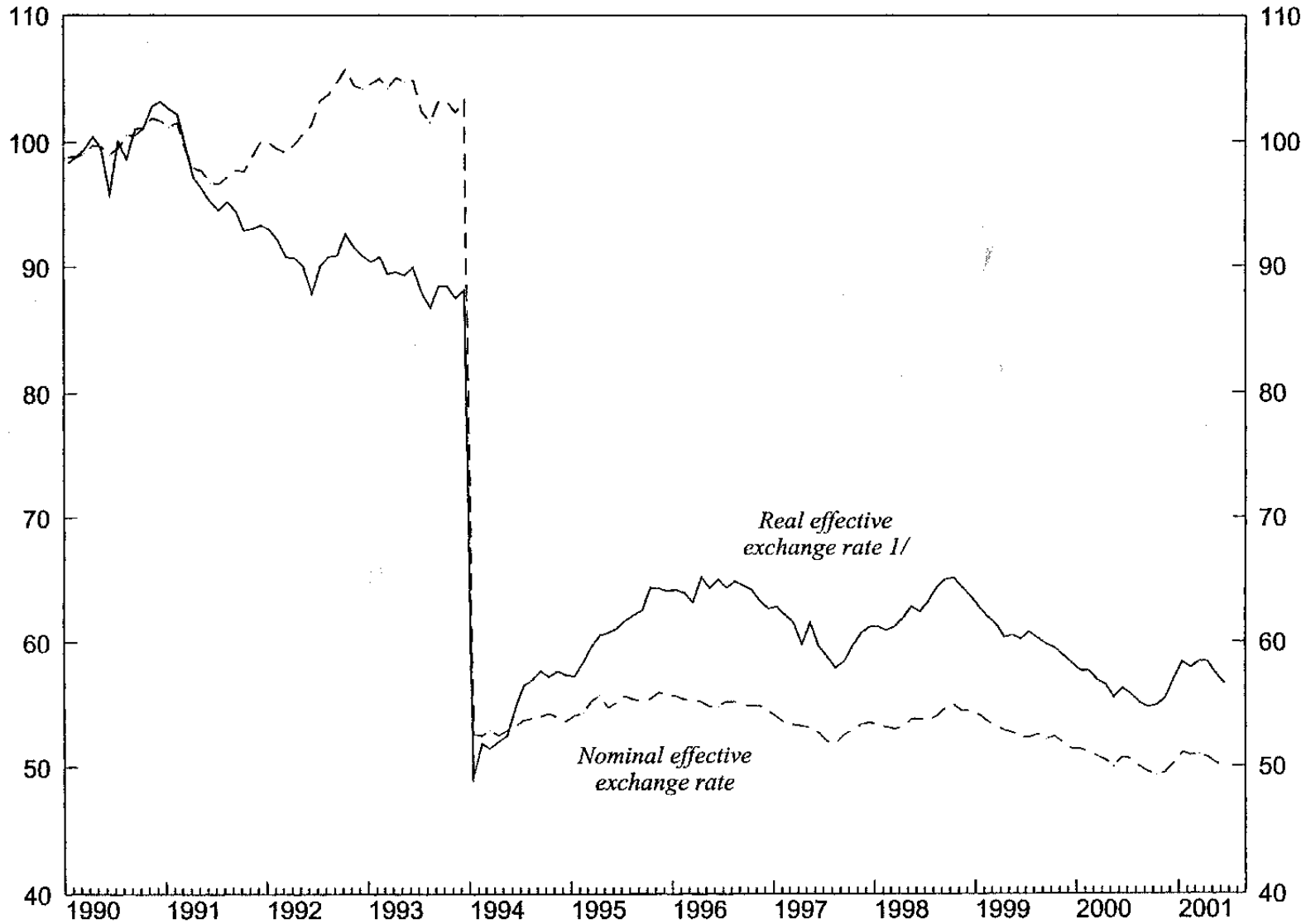


Sources: Malian authorities; and staff estimates and projections.

1/ Percentage change in GDP deflator.

2/ Central government on commitment basis.

Figure 2. Mali: Real and Nominal Effective Exchange Rates, January 1990 - August 2001
(Period average; 1990=100)



Source: IMF, Information Notice System.
1/ Based on relative consumer price indices.

Table 1. Mali: Fund Position, 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 Enhanced Structural Adjustment Facility (ESA)	138.69	141.48	134.58	128.89	137.82	138.10	135.61	134.86	132.37	130.58	125.69	115.67	104.61
Net use of Fund credit	2.79	-2.49	-1.02	8.93	0.28	-2.49	-0.75	-2.49	-1.79	-4.89	-10.03	-11.06	-10.62
Loans under:													
Poverty Reduction and Growth Facility (PRGF)	2.79	-2.49	-1.02	8.93	0.28	-2.49	-0.75	-2.49	-1.79	-4.89	-10.03	-11.06	-10.62
Disbursements	6.75	0.00	0.00	11.42	6.75	0.00	6.75	0.00	6.75	6.15	0.00	0.00	0.00
Repayments	3.96	2.49	1.02	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 Structural Adjustment Facility (SAF)	141.48	138.99	133.56	137.82	138.10	135.61	134.86	132.37	130.58	125.69	115.67	104.61	93.99
(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	141.9	140.0	134.7	124.0	112.1	100.8

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 and completion point under the enhanced HIPC Initiative	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 6.150 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.

Table 3. Mali: Selected Economic and Financial Indicators, 1999-2005 ¹

	1999	2000	2001		2002		2003	2004	2005
		Est.	Prog.	Rev. Proj.	Prog.	Rev. Proj.	Projections		
			EBS/01/113	EBS/01/113	EBS/01/113	EBS/01/113			
(Annual percentage change, unless otherwise specified)									
National income and prices									
Real GDP	6.7	4.6	-1.2	0.1	7.0	6.7	5.0	5.4	5.4
Nominal GDP (in billions of CFA francs)	1,670.7	1,811.2	1,784.0	1,895.9	1,948.3	2,070.9	2,230.1	2,409.8	2,595.4
GDP deflator	-1.7	3.6	4.6	4.6	2.1	2.3	2.6	2.6	2.2
Consumer price index (annual average)	-1.2	-0.7	4.5	4.6	3.1	3.0	2.0	2.0	2.0
External sector									
Exports, f.o.b.	6.2	7.7	25.3	26.1	11.0	2.3	7.1	8.9	9.1
Imports, f.o.b.	13.2	13.0	8.6	10.0	11.2	3.8	5.3	5.9	5.7
Export volume	17.4	-2.3	7.4	16.0	14.7	13.9	4.4	4.0	6.3
Of which : nonmining	21.7	-4.8	-32.1	-4.8	55.4	74.0	-0.9	7.2	5.1
Import volume	8.0	-1.9	4.6	7.6	8.9	8.3	6.2	5.2	4.2
Terms of trade	-13.8	-4.4	12.3	7.6	-5.2	-6.4	3.4	4.0	1.2
Nominal effective exchange rate (average)	-2.4	-4.3	...	...	...	...	...	...	...
Real effective exchange rate (average)	-4.1	-7.4	...	...	...	...	...	...	...
Government budget									
Domestic revenue	6.9	-1.0	16.5	17.4	12.3	15.9	11.4	11.0	10.9
Current expenditure	15.1	3.1	29.7	24.6	-6.2	5.2	2.8	9.0	7.4
Capital expenditure and net lending ²	4.0	7.3	19.5	20.4	1.0	6.4	2.5	5.6	7.6
Money and credit									
Credit to the government ¹	1.1	-4.2	6.0	6.7	1.7	1.7	...	...	...
Credit to the rest of the economy	14.4	-2.4	-9.3	7.9	7.3	5.7	...	...	...
Broad money (M2)	1.3	11.9	2.8	8.2	9.2	9.2	...	...	...
Velocity (GDP/M2)	4.6	4.4	4.3	4.3	4.3	4.3	...	...	...
Interest rate in percent (end of period) ⁴	5.0	6.5	...	...	...	...	...	...	...
(In percent of GDP, unless otherwise specified)									
Investment and savings									
Gross domestic investment	20.0	20.6	20.7	20.8	21.2	21.7	22.1	22.9	23.6
Government	9.1	9.1	11.2	10.5	10.3	10.3	9.7	9.4	9.3
Nongovernment	11.0	11.5	9.5	10.3	10.9	11.4	12.5	13.5	14.3
Gross domestic savings	8.9	8.6	10.5	10.3	11.4	11.7	12.7	14.3	16.1
Government	1.2	0.6	-0.7	-0.7	2.1	1.0	2.8	3.9	3.9
Nongovernment	7.7	8.0	11.2	11.0	9.3	10.7	9.9	11.1	12.7
Government budget									
Domestic revenue	15.7	14.9	17.6	16.7	18.1	17.6	18.0	18.4	18.8
Total expenditure and net lending ²	24.1	24.2	30.6	28.3	27.4	27.9	25.8	25.4	25.3
Overall balance (commitment basis, excluding grants)	-8.4	-9.3	-13.0	-11.6	-9.2	-10.3	-7.8	-7.0	-6.5
Basic fiscal balance ³	0.1	-0.7	-3.2	-2.4	-0.1	-1.7	0.5	0.9	1.1
Basic fiscal balance ⁴	0.1	-0.7	-1.5	-0.7	0.9	-0.5	1.5	1.9	2.1
External sector									
Current external balance, excluding official transfers	-10.8	-12.0	-13.9	-13.0	-11.9	-12.5	-11.1	-9.8	-8.7
Current external balance, including official transfers	-9.3	-9.5	-13.0	-11.9	-11.3	-12.0	-10.2	-8.9	-7.8
Debt-service ratio ⁷									
Before debt relief	12.5	13.3	12.4	12.4	13.4	13.9	13.6	13.2	12.4
After debt relief	12.5	12.7	9.8	9.8	10.5	9.5	9.7	9.6	9.0
(In millions of U.S. dollars, unless otherwise specified)									
Overall balance of payments	-20.7	34.8	-52.7	-70.8	-35.6	-106.4	-54.3	-22.2	-3.7
Gross international reserves	310.8	377.4	377.3	376.7	404.7	387.5	371.8	384.1	415.1
(In months of next year's imports ⁸)	4.1	4.3	4.2	4.2	4.3	4.0	3.6	3.6	3.6
U.S. dollar rate (end of period)	615.8	710.0	...	...	...	...	...	...	...

Sources: Malian authorities; and staff estimates and projections.

¹ The historical GDP figures through 2000 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 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 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, 1999-2005 1/

	Composition of GDP in 2000 (in percent)	1998	1999	2000 Est.	2001 Est.	2002	2003	2004	2005
		Projections							
(Annual percentage change in constant prices)									
Primary sector	44.1	2.6	9.2	6.3	-13.0	15.0	2.7	4.5	4.3
Food crops	20.1	-5.0	19.7	15.7	-16.5	5.3	6.0	6.0	5.6
Industrial crops	7.0	13.5	0.1	-9.4	-39.8	104.5	-4.6	4.4	4.3
Livestock	11.2	6.9	4.7	4.3	2.3	2.7	3.0	3.0	3.0
Fishing	1.1	1.6	1.6	1.5	1.4	1.4	3.0	3.0	3.0
Forestry	4.7	2.9	2.9	2.8	2.8	2.8	3.0	3.0	3.0
Secondary sector	18.2	6.5	2.4	7.5	27.8	-5.9	7.5	5.4	6.5
Industry	5.6	-0.8	-4.1	11.7	0.2	0.7	4.3	8.3	6.0
Mining	5.8	21.9	9.8	11.1	72.8	-16.2	10.1	0.9	7.4
Handicrafts	2.1	2.8	1.6	-5.6	21.4	3.7	5.0	9.0	6.0
Construction and public works	4.7	3.2	2.6	5.0	8.1	2.5	8.2	8.0	6.0
Tertiary sector	31.1	5.5	6.2	3.2	-0.2	6.2	6.2	6.5	5.8
Transportation	5.5	13.9	6.9	3.9	0.7	7.3	7.0	7.0	6.0
Trade	14.5	4.2	10.3	3.7	-2.0	7.5	7.0	7.0	6.5
Public administration	5.5	3.2	-1.9	1.5	1.7	2.5	3.0	3.0	3.0
Other services	5.5	4.1	4.1	2.7	1.9	5.6	6.5	8.2	6.3
GDP (at factor cost)	93.4	4.3	6.8	5.5	-0.7	6.8	5.0	5.4	5.3
Indirect taxes	6.6	13.1	5.8	-5.8	11.5	6.0	5.0	5.0	6.0
GDP (at market prices)	100.0	4.9	6.7	4.6	0.1	6.7	5.0	5.4	5.4
Non mining real GDP		4.1	6.6	4.3	-4.4	9.3	4.5	5.8	5.2
(Net financial balances, in percent of nominal GDP, unless otherwise indicated)									
Total economy		-7.5	-9.3	-9.5	-11.9	-12.0	-10.2	-8.9	-7.8
Gross national savings		13.7	10.7	11.1	8.9	9.8	12.0	14.0	15.8
Of which: domestic savings		11.1	8.9	8.6	10.3	11.7	12.7	14.3	16.1
Gross domestic investment		21.2	20.0	20.6	20.8	21.7	22.1	22.9	23.6
Private sector		-1.2	-2.1	-2.6	-0.7	-2.2	-3.4	-2.8	-2.2
Gross national savings		10.8	8.9	8.9	9.5	9.2	9.1	10.8	12.2
Of which: domestic savings		9.2	7.7	8.0	11.0	10.7	9.9	11.1	12.7
Gross domestic investment		11.9	11.0	11.5	10.3	11.4	12.5	13.5	14.3
Government		-6.3	-7.2	-6.8	-11.1	-9.7	-6.8	-6.1	-5.6
Gross national savings		2.9	1.8	2.2	-0.6	0.6	2.8	3.3	3.7
Of which: domestic savings		1.9	1.2	0.6	-0.7	1.0	2.8	3.2	3.5
Gross domestic investment		9.2	9.1	9.1	10.5	10.3	9.7	9.4	9.3
Gross national savings		13.7	10.7	11.1	8.9	9.8	12.0	14.0	15.8
Memorandum items:									
External current account balance 2/		-7.5	-9.3	-9.5	-11.9	-11.8	-10.2	-8.9	-7.8
Nominal GDP (in billions of CFA francs)		1,592.5	1,670.7	1,811.2	1,895.9	2,070.9	2,230.1	2,409.8	2,595.4

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

¹ The historical GDP figures through 2000 have been revised upward to be fully consistent with the authorities' data. In addition, staff have updated the balance of payments to be fully consistent with the *Balance of Payment Manual* (5th edition) and the authorities' presentation.

² Including official transfers.

Table 5 : Mali: Central Government Consolidated Financial Operations, 1999-2002 1/

	1999	2000 Est.	2001						2002	
			Jan.-July		Jan.-Sept.		Jan.-Dec.		Proj. EBS01/1:3	Rev. Proj.
			Prog.	Est.	Prog.	Est.	Prog.	Rev. Proj.		
(In billions of CFA francs)										
Revenue and grants	356.0	371.1	212.2	210.4	280.9	289.4	387.1	394.0	431.1	442.4
Total revenue	272.6	269.9	175.8	180.1	229.9	234.1	314.3	316.9	353.1	364.4
Budgetary revenue	247.8	245.5	160.6	164.1	210.4	213.9	288.3	290.9	327.1	338.4
Tax revenue	235.3	233.3	153.4	155.9	202.5	204.4	277.2	279.8	311.7	321.7
Nontax revenue	12.6	12.2	7.2	8.2	7.9	9.5	11.1	11.1	15.4	16.7
Special funds and annexed budgets	24.8	24.4	15.2	16.0	19.5	20.2	26.0	26.0	26.0	26.0
Grants	83.4	101.2	36.4	30.3	51.0	55.3	72.8	77.1	78.0	78.0
Total expenditure and net lending	417.6	439.2	275.4	240.2	370.2	360.0	546.1	537.2	533.1	577.8
Budgetary expenditure	395.0	417.3	269.4	233.9	361.2	350.3	531.6	522.7	511.2	555.9
Current expenditure	193.2	199.3	131.7	120.9	177.4	163.2	258.4	248.4	242.5	271.8
Wages and salaries	65.3	73.1	47.8	45.4	61.5	59.3	82.0	82.0	87.1	87.1
Materials and supplies	26.7	28.5	16.3	15.7	17.4	21.9	31.0	31.0	31.9	33.2
Transfers	39.6	36.8	24.5	20.4	45.9	35.2	68.4	58.4	50.7	73.5
Scholarships	6.2	6.2	4.1	2.7	4.5	3.3	5.6	5.6	5.6	5.6
Social safety net	11.0	9.9	3.5	2.5	4.5	4.5	10.0	10.0	10.0	10.0
Elections cost	3.4	0.9	3.7	2.0	4.7	3.8	9.0	9.0	7.0	7.0
Others	19.0	19.8	13.2	13.2	32.2	23.6	43.8	33.8	26.6	50.9
Of which : cotton sector	0.0	0.0	...	...	...	...	23.0	13.0	5.0	27.2
Communication, transport, energy	28.6	28.9	15.2	16.6	19.5	20.8	30.1	30.1	31.7	31.7
Other current expenditure	19.1	16.0	17.3	13.9	19.3	14.5	27.7	27.7	21.6	25.5
Interest ³	14.0	16.0	10.6	8.9	13.8	11.5	19.2	19.2	19.5	20.8
Capital expenditure	199.8	217.1	118.0	99.5	156.9	159.9	240.4	240.4	247.6	248.6
Externally financed	147.4	157.1	95.4	71.0	126.9	126.9	174.0	174.0	178.4	178.4
Domestically financed	52.3	60.0	22.6	28.5	30.0	33.0	66.4	66.4	69.2	70.2
HIPC expenditures	0.0	0.0	5.8	3.0	8.0	8.4	13.6	14.7	20.1	25.5
Expenditures from World Bank Credit	0.0	0.0	13.4	10.1	18.2	18.2	18.2	18.2	0.0	0.0
PESAP and public enterprises	2.0	0.9	0.5	0.4	0.7	0.6	1.0	1.0	1.0	10.0
Special funds and annexed budgets	24.8	24.4	15.2	16.0	19.5	20.2	26.0	26.0	26.0	26.0
Service on on-lending	-2.2	-2.5	-9.2	-9.7	-10.5	-10.5	-11.5	-11.5	-4.1	-4.1
Basic fiscal balance ²	2.5	-12.2	-4.2	10.9	-13.4	1.0	-57.8	-46.3	-1.6	-35.0
Overall fiscal balance										
Commitment basis, including grants	-61.5	-68.1	-63.2	-29.8	-89.3	-70.6	-159.0	-143.2	-102.0	-135.4
Commitment basis, excluding grants	-144.9	-169.3	-99.6	-60.1	-140.3	-125.9	-231.8	-220.3	-180.0	-213.4
Changes in payments arrears	-9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment (cash basis)	11.7	1.6	-13.3	-13.3	-13.3	-13.3	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis, including g	-59.1	-66.5	-76.5	-43.1	-102.6	-83.9	-159.0	-143.2	-102.0	-135.4
Financing	59.2	66.5	72.2	43.1	88.0	83.9	107.8	103.7	72.8	84.8
External financing (net)	60.3	64.4	58.5	47.4	70.7	78.7	96.0	97.1	73.5	83.3
Domestic financing (net)	-1.2	2.1	13.7	-4.3	17.3	5.2	11.8	6.6	-0.7	1.5
Of which: excluding transfers to Caisse de Retraite du Mali (CRM) ⁴										6.5
Banking system	1.8	-17.9	35.7	24.3	39.3	31.8	23.8	26.6	7.3	7.3
Of which: net credit to the gouverne	3.8	11.2	35.7	24.3	39.9	32.4	24.4	27.2	7.3	7.3
Privatization receipts	10.4	20.3	0.0	0.0	0.0	0.0	8.0	0.0	0.0	11.0
Nonbank financing	-13.4	-0.3	-22.0	-28.6	-22.0	-26.6	-20.0	-20.0	-8.0	-16.8
Financing gap ⁵	0.0	0.0	4.3	0.0	14.6	0.0	51.2	39.5	29.2	50.6
(In percent of GDP)										
Total revenue and grants	21.3	20.5	...	...	...	...	21.7	20.8	22.1	21.4
Of which: total revenue	16.3	14.9	...	...	...	...	17.6	16.7	18.1	17.6
Of which: tax revenue	14.1	12.9	...	...	...	...	15.5	14.8	16.0	15.5
Total expenditure and net lending	25.0	24.2	...	...	...	...	30.6	28.3	27.4	27.9
Of which: health and education	3.1	3.8	...	...	...	...	4.1	4.3	...	4.6
defense	2.0	1.9	...	...	...	...	1.9	...	...	...
Current expenditure	11.6	11.0	...	...	...	...	14.4	13.0	12.4	12.6
Overall fiscal balance										
Commitment basis, including grants	-3.7	-3.8	...	...	...	...	-8.9	-7.6	-5.2	-6.5
Commitment basis, excluding grants	-8.7	-9.3	...	...	...	...	-13.0	-11.6	-9.2	-10.3
Basic fiscal balance ²	0.1	-0.7	...	...	...	...	-3.2	-2.4	-0.1	-1.7
Basic fiscal balance ⁵	0.1	-0.7	...	...	...	...	-1.5	-0.7	0.9	-0.5

Sources: Malian authorities; and staff estimates and projections.

¹ The historical GDP figures through 2000 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.

² Defined as total revenue, excluding grants, minus total expenditure and net lending, excluding foreign-financed capital expenditure.

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 Caisse de Retraite du Mali

⁶ Defined as 2 above, but also excluding HIPC initiative-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	2001	2002	2003	2004
	Est.	Prog	Proj.	Proj	Proj.
1. HIPC Initiative assistance given					
A. Interest due before HIPC Initiative assistance	18.6	19.8	18.5	19.6	19.6
B. Interest paid before HIPC Initiative assistance	18.6	19.8	18.5	19.6	19.6
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	18.6	19.8	18.5	19.6	19.6
E. Amortization due before HIPC Initiative assistance 1/	41.9	45.8	46.1	59.0	61.9
F. Amortization paid before HIPC Initiative assistance	41.9	45.8	46.1	59.0	61.9
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	41.9	45.8	46.1	59.0	61.9
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	25.5	24.2	24.4
Total HIPC Initiative assistance (C+G+I+J) 1/	2.6	14.3	25.5	24.2	24.4
Total HIPC Initiative assistance (in millions of U.S. dollars) 1/	3.7	19.5	35.8	34.3	34.6
Net cash flow to the budget from HIPC Initiative assistance (B+F-(D+II-I-J))	2.6	14.3	25.5	24.2	24.4
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)	138.3	141.5	132.8	125.3	129.8
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)	12.9	14.8	15.6	16.1	16.6
Overall fiscal balance before HIPC Initiative assistance excluding grants (in percent of GDP)	-9.3	-10.8	-9.1	-6.7	-6.0
Overall fiscal balance after HIPC Initiative assistance excluding grants (in percent of GDP)	-9.3	-11.6	-10.3	-7.8	-6.5

Sources: Malian authorities; and staff estimates and projections.

1/ Includes IMF.

2 /Excludes foreign-financed investment.

Table 7. Mali: Compliance with WAEMU Convergence Criteria, 1999-2005

	Ratio (in percent)	1999	2000	2001		2002		2003 Proj.	2004 Proj.	2005 Proj.
				Prog.	Rev. Proj.	Proj.	Rev. Proj.			
				EBS/01/113	EBS/01/113	EBS/01/113	EBS/01/113			
Primary criteria										
Basic fiscal balance / GDP (in percent)	>= 0	0.1	-0.7	-3.0	-2.5	-0.1	-1.7	0.5	0.9	1.1
Inflation (annual percentage change)	<= 3	-1.2	-0.7	4.5	4.6	3.1	3.0	2.0	2.0	2.0
Total debt / GDP (in percent)	<= 70	106.3	104.0	110.2	103.0	103.4	96.7	91.9	86.7	82.1
Domestic arrears (in billion of CFA francs)	<= 0	-9.3	0.0	0.0	0.0	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	0.0	0.0
Secondary criteria										
Wages / fiscal revenue (in percent)	<= 35	27.8	31.3	29.6	29.3	27.9	27.1	25.9	25.6	25.3
Domestically financed investment / fiscal revenue (in percent)	>= 20	22.2	25.7	24.0	23.7	22.2	21.8	22.0	21.3	22.0
Current account deficit (excluding transfers) / GDP (in percent)	<= 5	10.8	12.0	13.9	13.0	11.9	12.5	11.1	9.8	8.7
Fiscal revenue / GDP (in percent)	>= 17	14.1	12.9	15.5	14.8	16.0	15.5	16.0	16.5	17.0

Source: Malian authorities; and staff estimates and projections.

Table 9. Mali: Balance of Payments, 1999-2005 1/

	1999	2000 Est.	2001		2002		2003 Rev. Proj.	2004 Rev. Proj.	2005 Rev. Proj.
			Prog. EBS/01/113	Proj.	Prog. EBS/01/113	Rev. Proj.			
(In billion of CFA francs)									
Exports, f.o.b.	351.6	378.5	461.4	477.2	512.2	488.1	522.6	569.3	621.0
Cotton fiber	150.1	110.0	78.8	76.0	161.5	149.5	155.9	184.6	205.7
Gold	142.4	189.4	314.8	326.3	278.7	264.6	278.8	281.5	302.5
Other	59.0	79.1	67.7	74.8	71.9	74.0	87.9	103.1	112.8
Imports, f.o.b.	-372.8	-421.4	-457.8	-464.5	-509.0	-482.2	-507.8	-537.9	-568.7
Trade balance	-21.2	-43.0	3.6	12.7	3.2	5.9	14.8	31.4	52.3
Services (net)	-161.3	-170.8	-200.0	-207.4	-210.5	-209.4	-221.4	-233.2	-240.7
Factor service (net)	-43.2	-51.0	-90.7	-90.3	-65.5	-65.3	-75.2	-80.1	-84.8
Of which: interest due on public debt	-14.0	-15.6	-19.0	-18.9	-18.3	-19.2	-19.1	-19.6	-18.7
Private transfers (net)	45.8	47.1	39.0	39.0	41.0	29.0	33.1	45.8	48.2
Official transfers (net)	24.1	46.4	16.2	20.5	12.2	12.2	21.4	22.6	23.7
Of which: budgetary grants	14.6	32.2	0.0	4.3	0.0	0.0	9.2	10.4	9.5
Current account balance									
Excluding official transfers	-179.9	-217.6	-248.1	-246.0	-231.8	-259.9	-248.6	-236.1	-225.0
Including official transfers	-155.8	-171.2	-231.9	-225.5	-219.6	-247.7	-227.2	-213.5	-201.3
Capital and financial account	137.1	208.2	181.8	173.6	185.1	171.8	188.9	197.8	198.7
Capital account (net)	69.8	69.0	72.8	72.8	78.0	78.0	80.0	82.0	84.0
Of which: projects grants	68.8	69.0	72.8	72.8	78.0	78.0	80.0	82.0	84.0
Financial account	67.3	139.2	109.0	100.8	107.1	93.8	108.9	115.8	114.7
Private (net)	7.0	77.8	27.3	37.3	51.0	15.0	50.2	55.5	55.0
Official (net)	60.3	61.4	81.7	63.5	56.1	57.8	58.7	60.3	59.7
Disbursements (net)	91.7	95.0	119.4	101.2	100.4	100.4	104.0	109.0	114.0
Budgetary	13.1	6.9	18.2	0.0	0.0	0.0	0.0	0.0	0.0
Project related	78.6	88.1	101.2	101.2	100.4	100.4	104.0	109.0	114.0
Amortization due on public debt	-31.4	-33.6	-37.7	-37.7	-44.3	-42.6	-45.3	-48.7	-54.3
Errors and omissions	6.0	-12.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-12.7	24.7	-50.1	-51.9	-34.5	-75.9	-38.3	-15.7	-2.6
Financing	12.7	-24.7	50.1	51.9	34.5	75.9	38.3	15.7	2.6
Foreign assets (net)	12.7	-27.3	-15.3	-1.9	-12.5	-0.2	14.1	-8.7	-21.9
Of which: IMF (net)	6.9	-5.7	5.2	5.1	-6.9	-6.9	-13.7	-19.9	-16.6
HIPC Initiative assistance 2/	0.0	2.6	14.2	14.3	17.8	25.5	24.2	24.4	24.5
Financing gap	0.0	0.0	51.2	39.5	29.2	50.6	0.0	0.0	0.0
Memorandum items:	(Annual percentage change)								
External trade									
Exports volume	17.4	-2.3	7.4	16.0	14.7	13.9	4.4	4.0	6.3
Of which: nonmining	21.7	-10.8	-32.1	-30.7	55.4	74.0	-0.9	7.2	5.1
Imports volume	8.0	-1.9	4.6	9.1	8.9	8.3	6.2	5.2	4.2
Of which: nonmining import volume	6.1	-3.4	2.3	5.2	11.9	11.7	5.3	6.0	4.5
Export unit value	-9.6	10.1	16.6	8.7	-3.2	-10.2	2.5	4.7	2.7
Import unit value	4.9	15.3	3.9	1.0	2.1	-4.1	-0.9	0.7	1.5
Terms of trade	-13.8	-4.4	12.3	7.6	-5.2	-6.4	3.4	4.0	1.2
(In percentage of GDP, unless otherwise indicated)									
External current account balance									
Excluding official transfers	-10.8	-12.0	-13.9	-13.0	-11.9	-12.5	-11.1	-9.8	-8.7
Including official transfers	-9.3	-9.5	-13.0	-11.9	-11.3	-12.0	-10.2	-8.9	-7.8
External public debt 3/	106.2	104.0	110.5	103.0	103.7	96.7	91.9	86.7	82.1
Debt-service ratio 4/									
Before debt relief	12.5	13.3	12.4	12.4	13.4	13.9	13.6	13.2	12.4
After debt relief (including HIPC Initiative)	12.5	12.7	9.8	9.8	10.5	9.5	9.7	9.6	9.0
Gross international reserves (in billions of CFA francs)	227.8	269.1	289.6	276.1	309.0	276.3	262.2	270.9	292.8
In months of next year's imports 5/	4.1	4.3	4.2	4.2	4.3	4.0	3.6	3.6	3.6
Exchange rate (annual average)									
CFA francs per SDR	842.0	936.4	...	...	...	...	...	...	...
CFA francs per U.S. dollar	615.8	710.0	...	...	...	...	...	...	...
Commodity prices:									
Petroleum (crude spot; US dollars per barrel)	18.0	28.2	26.8	25.0	24.5	21.0	20.0	19.0	19.0
Gold (US dollar per fine ounce)	278.9	279.2	275.0	265.0	275.0	265.0	270.0	270.0	270.0
Cotton (cents per pound; international price)	53.1	59.0	54.7	48.2	59.0	46.0	52.0	56.0	60.0
Cotton (cents per pound; Malian price)	49.9	39.4	45.0	44.5	48.2	39.6	44.5	50.6	54.2

Sources: Malian authorities; and staff estimates and projections.

1/ This balance of payment is presented according to the *Balance of Payment Manual* (5th ed). The presentation of the program was changed accordingly and is therefore different from the presentation in EBS/01/162, (8/10/00). The historical GDP figures through 2000 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.

2/ Sum of original and enhanced HIPC framework for the 2000 estimate and projections; original HIPC-Initiative only for the program. The projections are based on the agreements already reached with the creditors (IMF, World Bank, European Union, OPEC Fund, 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, 1999-2005
(In billions of CFA francs, unless otherwise indicated)

	1999	2000 Est.	2001		2002		2003	2004	2005
			Proj.	Rev. Proj.	Proj.	Rev. Proj.			
			EBS/01/113		EBS/01/113					Projections
Requirements	206.7	297.2	317.8	302.3	300.9	315.2	278.1	293.5	301.2
Current account deficit, excluding official transfers 1/	179.9	217.6	248.1	246.0	231.8	259.9	215.2	236.1	225.0
Debt amortization 1/	31.4	33.6	37.7	37.7	44.3	42.6	45.3	48.7	54.3
IMF repurchases	7.2	12.1	11.4	11.6	19.2	19.4	19.1	19.9	16.6
Arrears (increase-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in the net foreign assets (increase+) 2/	-5.8	21.6	20.6	7.0	5.7	-6.7	-1.5	-11.2	5.2
Adjustment 3/	-6.0	12.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Resources	206.7	297.2	317.8	302.3	300.9	315.2	278.1	293.5	301.2
Official transfers 4/	24.1	46.4	16.2	20.5	12.2	12.2	12.2	22.6	23.7
Official project grants 4/	68.8	69.0	72.8	72.8	78.0	78.0	75.8	82.0	84.0
Long-term public loan disbursement 4/	91.7	95.0	119.4	101.2	100.4	100.4	104.0	109.0	114.0
Budgetary	13.1	6.9	18.2	0.0	0.0	0.0	0.0	0.0	0.0
Project related	78.6	88.1	101.2	101.2	100.4	100.4	104.0	109.0	114.0
Private capital (net)	8.0	77.8	27.3	37.3	51.0	36.0	63.5	55.5	55.0
Debt relief, including HIPC Initiative assistance 5/	0.0	2.6	14.2	14.3	17.8	25.5	17.0	24.4	24.5
Debt under negotiation/moratorium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of IMF resources Enhanced Structural Adjustment Facility (ESAF)	14.1	6.4	16.7	16.7	12.3	12.5	5.6	0.0	0.0
Exceptional financing	0.0	0.0	51.2	39.5	29.2	50.6	0.0	0.0	0.0
Memorandum item:									
Exchange rate: CFA francs per SDR	842.0	939.5		....	....	....	....	....	....

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/	7.0	7.0	5.9	4.8	3.7	2.8	2.1	1.5	1.0	0.6	0.4	0.2	0.1
Outstanding Fund credit/exports of goods and nonfactor services 1/	27.3	24.0	20.7	17.6	13.3	9.9	7.9	6.2	4.7	3.2	2.0	1.1	0.7
Gross Fund financing/financing needs 1/ 2/	2.2	5.9	4.0	1.9	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	3.3	3.1	2.4	1.9	1.9	1.9	1.6	1.2	1.0	0.0
Debt service to the Fund/total debt service 3/	21.8	18.7	25.3	24.5	23.7	19.6	15.4	16.4	15.5	12.1	11.3	8.4	3.6
Total debt service before rescheduling 3/	13.3	12.4	13.9	13.6	13.2	12.4	12.6	11.6	12.4	13.1	11.0	11.7	11.6
Total debt service after debt relief 4/	12.7	9.8	9.5	9.7	9.6	9.0	7.9	7.0	8.0	8.9	6.7	7.1	7.6
Memorandum item:													
Exports of goods and nonfactor services (in millions of SDRs)	494.2	584.8	641.5	671.0	726.3	787.2	803.7	791.6	759.3	760.8	769.6	764.3	774.1

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 loans 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: 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 (U.S. dollars)	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	..	..	2.0	1.5	1.3
Education	..	3.2	2.2	4.1	3.2
Social security and welfare	..	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	..	..
Immunization rate	(In percent; under 12 months, unless otherwise indicated)				
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 1,000 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, November 30, 2001

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

Dear Mr. Köhler:

1. On behalf of the government of Mali, and in the context of the third review of the program supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) approved by the Executive Board of the International Monetary Fund in July 1999, I am pleased to forward to you the memorandum of economic and financial policies for 2001-02. The memorandum describes progress made in implementing the program in 2001, the updated objectives for end-2001 and for 2002, and the policies that are envisaged to achieve these objectives.
2. Mali is going through the most difficult period of its recent economic history. Setbacks in the cotton and food crop sectors have led to an economic stagnation in 2001, after a period of sustained growth since the devaluation. Moreover, although growth is expected to recover in 2002, an anticipated decline in world cotton prices could further exacerbate the precarious situation in the cotton sector and government finances.
3. Notwithstanding the difficulties faced by Mali, the authorities resolutely implemented the program supported by the PRGF arrangement between January and July 2001. All the quantitative benchmarks and performance criteria for this period were met. During the period, the authorities launched a series of measures in the cotton sector, implemented a new petroleum taxation mechanism, and raised the utility rates for water and electricity. Moreover, they adopted a plan for the annual allocation of HIPC Initiative-related resources for the period 2002-05.
4. Despite sound implementation of the program, it is now expected that delays will be recorded in the mobilization of part of the program financing. To safeguard the initial program objectives to the maximum extent possible during this difficult period, the authorities have taken measures to mobilize additional revenues, delay some expenditure, and temporarily issue treasury bills. Accordingly, the government of Mali is requesting an amendment of the initial program objectives, as described in the memorandum of economic and financial policies.
5. The economic growth outlook for 2002, when key elections are scheduled to take place, is good. Owing to a substantial increase in cotton output as a result of the restoration of confidence among producers, as well as an increase in the cereal harvest with the return of

favorable rainfall, the real GDP growth rate should reach about 7 percent in 2002. However, the significant drop in international cotton prices means that the initial fiscal targets for 2002 will have to be revised. A number of additional expenditures related to the crisis and the economic liberalization program are now planned. To cover these expenditures, the authorities will take steps to increase revenues and limit nonpriority current expenditures. The government is resolved to implement all the reforms and measures included in the program. The policies and measures described in the memorandum are appropriate to achieve the program objectives, but the government will take any other measures that might prove necessary to this end.

6. As described in the memorandum, the debt-service relief obtained since the completion point under the original Heavily Indebted Poor Countries (HIPC) Initiative and the interim financing obtained under the enhanced HIPC Initiative have been applied to the priority poverty reduction program contained in the interim poverty reduction strategy paper (I-PRSP). Preparation of the full PRSP is continuing in the context of a wide-ranging participatory dialogue. A progress report on the full PRSP has been prepared by the government.

7. The government is counting on the continued support of the International Monetary Fund to help it achieve the program objectives, including through the completion of the third review of the PRGF arrangement. In any event, the IMF and the government of Mali will conduct a review of the PRGF-supported program by June 30, 2002 and a fifth review by November 30, 2002 to assess progress made with its implementation.

8. Finally, the government will provide the IMF with any information it may request on progress made in implementing its economic and financial policies, as described in the technical memorandum of understanding, also attached. As in the past, the government remains committed to widely disseminating its memorandum of economic and financial policies and the technical memorandum of understanding, and authorizes the IMF to publish its staff report and to place it on its website.

Sincerely yours,

/s/

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

Attachments: Memorandum of economic and financial policies for 2001/02 and
technical memorandum of understanding

MALI

Memorandum of Economic and Financial Policies for 2001-02

Bamako, November 30 2001

I. INTRODUCTION

1. **For some time now, Mali has been going through the most difficult period of its recent economic history.** Setbacks in the cotton and food crop sectors have led to an economic slowdown in 2001, after a period of sustained growth since the devaluation. Moreover, although growth is expected to recover in 2002, an anticipated decline in world cotton prices could further exacerbate the precarious situation in the cotton sector and of government finances.

2. **Poverty reduction continues to be the priority of the development strategy pursued by the government of Mali.** The government's commitment in this area reflects a twofold need: (i) to identify policies and instruments geared toward achieving the objective of poverty reduction, and (ii) to adopt appropriate short- and medium-term measures to enable the government to make rational and more effective use of domestic and external resources. To achieve their poverty reduction goals, the Malian authorities will implement economic, financial, and social policies aimed at promoting economic diversification. Private sector promotion remains central to the poverty reduction strategy, as it is anticipated that two thirds of growth in Mali will be generated by the secondary and tertiary sectors. To facilitate this diversification process, the Malian authorities are identifying a package of measures in the context of preparing the full poverty reduction strategy paper (PRSP), in order to address issues pertaining to (i) low labor productivity reflecting the shortage of skilled workers; (ii) the inadequacy of physical infrastructures; (iii) the high cost of factors of production (energy and telecommunications); (iv) the low level of financial depth; and (v) deficiencies in governance and efforts to deal with corruption. Furthermore, given the importance of the cotton sector to Mali's economy, the Malian authorities have launched a set of short- and medium-term reforms designed to restructure the Compagnie Malienne pour le Développement des Textiles (CMDT) and to liberalize the cotton sector in order to improve its competitiveness. The government's stated objective is to ensure that Mali can in the medium term achieve an annual growth rate averaging at least 5-6 percent, which will help to roll back poverty.

II. PROGRAM IMPLEMENTATION DURING THE FIRST SEVEN MONTHS OF 2001

3. The economic indicators recorded during the first half of 2001 indicate that a **considerable slowdown in economic activity is emerging.** Real GDP is expected to stagnate in 2001, largely on account of the crisis in the cotton sector, the difficulties in the

food crop sector, and their ripple effects. The 47 percent decline in cotton production in 2000-01 is causing a slowdown in industrial and trade activities. The resultant drop in cotton producers' incomes in 2001 by about 40 percent will have an adverse impact on the demand for services. Average annual inflation reached 5 percent during the first nine months of the year, reflecting the downturn in cereal production in crop-year 2000/01. Preliminary data on foreign trade indicate that nonmining exports have slumped in relation to 2000, largely as a result of the dramatic decline in cotton exports. Conversely, the value of gold exports virtually doubled compared with the same period in the preceding year. At the same time, largely owing to an increase in imports of petroleum products and of equipment for the mining sector, as well as imports for strengthening the capacity of the energy company (EDM), merchandise imports grew significantly during the first half of 2001.

4. **From the fiscal standpoint**, tax revenue slightly overshot the programmed objective, reaching CFAF 155.9 billion as at July 31, 2001. The programmed objective was exceeded even though oil revenues recorded a shortfall of approximately CFAF 6.0 billion during this period. This favorable performance by nonoil revenues reflects the increase in the tax yield following the implementation of administrative measures affecting the tax revenue and collection agencies. Overall expenditures stayed below program targets in spite of a larger-than-anticipated increase in domestically financed capital expenditures in priority sectors. Current expenditures are estimated at CFAF 121 billion (as against CFAF 131.5 billion under the program). The expenditures funded with the Initiative for Heavily Indebted Poor Countries (HIPC Initiative)-related resources likewise fell short of expectations because the supplementary budget law authorizing a higher level of HIPC Initiative expenditures in keeping with the program (CFAF 13.6 billion) was not adopted by the National Assembly until September 2, 2001. The basic budget balance (excluding resources freed as a result of the HIPC Initiative) reached a level of CFAF 3.0 billion during the period January-July 2001, that is, it overshot the target by CFAF 1.6 billion. This favorable fiscal performance continued into September 2001, with a basic balance of CFAF -1.6 billion during the period January-September 2001, compared with a target of CFAF -5.4 billion.

5. **The government has also intensified its poverty reduction program** as set forth in the interim poverty reduction strategy paper (I-PRSP). Funding for priority programs has been increased in 2001 through higher budgetary resources, debt service relief obtained following the completion point under the original HIPC Initiative, and the interim financing obtained through the enhanced HIPC Initiative. A special treasury account was opened at the Central Bank of West African States (BCEAO) to house HIPC Initiative-related resources, and the allocation of resources in favor of poverty reduction reflects the priorities identified in the I-PRSP.

6. **Credit to the economy** increased during the first nine months of the year. During the same period, the net foreign assets of the BCEAO, as well as those of banks, increased. The quality of banks' portfolios deteriorated somewhat, as doubtful and disputed claims increased from 7.9 percent of all credit to the economy as at end-December 2000 to 8.9 percent as at end-June 2001, reflecting the ripple effects of the cotton sector crisis. However, most banks complied with the main prudential ratios of the West African Economic and Monetary Union

(WAEMU). Microcredit institutions (the network of credit unions and other local networks) continued to grow, mainly as a result of their higher visibility in rural areas, as evidenced by the rate of increase in deposits, which stood at 21.5 percent as at end-2000.

7. In spite of the difficulties facing Mali, **the Malian authorities have resolutely pursued the implementation of the program** supported by the Poverty Reduction and Growth Facility (PRGF) for 2001, as described in the memorandum of economic and financial policies of July 9, 2001. All the quantitative performance criteria and benchmarks for July 2001 have been met (Appendix I, Table 1). With respect to structural reforms, the following has been done:

- The government implemented a variety of measures during the period January-July 2001: (i) the adoption of an action plan for the reform of the cotton sector (prepared with World Bank assistance); (ii) the preparation of an emergency action plan to enable the CMDT to resolve its financial crisis; (iii) preparation and validation of a plan for the repayment, by September 30, 2001, of the CFAF 30 billion owed by the CMDT and guaranteed by the government to local banks; (iv) an increase of water rates by 10 percent and electricity rates by 5 percent; and (v) the implementation of the new taxation mechanism for petroleum products, under which changes in the import prices are automatically reflected in retail prices.
- The plan for the repayment of the CFAF 30 billion owed by the CMDT to local banks and guaranteed by the government was implemented before end-September 2001, according to plan. Furthermore, the Malian authorities have discussed the letter of development policy for the cotton sector with the key players in the sector, and the document has been translated into local languages in order to ensure that it reaches as many cotton producers as possible.
- The CMDT has begun implementing a set of measures to strengthen the transparency and effectiveness of its financial management and to reduce production costs. The company has begun to observe the effect of these measures on its production costs. In 2000, the CMDT reduced its production costs by about CFAF 15 billion, two-thirds of which on a permanent basis.
- However, the studies specified in the action plan for liberalizing the sector have fallen behind schedule, owing to delays in securing the necessary donor financing. The action plan in the letter of development policy for the cotton sector of October 3, 2001 includes a major program of audits and studies intended to identify the precise content of the structural measures in the sector reform program (refocusing the CMDT, outsourcing some activities, and identifying liberalization options and sequencing). The terms of reference for most of these studies are available, and the process of selecting the consultants is already under way.
- A plan for the annual allocation of HIPC Initiative resources for the period 2002-05 has been adopted.

- The draft budget law for fiscal-year (FY) 2002 adopted by the National Assembly now includes specific budget codes for HIPC Initiative-related expenditures.
- In the telecommunications sector, the international call for bids for the granting of the second cellular telephony license to a private operator was launched on September 27, 2001. The license is scheduled to be awarded by the first quarter of 2002.

III. AMENDED PROGRAM OBJECTIVES FOR THE REMAINDER OF 2001

8. In view of the **delays encountered in mobilizing some budget financing** (estimated at CFAF 15.4 billion), the program for the remainder of 2001 will have to be revised. Privatization revenues (CFAF 8 billion) and a portion of donor resources (CFAF 7.4 billion) are now expected by the first quarter of 2002. To ensure that the initial program objectives are fully protected, the government has taken steps to (i) mobilize additional tax revenues (CFAF 2.6 billion), (ii) carry forward a portion of expenditures (CFAF 10 billion) payable to the Banque de développement du Mali (BDM) to 2002, and (iii) temporarily to issue treasury bills (CFAF 2.8 billion). The government is committed to transferring to the BDM, during the first half of 2002, the sum of CFAF 10 billion, which was payable to the BDM by the CMDT. To address the cash-flow needs emerging in the last quarter of 2001 while waiting for external financing (now expected toward the end of 2001), the authorities have resorted to central bank financing on an exceptional basis for an amount equivalent to CFAF 29.1 billion and will issue treasury bills for an amount not exceeding CFAF 3 billion. The authorities are committed to reimbursing the statutory advances from the BCEAO and to redeeming the bonds, as donors' financing is made available in 2001, and they will redeem the treasury bills by end-March 2002 at the latest.

9. To reflect the pace of disbursement of budgetary assistance, the **overall level of expenditures not carried forward is expected to catch up** during the last quarter of the year to the programmed level. The wage bill will be kept within the limit of CFAF 82 billion envisaged in the program. Electoral expenditures will be limited to the CFAF 9 billion recorded in the program in 2001. The same applies to the costs associated with restructuring the cotton sector, which will now be capped at CFAF 13 billion, consistent with the revised program.

10. The volume of **fiscal revenues** should stand at CFAF 290.9 billion in 2001, thereby exceeding the initially programmed level by CFAF 2.6 billion, owing to the continuing improvement in the performance of the tax administration. Revenue from the mining sector is projected to reach CFAF 21.3 billion. In view of the increase in revenues and carryforward of expenditures, the basic fiscal balance is expected to record a maximum deficit of CFAF 46.3 billion in 2001, compared with a programmed deficit of CFAF 57.8 billion. The authorities have requested that the performance criterion for the ceiling on the net government position be revised upward by CFAF 2.8 billion.

11. With regard to **structural reforms**, the authorities will take all appropriate steps to ensure the implementation of the revised timetable in the letter of development policy for the cotton sector. As a direct consequence of the delays in mobilizing the funding for the studies specified in the letter of development policy, the implementation of the two performance criteria for end-December 2001—the launch of the call for bids for the sale of the assets of the Office de la Haute Vallée du Niger (OHVN) and the completion of the medium-term financial restructuring plan for the cotton sector—will be postponed. One of the two structural benchmarks for the cotton sector will also be delayed—namely, adoption of the plan for the gradual withdrawal of the CMDT from public service activities and the associated social plan—now scheduled for end-February 2002 instead of October 31, 2001. However, the adoption and implementation of a mechanism for setting the producer price of seed cotton (to reflect movements in international cotton fiber prices and to take account of prices prevailing in neighboring countries) will be completed as planned by end-December 2001.

12. In spite of the delays in reforming the **cotton sector**, the government reaffirms its commitment to move forward in this area, particularly in light of the unprecedented downtrend in cotton prices on world markets. All of the measures planned for 2001 under the program will be implemented by March 2002. Additional measures for reducing the production cost of cotton fiber (by lowering the operating costs of the CMDT) will be carried out. These consist in further reducing the wage bill, overhead, consulting and training expenses, vehicle operation costs, and, particularly, expenditures related to industrial activity.

IV. MACROECONOMIC FRAMEWORK FOR 2002

13. **To achieve the poverty reduction target** that it has set for itself, the government will continue to gradually reorient its budget in favor of priority expenditures (education, health, and rural development). For 2002, the macroeconomic objectives of the program are growth in real GDP of approximately 7 percent; an inflation rate (as measured by the GDP deflator) of about 3 percent; a basic fiscal balance of -1.7 percent of GDP; and a current account deficit (excluding grants) of 12.5 percent of GDP. These objectives reflect trends in cotton prices on the international market, which have fallen about 30 percent in relation to baseline projections. The government considers that the real GDP growth target of 7 percent for 2002 remains achievable despite unfavorable international economic conditions, inasmuch as seed cotton production is projected to surpass the baseline scenario level by approximately 15 percent.

14. **In 2002, when key elections are scheduled, Mali faces a challenging international environment, fraught with uncertainty, particularly as regards cotton prices.** The crisis in the cotton sector has had a destabilizing effect on the entire Malian economy. The government is determined to respond effectively to this situation; however, this task is complicated by the uncertain global environment. It is anticipated that in 2002 cotton prices on world markets will fall about 30 percent short of program projections. However, the government's support for producer prices in 2002—a key element of its poverty reduction program—and the abundant rainfall point to a harvest of approximately 575,000 tons of seed

cotton for crop-year 2001/02. The fact that production has rebounded to this record level bears witness to rising confidence among producers and should lead to a substantial increase in rural incomes. The steady downturn in world cotton fiber prices, combined with the decline in the dollar, will serve to exacerbate losses in the cotton sector. Reflecting the good rainfall, cereal production is projected to increase by about 5 percent and inflation to fall from 4.6 percent in 2001 to approximately 3.0 percent in 2002.

15. The **balance of payments** in 2002 will be affected by the unfavorable trends in cotton prices. Moreover, mining sector output will fall short of the record level achieved in 2001. Cotton sector exports are expected to increase substantially; however, with the decline in cotton prices, export revenues will fall short of initial forecasts.¹ Moreover, nonmining imports will increase with the rise in disposable income, whereas mining sector imports will fall slightly. The net effect will be a slight deterioration in the trade balance, which should be virtually in equilibrium. The current account balance is expected to worsen in comparison with the baseline projections, reflecting the increase in imports of the gold sector and the outward transfer of this sector's investment income. This deterioration should, nonetheless, be offset by continuing substantial capital inflows, especially in the gold sector, and by a sustained level of foreign aid. In order to finance its investment program, Mali will continue to rely on concessional debt. As Mali is benefiting from debt relief, as of 2002 there will be no nonconcessional borrowing either at the central government level or by public enterprises. The government is committed to pursuing negotiations with the Russian authorities to reschedule the service on the debt owed since 1998 and not paid on account of the ongoing discussions.

V. PROGRAM TARGETS FOR 2002

16. **The objective of fiscal policy in 2002 is to achieve a reduction in the basic fiscal deficit in order to limit government indebtedness.** The basic fiscal balance is expected to record a deficit of 1.7 percent of GDP in 2002. The overall level of expenditures reflects (i) the additional amounts mobilized under the enhanced HIPC Initiative (CFAF 5.4 billion); (ii) additional expenditures related to the education and health sectors (CFAF 3 billion); (iii) the increase in transfers allotted to the CMDT to cope with the decline in cotton prices (CFAF 12.2 billion); (iv) the shifting of cotton sector-related expenditure from last year (CFAF 10 billion); and (v) additional expenditures linked to the social plans associated with the government's liberalization policy in the cotton sector and the privatization of public enterprises (CFAF 9 billion). To cope with these additional expenses, the Malian authorities will take steps to raise additional revenue (CFAF 11.3 billion) relative to the baseline projections, and they are determined to keep all nonpriority expenditures to a bare minimum, particularly transfers and other current expenditures. Furthermore, in order to emphasize the exceptional nature of this subsidy for the cotton sector, the government will enter into wide-

¹ In 2002, the initial projections were estimated at CFAF 512.2 billion, as against forecasts of CFAF 488.1 billion.

ranging discussions with cotton producers to inform them of trends in prices on world markets and to familiarize them with the new pricing mechanism, which will establish a link between producer prices, on the one hand, and international prices and prices observed in neighboring countries, on the other hand.

17. **Current expenditures** (excluding those related to the HIPC Initiative-related expenditures) are projected at CFAF 271.8 billion in 2001, representing a slight reduction relative to GDP in comparison to 2001. The wage bill will remain within the limits established in accordance with WAEMU criteria, and for 2002, it will be limited to CFAF 87.1 billion. Scholarships will be capped at CFAF 5.6 billion per year as envisaged in the ten-year program for education (PRODEC), and transfers and other current expenditures will be kept to a minimum. Domestically financed capital expenditure in 2002 will increase by approximately CFAF 3.8 billion over the 2001 level. Within this envelope, investments related to the African Soccer Cup (CAN) will be limited to CFAF 10 billion. Consistent with the goals of PRODEC and the ten-year program for health (PRODESS), as well as the basic infrastructure development program, expenditures of the priority social sectors will increase by approximately 12 percent in relation to 2001 (including from HIPC Initiative-related resources). HIPC-related resources in favor of the poverty-reducing outlays are expected to amount to CFAF 25.5 billion. To cushion the social impact of its policy of liberalizing the cotton sector and privatizing public enterprises, the government has undertaken an assessment of the costs associated with the social plans. Pending the results of this assessment, the government has allotted an estimated sum of CFAF 10 billion in its 2002 budget.

18. To meet these expenditures, **tax revenues** will increase by $\frac{1}{2}$ of 1 percentage point in relation to GDP to reach 15.5 percent of GDP in 2002 (CFAF 321.7 billion). The introduction of the new mechanism for the taxation of petroleum products in July 2001 is expected to show its full impact in 2002, with projected revenues of CFAF 63.6 billion. To reach these objectives, the rates for the specific tax on petroleum products (*taxe spécifique sur les produits pétroliers*—TIPP) have increased from their July 2001 levels. Furthermore, if the downward trend in oil and gas prices continues, as reflected in a decrease in Mali's import prices, the government plans to increase the TIPP in the course of the year to ensure that the revenue levels are achieved. The Malian authorities have implemented most of the reforms required to improve the structure of the tax system with the adoption of the common external tariff (CET) and a single-rate value-added tax (VAT). Other tax reform measures are in the pipeline, particularly an increase in a number of excise duties, as well as the harmonization of the BIC rate with a view to raising tax revenues. Moreover, the administrative measures being taken will be strengthened. Accordingly, since January 1, 2001, the single taxpayer identification number has been used systematically by all tax administrations—a practice that has improved communication among the various assessment and collection agencies. Furthermore, the National Directorate of Taxes (DNI) has launched a procedure to bring the informal sector into the tax base and has allocated additional resources to units responsible for tax assessments, which should improve the tax yield. The government will continue its effort to strengthen the capacities of the various tax administrations through the use of data processing tools, transport equipment, and

professional training. The mining sector will contribute to fiscal revenues in the amount of CFAF 17.3 billion in the form of dividends and other revenues, compared with CFAF 21.3 billion in 2001, reflecting the downturn in mining production.

19. Given the importance of **regional integration** to a landlocked economy like Mali's, the government will continue to take all necessary steps to ensure expeditious compliance with all of the WAEMU convergence criteria. To this end, the government will spare no effort to reduce its financing needs and to implement a vigorous fiscal policy and a cautious borrowing policy, so as to gradually reduce the debt ratio. With respect to revenues, further efforts to broaden the tax base and to enhance domestic tax collection are expected to push the ratio of tax revenues to GDP over 17 percent. To facilitate medium-term efforts to enhance the efficiency of the civil service and improve control over the wage bill, an action plan for reforming the civil service will be prepared and discussed with Mali's partners prior to March 31, 2002. An organizational audit of the civil service is in progress and is scheduled for completion in November 2001.

20. Reflecting the BCEAO's **monetary policy** objectives of strengthening the WAEMU's external reserves and maintaining an inflation level compatible with that of the anchor currency, the expansion of the money supply in 2002 is projected at approximately 9 percent, in line with the growth in nominal GDP. Credit to the government is projected to increase slightly, while credit to the economy is expected to increase by about 6 percent, compatible with the outlook for economic activity. With the aim of preserving the soundness of the banking system, the government issued treasury bills in July 2001 in order to repay the crop credit, in the amount of CFAF 12 billion. The government is committed to beginning the redemption of these bills (one half in 2002 and the other half in 2003). The redemption of treasury bills issued in December will be carried out during the first quarter of 2002, owing to a revision of the program. By virtue of the implementation of the plan for repayment of the banking system by the CMDT, the financing of the current crop year now seems to be well in hand. In order to implement the decision of the WAEMU Council of Ministers to eliminate statutory advances from the BCEAO and to ensure perfect substitutability between bank financing and bills or bonds that the Malian Treasury may issue on the national or regional market, the previous performance criterion on the change in net bank credit to the government will be replaced beginning in end-June 2002 by a performance criterion on net domestic financing (bank and nonbank). The indicative ceilings adopted under this new criterion are a net indebtedness of CFAF 16.5 billion as at end-March 2002, and CFAF 16.5 billion as at end-June 2002.

21. Efforts to **strengthen the banking system** will continue, particularly through increases in the capital and reserves of banks, which will endeavor to adhere to the new capital adequacy ratio scheduled to take effect on January 1, 2002. Having due regard for microfinance sector's important role in rural development and the informal sector, the government will continue to promote the sound development of microfinance, particularly by strengthening supervision capacity.

VI. STRUCTURAL REFORMS

22. The structural reform program for 2002 will focus on two key issues: ensuring continuity in cotton sector reform and improving public expenditure management.

A. Cotton Sector

23. The government of Mali reaffirms its commitment to pursue the liberalization of the economy, as reflected in the state's withdrawal from production, industrial, and commercial activities in favor of the private sector. At the time of the cotton sector participatory forum (*États Généraux*) held in April 2001, the government pointed out that, in view of its importance, the cotton sector had to be included in its liberalization policy. In accordance with the main conclusions of the participatory forum, the Malian authorities, with World Bank assistance, have prepared the broad outlines of a cotton sector reform program, as well as a crisis resolution plan for the CMDT.

24. The reform of the cotton sector has the following main objectives: to lower production costs; to establish a market-based pricing mechanism based on free negotiations among economic agents; to strengthen producers' organization so that they can play a more important role in the management of the cotton sector; to strengthen the role of the private sector, producers, and decentralized agencies in developing the sector; and to increase the sector's contribution to the national economy, thereby helping the fight against poverty and improving the standard of living of the population. By 2005, the ultimate goal is to achieve the total liberalization of the cotton sector by opening it up to competition and by privatizing the CMDT.

25. As indicated earlier, delays have been encountered in initiating the studies included in the action plan for liberalizing the cotton sector (see para. 7). The question of the financing for these studies has been resolved. In spite of these delays, the government remains committed to pursuing its policy of liberalizing the sector. The government therefore adopted on October 3, 2001 the amended timetable set forth in the revised letter of development policy for the cotton sector.

26. The measures contained in the government's program for 2001, which had been delayed, have now been rescheduled for the following dates:

- **End-March 2002.** The completion of the financial restructuring of the CMDT for the period 2002-05 (performance criterion as at December 31, 2001).
- **End-February 2002.** The launching of the call for bids for the sale of OHVN assets, with a view to establishing a new private sector operator (performance criterion as at December 31, 2001).
- **End-February 2002.** The adoption of a plan for the CMDT to withdraw from its public service activities (comprising rural roads, infrastructure, and water supply).

Implementation of these measures will constitute the prior actions for the fourth review.

27. For the first half of 2002, efforts will be geared toward (i) preparing and implementing of a plan for the financial restructuring of the CMDT; (ii) launching the program to refocus the CMDT's efforts around agro-industrial activities; (iii) implementing measures that have been identified to strengthen producers' managerial and organizational capacities; (iv) preparing a study for an autonomous region, and completing the terms of reference for opening up the OHVN region, enlarged to incorporate adjacent areas, to the private sector; (v) preparing of a study on steps and options for the complete liberalization of the cotton sector over time (**structural benchmark**); (vi) implementing a mechanism for the determination of the producer price for seed cotton that reflects movements in international cotton fiber prices and takes account of prices prevailing within the subregion (**structural benchmark**); (vii) finalizing a study on the modalities for the transfer of extension services; and (viii) ensuring that the CMDT implements a more competitive mechanism—and one that maximize receipts—for marketing cotton fiber for export. Furthermore, an institutional reform of the cottonseed oil subsector will be implemented with the liberalization of the sale price for cottonseed. The cottonseed oil public enterprise, HUICOMA, will be privatized by June 2002 at the latest.

28. In the medium term, the recommendations of the study mentioned in item (v) above will be validated and implemented, with a view to achieving the total liberalization of the sector through the introduction of competition and the privatization of the CMDT. With the support of its development partners, particularly the World Bank, the government will, during the first half of 2002, prepare a detailed work program on the forthcoming stages in the cotton sector reform process.

B. Public Expenditure Management

29. The Malian authorities are continuing to improve public expenditure management. Draft audited budget accounts (*lois de règlement*) inclusive through 1999 have been submitted to the National Assembly. The draft audited budget accounts for 2000 will be submitted to the National Assembly by June 30, 2002 (**structural performance criterion**). The goal pursued by Mali in public expenditure management is to move away from an approach based on the review of government expenditures to verify their conformity to regulations, moving instead toward an approach focusing on the effectiveness of expenditures and, thus, on performance assessment. This shift presupposes that information is well managed, comprehensive, and readily available.

30. The Malian authorities' efforts to improve public expenditure management are being pursued in the context of the third structural adjustment credit (SAC III) agreed with the World Bank. In July 2001, the Malian authorities hosted an IMF mission to assess the transparency of government finance, in the context of a Report on the Observance of Standards and Codes (ROSC) and of a report on the country's capacity to track poverty-reducing expenditures. While noting the significant progress achieved in public expenditure management, the IMF mission made a number of recommendations, both with reference to

improving budget management and in the context of tracking poverty-reducing expenditures. These recommendations are reflected as follows in the government's work program for 2002:

- In regard to the budgetary classification for the 2003 budget, the government will set up (i) a coding system for all poverty-reducing expenditures with technical assistance from Fund staff; and (ii) a coding system for the program budget. The government will finalize a study that would allow for the introduction in the 2003 budget of a new budget nomenclature specific to poverty-related expenditures (**structural benchmark**).
- In the field of government accounting, the government has expedited the production of treasury balances.
- The budget nomenclatures and accounting system at the local level and the accounting system at the central level will be harmonized to facilitate budget tracking, starting with the 2003 budget.

31. In addition to the measures taken to enhance the effectiveness of expenditures related to poverty reduction, the government, in the context of the SAC III agreed with the World Bank, has decided to embark upon an exercise for the medium-term programming of government expenditure. In support of this process, and reflecting the need for efficiency in the use of HIPC Initiative-related resources, the government will design and implement (in the context of the PRSP) an action plan to enhance governance and transparency in public management. In addition, in the context of the SAC III agreed with the World Bank, the Malian authorities will undertake a functional and technical study to design an integrated information system within the Ministry of Economy and Finance.

C. Other Structural Reforms

32. In order to control the civil service wage bill more effectively over the medium term and improve the efficiency of the civil service, the government will undertake a diagnostic study of medium-term wage policy in the civil service (as part of the process of modernizing the service and harmonizing its pay scales). These reforms will be continued on the basis of the organizational audit of the civil service conducted in November 2001. An action plan for civil service reform must be prepared and discussed with the government's partners during the first half of 2002 (**structural benchmark**).

33. The Malian authorities achieved significant progress through the implementation of a new mechanism for the taxation of petroleum products on July 12, 2001. This system will allow changes in import prices to be automatically passed through to retail prices. This petroleum product taxation must be made compatible with applicable WAEMU directives.

34. The Malian authorities are determined to persevere in their efforts undertaken in recent years to limit the government's role in the productive sector. Accordingly, the Malian authorities are engaged in a cotton sector reform program, with a view to liberalizing the

sector (see paras. 23 to 28). In the transport and telecommunications sector, the main actions will involve granting a cellular telephony license to a private operator and placing the entire Mali-Senegal railroad network under a concession arrangement prior to June 2002. Based on the timetable for completing these tasks, privatization receipts estimated at CFAF 11 billion are expected to be generated in 2002.

VII. POVERTY REDUCTION

35. The preparation of the full PRSP is continuing in the context of a wide-ranging participatory process. The Malian authorities have prepared a report on the status of the preparation of the full PRSP, which is expected to be completed at end-December 2001, following regional consultations scheduled for November 2001 and the adoption of the PRSP by the government.

36. In the meantime, the execution of the program presented in the July 2000 interim PRSP is continuing normally, largely because of the implementation of the ten-year education and health programs (PRODEC and PRODESS) has been successfully accelerated with the provision of HIPC Initiative-related resources. Even though some delays were observed in launching PRODESS on account of the late arrival of anticipated funding from donors and lenders, significant improvements have been recorded in the general public's access to health care through the construction of 599 community health care centers—an outcome that surpassed the PRODESS targets. The Malian authorities will take all necessary steps to safeguard the availability of human resources, as well as to ensure the proper functioning of these health centers through an appropriate incentives policy (particularly in underprivileged areas) and through suitable training and recruitment policies. The share of current resources allocated to health will continue to increase in line with the goals of PRODESS, and recruitment in the health sector will continue, as a minimum, at the rate specified in the context of the program.

37. The results achieved in the education sector are in line with the objectives of PRODEC and have been strengthened through the provision of HIPC Initiative-related resources. To meet the established objectives, particularly through the gradual acceptance of responsibility for a portion of the operating costs of community schools and the strengthening of teacher training, the share of public sector current expenditure devoted to education will increase from 24.9 percent in 2001 to 25.7 percent in 2002 (excluding HIPC Initiative-related resources). The amount allocated to education in the context of the HIPC Initiative is estimated at CFAF 11.2 billion, that is, about 44 percent of the resources expected from debt relief under the HIPC Initiative for 2002.

38. In the wake of the ROSC mission and the ongoing negotiations with the World Bank in the context of SAC III, the Malian authorities have decided to step up the monitoring of resources released by the HIPC Initiative. For the 2002 budget, specific codes have been introduced for current and capital expenditure to ensure that these resources are properly tracked. With respect to the monitoring of actual execution, in addition to the efforts undertaken in the context of the regular activities of the National Directorate of Planning, the

Malian authorities (with assistance from the development partners) will undertake independent, targeted audits on a regular basis to ensure optimal utilization of the resources intended for poverty alleviation.

VIII. PERFORMANCE CRITERIA AND BENCHMARKS

39. Program execution will be monitored on the basis of the quantitative and structural benchmarks and performance criteria described in detail in Tables 1, 2, and 3 of this memorandum and the attached technical memorandum of understanding.

Table 1. Mali: Quantitative Performance Criteria and Benchmarks
for the Period April 1 to June 30, 2002 and indicative benchmarks for the period January 1 to March 31, 2002
(in billions of CFAF)

	2001						2002		
	March Est.	July Performance Criteria	July Est.	September Benchmark	September Est.	December Performance Criteria	December Performance Criteria revised	March Benchmark	June Performance Criteria
Quantitative performance criteria and benchmarks									
Net bank credit the government 1/ 2/ 3/	5.1	35.7	...	39.9	...	24.4	27.2		
Net bank credit the government 1/ 2/ 3/ adjusted		31.3	23.4	37.5	32.4				
Net domestic financing								16.5	16.5
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	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New external borrowing at terms of one year or more 3/ contracted or guaranteed by the government and public enterprises 6/ on nonconcessional terms 7/ 8/									
Of which : public enterprises 6/	8.5	10.0	0.0	15.0	0.0	25.0	25.0	0.0	0.0
Of which : public enterprises 6/	8.5	8.5	0.0	8.5	0.0	8.5	8.5	0.0	0.0
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	0.0
Financial performance indicators									
Cumulative tax revenue 4/	63.4	153.4	155.9	202.5	204.4	277.2	290.9	70.9	155.5
Cumulative wage bill 3/	18.7	47.8	45.4	61.5	59.3	82.0	82.0	21.8	43.6
Overall basic fiscal balance 4/ 10/	13.4	1.6	13.9	-5.4	9.4	-44.2	-31.6	-14.5	-43.3
Memorandum items:									
External budgetary assistance during the year 11/	0.0	4.3	4.3	14.6	4.3	51.2	43.8	9.8	9.8
HIPC debt relief	2.3	4.7	7.4	8.0	15.4	14.3	15.4	6.4	12.8
Expenditure financed with HIPC resources	0.4	4.7	3.0	8.0	8.4	13.6	14.7	2.6	12.8
Balance of HIPC resources 12/	3.5	1.6	4.4	1.6	7.0	2.3	2.3	3.8	0.0

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 of understanding for the donors concerned.

9/ Excluding normal import credits and debt relief.

10/ See paragraph 34 of the technical memorandum of understanding for definition.

11/ Excluding use of Fund resources.

12/ At end-December 2000, the balance was CFAF 1.6 billion.

Table 2. Mali: Structural Measures Constituting Prior Actions, Performance Criteria, and Structural Benchmarks, 2001¹

Measures	Date of Completion	Status
Prior Actions		
Adoption by the authorities of a statement of development policy for the reform of the cotton sector.	June 15, 2000 ²	Done
Completion of a short-term financial crisis resolution plan for the Compagnie Malienne de Développement et de Textiles (CMDT).	June 30, 2001	Done
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	Done
Increases in water and electricity tariffs of 10 percent and 5 percent, respectively.	July 1, 2001	Done
Implementation of the new taxation system of petroleum products that reflects changes in import prices automatically in retail prices.	July 12, 2001	Done
Structural Performance Criteria		
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 ³	December 31, 2001	
Launching of the call for bids for the sale by CMDT and OHVN of the assets (comprising ginneries, trucks and other agricultural equipments) necessary for the installation of a private operator in the OHVN zone. ³	December 31, 2001	
Structural benchmarks		
Adoption of a plan for the annual allocation of HIPC-related resources for the period 2002-05.	September 30, 2001	Done
Adoption of a plan for the CMDT to withdraw from its public service activities (comprising rural roads, infrastructure and water supply), along with adoption of a corresponding staffing/organizational plan.	November 30, 2001	
Completion of an organizational plan for the civil service.	November 30, 2001	
Introduction in the 2002 draft budget of specific codes to track HIPC-related expenditures.	November 30, 2001	Done
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 offered in neighboring countries in the subregion.	December 31, 2001	

¹ Additional details are provided in the TMU.² The measure was completed on June 15, 2001.³ Performance criterion for fifth disbursement.

Table 3. Mali : Structural Performance Criterion and Benchmarks, January-June 2002

Measures	Date
Structural performance criterion	
Adoption by the government of the draft audited budget act (<i>Loi de Règlement</i>) for the year 2000 budget.	June 30, 2002
Structural benchmarks	
Completion of a study on the steps and options necessary for the liberalization of the cotton sector (through participation of private operators).	March 31, 2002
Adoption of an action plan for the reform of the civil service, with a view to modernizing it and unifying the various salary grids.	March 31, 2002
Application for the 2002/03 crop season of a mechanism for the determination of a producer price that reflects movements in international prices and prices in neighboring countries.	April 30, 2002
Completion of a study on the modalities to incorporate in the 2003 budget law a budget codification to identify all poverty-related spending.	June 30, 2002

INTERNATIONAL MONETARY FUND

MALI

Technical Memorandum of Understanding

November 30, 2001

1. This technical memorandum of understanding defines the 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:

- 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 that 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.

- **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. Ceiling on the Net Credit to the Government and Net Domestic Financing

Definition—net bank credit to the government

4. The 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 the net government position 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 institutions (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-July 2001, net bank credit to the government as defined above stood at CFAF -13.2 billion.

6. The change in the 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 24.3 billion as of July 31, 2001.

Definition—net domestic financing

7. Starting in June 2002, the key quantitative performance criterion will be net domestic financing of the government, defined as the sum of (i) net bank credit to the government, including the amount of net bank credit to the public treasury, as defined above, and other claims and debts of the government vis-à-vis national banking institutions, and (ii) net nonbank financing of the government, including, in particular, government bills and bonds held outside national banking institutions and proceeds from the sale of government assets.

8. Figures on net bank credit to the government calculated by the BCEAO and nonbank financing is calculated by the public treasury will be used in the context of the program.

Adjustment factor

9. The ceiling on the change in the net bank credit to the government position vis-à-vis the banking system and net domestic financing 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 3 billion at end-September 2002, CFAF 10.5 billion at end-December 2001, 4 billion at end-March 2002, and 6 billion at end-June 2002. In the context of the program, cumulative external budgetary assistance is expected to reach CFAF 4.3 billion on September 30, 2001, CFAF 43.8 billion on December 31, 2001, CFAF 9.8 billion on March 31, 2002, and CFAF 9.8 billion on June 30 2002.

10. The ceiling on the change in the net domestic credit to the government and net domestic financing will be adjusted by the difference between the amount of unspent HIPC Initiative resources programmed and the actual unspent amount. If the actual unspent 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 benchmarks

11. The ceiling on the change in the net credit to the government is established as follows: CFAF 39.9 billion as at September 30, 2001; and CFAF 27.2 billion as at December 31, 2001. The ceiling on the cumulative change in net domestic financing is established as follows: CFAF 16.5 billion as at March 31, 2002; and CFAF 16.5 billion as at June 30, 2002. The ceiling is a performance criterion at end-December 2001 and end-June 2002, and a benchmark as at end-September 2001 and end-March 2002.

Reporting deadline

12. Provisional data on the net government position, 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

13. External payments arrears are defined as the sum of external payments due and unpaid for external liabilities of the government and foreign debt held or guaranteed by the government. The definition of external debt provided in paragraph 3 applies here.

Performance criterion

14. 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

15. Domestic payments arrears are duly certified domestic expenditure commitments for which a payment authorization (dépenses ordonnancées) has been issued 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

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

Reporting deadline

17. 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

18. 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 commitments contracted or guaranteed for which no value has yet been received.

19. 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.

20. Until end-2001, in addition to the government, the public enterprises authorized to contract, guarantee or secure nonconcessional borrowing in the context of the program are the cotton company (CMDT), the telecommunication company (SOTELMA), and RCFM. Until end-2001, no other public enterprise shall contract, guarantee, or otherwise secure nonconcessional borrowing.

Performance criterion

21. A ceiling is set for nonconcessional borrowing. It relates only to projected 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. Starting in January 2002, a ceiling of zero is set for nonconcessional borrowing. This performance criterion is monitored on a continuous basis.

22. The government undertakes not to contract or guarantee external debt with a maturity of one year or more and a grant element of less than 35 percent (calculated using the reference interest rates corresponding to the borrowing currencies provided by the IMF). 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 commitments contracted or guaranteed for which no value has yet been received. However, it does not apply to financing granted by the IMF and treasury bills and bonds issued in CFA francs on the WAEMU regional market.

Reporting deadline

23. 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

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

25. 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

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

27. As of March 31, 2001, the government of Mali and the public enterprises have no short-term external debt. This performance criterion is monitored on a continuous basis.

III. QUANTITATIVE INDICATORS

28. 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

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

Performance indicators

30. Quantitative performance indicators for tax revenues are set at CFAF 202.5 billion at September 30, 2001; CFAF 279.8 billion at December 31, 2001; CFAF 67.5 billion at March 31, 2002; and CFAF 148.0 billion at June 30, 2002.

Reporting deadline

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

B. Ceiling on the Wage Bill

Definition

32. 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.

Performance indicators

33. The quantitative performance indicators for the wage bill are set at 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

34. 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

35. 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 lenders and HIPC Initiative-related expenditures.

Performance indicators

36. The floors for the performance indicators for the basic fiscal balance, excluding HIPC expenditure, are set at CFAF -5.4 billion at September 30, 2001; CFAF 31.6 billion at December 31, 2001; CFAF -14.6 billion at March 31, 2002; and CFAF -43.3 billion at June 30, 2002.

Reporting deadline

37. 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. Structural Performance Criteria

38. By **December 31, 2001** at the latest, the government will prepare a detailed financial restructuring plan for the CMDT for the period 2002-05 identifying measures to reduce production costs and improve management.

39. By **December 31, 2001** at the latest, the government will launch the call for bids for the sale by the CMDT and OHVN of the assets (including ginneries, trucks and other agricultural equipment) 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.

40. The government will adopt the audited budget act (*lois de règlement*) for the year 2000 budget by **June 30, 2002** at the latest.

B. Structural Benchmarks

41. By **September 30, 2001** at the latest, the government will adopt 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.

42. By **November 30, 2001** at the latest, a plan will be adopted for the progressive withdrawal by the CMDT from its public service activities (including rural roads, village water supply and irrigation systems).

43. By **November 30, 2001** at the latest, preparation of an organization audit of the civil service will be prepared.

44. By **November 30, 2001** at the latest, specific codes will be incorporated in the draft 2002 budget (approved by the government) to allow tracking of HIPC Initiative-related expenditures.

45. By **December 31, 2001** at the latest, a mechanism will be adopted and implemented for the determination of the producer price for seed cotton that reflects movements in international cotton fiber prices and takes into account producer prices being offered in neighboring countries.

46. By **March 31, 2002** at the latest, a study will be completed on the steps and options necessary for the liberalization of the cotton sector (through participation of private operators).

47. By **March 31, 2002** at the latest, a plan of action will be adopted for reform of the civil service with a view to modernizing it and unifying the various salary grids.

48. By **April 30, 2002** at the latest, a mechanism will be applied for the 2002/03 crop season mechanism that will determine a producer price that reflects movements in international prices and prices in neighboring countries.

49. By **June 30, 2002** at the latest, a study will be completed on the modalities to incorporate in the 2003 budget law a budget codification to identify all poverty-related spending.

C. Reporting Deadline

50. Data on the introduction of the structural benchmarks and criteria will be sent to Fund staff within two weeks of the date of their scheduled implementation.

V. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

A. Government Finances

51. 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 Initiative-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

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

- 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

53. 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

54. 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 position of the government, including the list of accounts of public entities with the banking system, and breakdown of nonbank financing	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	TOFE		End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	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 + 6 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
	Formula for setting prices of petroleum products, tax revenues from petroleum products, and subsidies paid	Monthly	End of month + 4 weeks

Data Type	Tables	Frequency	Time Frame
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 October 31, 2001)

I. Membership Status: Joined September 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 Tranche position	8.83	9.5
Holdings Exchange Rate		

III. SDR Department:	SDR Million	%Allocation
<u>Net cumulative allocation</u>	15.91	100.0
<u>Holdings</u>	0.39	2.5

IV. <u>Outstanding Purchases and Loans:</u>	SDR Million	%Quota
Enhanced Structural Adjustment Facility (ESAF) arrangements	130.28	139.6

V. Latest Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ESAF/Poverty Reduction and Growth Facility (PRGF)	Aug 06, 1999	Aug 05, 2003	51.32	24.92
ESAF	Apr 10, 1996	Aug 05, 1999	62.01	62.01
ESAF	Aug 28, 1992	Apr 09, 1996	79.24	79.24

VI. Projected Obligations to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Overdue</u>	<u>Forthcoming</u>				
	<u>Oct 31, 2001</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Principal		1.0	21.0	21.1	21.7	18.2
Charges/interest		0.5	1.0	0.9	0.8	0.7
Total		<u>1.5</u>	<u>22.0</u>	<u>22.0</u>	<u>22.5</u>	<u>18.9</u>

VII. Implementation of HIPC Initiative:

	<u>Original framework</u>	<u>Enhanced framework</u>	<u>Total</u>
Commitment of HIPC assistance			
Decision point date	9/15/1998	9/6/2000 ¹	
Assistance committed (end-1998 NPV terms) ²			
Total assistance (US\$ million)	121	401	
Of which: Fund assistance (SDR million)	10.8	33.6	
Completion point date	9/6/2000 ¹	floating	
Delivery of Fund assistance (SDR million)			
Amount disbursed	10.8	6.4	17.2
Interim assistance	...	6.4	6.4
Completion point	10.8	0.0	10.8
Amount applied against member's obligations (cumulative)	1.6	3.7	5.3

VIII. Current Status of Safeguards Assessments

Under the Fund's safeguards assessment policy, the Central Bank of the West African States (BCEAO), of which Mali is a member, is subject to a full stage-one safeguards assessment. A stage-one safeguards assessment of the BCEAO was completed on July 25, 2001. The assessment concluded that high risks may exist in BCEAO's financial reporting framework, but did not draw conclusions on the bank's internal audit mechanism or the internal controls structure. The assessment recommended an on-site mission, which was conducted in

¹ Decision was approved in principle by the Fund.

² NPV terms at the completion point under the original framework; NPV terms at the decision point under the enhanced framework.

October 2001. A report is in progress that will provide the findings and recommendations of the mission.

IX. Exchange Rate Arrangements

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 November 29, 2001, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 935.05. 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.

X. 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; 8/11/01).

XI. ROSC/AAP

An FAD mission visited Bamako during July 17–31, 2001 to help the authorities undertake a fiscal module of a Report on the Observance of Standards and Codes (ROSC) and to prepare a HIPC Assessment and Action Plan (AAP). The ROSC mission found that important steps had been taken to improve fiscal transparency since the restoration of democracy in the early 1990s and the withdrawal of the state from many industrial activities. The Finance Commission of Parliament plays an active role in examining program budgets that outline the objectives and performance of every government ministry. Internal control and audit is solid: the reports of the Controller General and the *Inspection des Finances* have recently been followed up at the presidential level, leading to arrests and imprisonments of former high-ranking officials. The main weaknesses relative to the Code of Good Practice on Fiscal Transparency are: (i) an unclear legislative basis for budget making; (ii) lack of formal diffusion to the public of quarterly budget reports; (iii) incomplete coverage of the budget; (iv) lack of a medium-term budget framework, and (v) a weak external audit agency.

Using a HIPC tracking questionnaire, the mission reached agreement with the authorities on the capacity of the present public expenditure management system to track poverty-reducing public expenditures. The results were very similar to the preliminary assessment prepared jointly by Bank/Fund staff in late 2000. Mali shows particular strengths in budget execution (the internal audit system is effective, there are no expenditure arrears, and government ledger accounts are reconciled with bank accounts). It was proposed that the main weaknesses be addressed in a three-year action plan, covering 11 specific areas of public expenditure management (PEM) including as main points the following:

- integrating the program budgets into the annual budget (*Loi de Finances*);
- monitoring expenditures by function (immediate) and by program (for 2002);

- identifying poverty-reducing expenditures by line item (so far, this has been done only for HIPC-related expenditures);
- introducing a medium-term budget framework;
- Preparing more timely monthly treasury balances and deriving the consolidated monthly report of government operations (TOFE) from treasury balances;
- improving the timeliness of the preparation of final accounts by the treasury and, especially, the audit by the *Section des Comptes* (the external audit agency); and
- computerizing further the PEM system.

XII. Technical Assistance

<u>Department</u>	<u>Type of Assistance</u>	<u>Time of Delivery</u>	<u>Purpose</u>
STA	Staff	July 17-29, 1991	Assisting through Multitopic technical assistance mission in the elaboration of a statistical action plan.
STA	Expert	May 16-June 19, 1992 and April 30-May 21, 1993	Strengthening the capacity of the national agency of the BCEAO to compile balance of payments statistics.
FAD	Staff and expert	November 9-26, 1992	Improving fiscal performance in the framework of the ESAF-supported 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.
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 VAT.
STA	Staff/BCEAO	February 4-17, 1998	Assisting statistical organization and management.
FAD	Panel Expert	July 1999- July 2000	Assisting in the implementation of the unified VAT.

FAD	Staff	July 2001	Assisting in completion of the fiscal module of Report on the Observance of Standards and Codes (ROSC), and drafting assessment of an action plan, the capacity of the public expenditure management system to track and report on the uses of HIPC Initiative assistance and all poverty-reducing expenditures.
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XIII. 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 October 31, 2001)

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

Credit Number	IDA Fiscal Year	Purpose	Commitments ¹	Undisbursed
(In millions of U.S. dollars)				
Number of credits closed: 56			959.5	
P001747	1993	Private Sector Assistance	12.0	0.7
P001730	1994	Transport Sector	65.0	6.2
P001751	1994	Agricultural Research	20.0	0.3
P001755	1995	Agro-processing TRD	6.0	0.7
P034617	1996	Sélingué Rehabilitation	27.3	2.3
P001746	1996	Vocational Education	13.4	2.2
P046651	1997	Regional Power	17.1	6.2
P001738	1997	Irrigation Promotion	4.2	2.6
P001750	1997	Urban Development and Decentralization	80.0	37.7
P035617	1998	Grassroots Hunger/Poverty	21.5	8.5
P040652	1999	Integ. Health Sector Investment	40.0	32.5
P058770	2000	Improving Learning in Primary Schools	3.8	2.9
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	43.0
Total ²			491.4	
<i>Of which: repaid</i>			157.0	
Total held by IDA ³			994.2	
Total undisbursed				274.1

¹ Less cancellations

² Projects under execution

³ Total commitments including closed credits

Statement of IFC investments as of July 31, 2001

Fiscal Year	Borrower	Type of Business	Original Gross Commitments	
			Loan	Equity
(In millions of U.S. dollars)				
1992	Société Minière de Syama (SOMISY)	Mining	0.00	0.47
1994	AEF Hotel de Bamako	Tourism	0.17	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	0.53	0.00
1997	SEF 3T		0.14	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
2001	PAL Graphique Id		0.67	0.00
Total gross commitments			9.92	22.50

Source: The World Bank Group

2. World Bank Group Operations

As of October 31, 2001, IDA had extended 71 credits to Mali (including Africa Facility, special funds and supplementary credits) totaling US\$1,450.8 million. The current IDA portfolio in Mali consisted of 15 projects under implementation, in the amount of US\$491.4 million of investment projects. The undisbursed amount totaled US\$274.1 million. In addition, as of July 31, 2000, the portfolio held by the International Finance Corporation for Mali had consisted of ten operations totaling US\$9.92 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.

Mali: Statistical Issues

1. Mali's statistical database is broadly comprehensive and sufficient for program monitoring. However, weaknesses exist in the areas of the national accounts and industrial production data. The authorities are pursuing their efforts to improve the quality, timeliness, and availability of economic and financial data. Progress has been achieved in addressing a number of past weaknesses by implementing the recommendations of various technical assistance missions. A seminar on the development of metadata for GDDS was conducted during March-April 2001 in Bamako for all the members of the BCEAO. The authorities are collaborating with the STA to finalize the metadata requirements for the General Data Dissemination System (GDDS). The plans for improvement that are part of the GDDS can, when fully implemented, be expected to further strengthen data quality and timeliness.

Real sector

2. The national accounts data present some weaknesses in accuracy, coverage, and timeliness. Technical assistance needs, including the review of data sources, as well as training in collection and compilation methods, were addressed through the presence from May 1995 to August 1996 of a Fund resident expert in national income accounting (a follow-up mission was conducted during June 16-27, 1997).

3. In collaboration with other West African Economic and Monetary Union (WAEMU) member countries, the Malian statistical agency has been compiling and publishing a harmonized consumer price index (CPI) for Bamako on a monthly basis since early 1998. This index has been consistently available on a timely basis since that date.

Public finances

4. The Ministry of Finance, on the basis of inputs from the customs, tax, and treasury directorates, compiles comprehensive data on public finances. These data are available on request with a one- to two-month lag. As part of the economic integration process among the member countries of the WAEMU, Mali has made progress in bringing its public finance statistics in line with a common framework that has been developed with technical assistance from the Fund (harmonized TOFE, or table of government financial operations). However, efforts need to be made to improve the timeliness of the TOFE.

5. With regard to data on the public investment program, the authorities plan to step up monitoring of the physical and financial execution of the government's investment program through increased training of project managers and the preparation of a semiannual report on the execution of the special investment budget (BSI).

6. In addition, Mali reports to STA neither annual statistics for publication in the *Government Finance Statistic Yearbook*, nor any sub-annual government finance statistics for

publication in *International Finance Statistics*; data for both of these publications could be compiled on the basis of the TOFE.

Monetary data

7. Preliminary monetary data for Mali are prepared by the national agency of the Central Bank of West African States (BCEAO) and released officially by the headquarters of the BCEAO with a lag of about two months.

8. Joint AFR/STA and STA/BCS missions visited BCEAO headquarters in August 1997 and in February 1998, respectively, and made recommendations to improve the quality and timeliness of monetary statistics in all WAEMU countries. Although some progress has been made since then, delays in collecting some monetary information from BCEAO can last up to eight weeks.

9. A monetary and financial statistics mission visited the headquarters of the BCEAO in May 2001. The mission provided technical assistance in addressing the main shortcomings pertaining to coverage, methodology, and timeliness of monetary statistics. The mission discussed and agreed with the authorities an action plan for the implementation of the *Monetary and Financial Statistics Manual* and for introduction of an area-wide page in the *International Financial Statistics (IFS)* for the WAEMU in early 2002. New proposals were discussed with the authorities for the provision of future technical assistance in monetary statistics for the region.

Balance of payments data

10. Balance of payments data have improved, and official data are produced with a lag of one year. During July 1996-July 1999, a STA resident expert was stationed at BCEAO headquarters in Dakar to address statistical issues in the area of the balance of payments on a zone-wide basis. The expert assisted the authorities in implementing the new standards required by the fifth edition of the *Balance of Payments Manual* and setting up new compilation procedures and methodologies utilized in each WAEMU member country, as well as training newly recruited staff. The Malian national agency of the BCEAO has now implemented the standards of the fifth edition of the *Balance of Payments Manual*.

Mali: Core Statistical Indicators
(As of November 7, 2001)

	Exchange Rates	Inter-national Reserves	Central Bank Balance Sheet	Reserve Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	Current	08/2001	08/2001	08/2001	08/2001	09/2001	09/2001	2000	2000	09/2001	2000	2000
Date received	Current	10/2001	10/2001	10/2001	10/2001	10/2001	10/2001	4/2001	4/2001	10/2001	4/2001	4/2001
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Variable	Monthly	Annual	Annual	Monthly	Annual	Annual
Frequency of reporting	Monthly	Monthly	Monthly	Monthly	Monthly	Weekly	Monthly	Annual	Annual	Monthly	Annual	Annual
Source of update	EIS/TRE 1/	BCEAO 2/	BCEAO 2/	BCEAO 2/	BCEAO 2/	BCEAO 2/	Ministry of Finance	BCEAO 2/	BCEAO 2/	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	On-line	Staff/e-mail	Staff/e-mail	Staff/e-mail	Staff/e-mail	Staff/c-mail	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	3/	3/	3/	3/	No	No	3/	3/	3/	3/	3/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Semi-annually	Annually

1/ IMF, Economic Information System (EIS).

2/ Central Bank of West African States (BCEAO).

3/ Preliminary data for staff use only; actual data unrestricted.

**Statement by the IMF Staff Representative
December 17, 2001**

1. This statement updates the status of program financing for 2001 since the staff report was issued (EBS/01/204; 11/30/01).
2. The staff report had indicated that the bulk of the expected external budgetary assistance would be disbursed at the end of 2001, and that there were reasonable assurances from donors that the remaining assistance (CFAF 39.5 billion) would be mobilized by end-December. Recent information obtained by staff confirms these assurances, as follows:
 - The Dutch government has disbursed CFAF 6 billion of budgetary assistance.
 - The Swedish government has approved on November 22, 2001 the disbursement of CFAF 2.4 billion for budgetary assistance.
 - The World Bank Board approved on December 11, 2001 the disbursement of a loan of \$25 million (CFAF 18 billion) under the third Structural Adjustment Credit facility.
 - The French Development Agency (AFD)'s Executive Board met on December 13, 2001 to approve the disbursement of CFAF 6 billion for budgetary assistance.
 - The European Union has already approved the financing of the remaining amount (CFAF 7.1 billion). In this regard, the administrative procedures for the disbursement of CFAF 2.3 billion have been completed, and final administrative requirements for the remaining assistance are expected to be fulfilled in time for the disbursement to take place before the end of the year.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 02/2
FOR IMMEDIATE RELEASE
January 9, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2001 Article IV Consultation with Mali

On December 17, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the 2001 Article IV consultation with Mali.¹

Background

Since the early 1990s, Mali has been implementing reforms supported by the Fund through successive Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF) arrangements.² The current PRGF arrangement with Mali was approved in August 1999 in support of a program covering the period 1999-2002. In September 2000, the IMF and World Bank Boards respectively decided that Mali had fulfilled the conditions for

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the December 17, 2001 Executive Board discussion based on the staff report.

² On November 22, 1999, the IMF's concessional facility for low-income countries, the Enhanced Structural Adjustment Facility, was renamed the Poverty Reduction and Growth Facility, 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. This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an interest rate of 0.5 percent a year, and are repayable over 10 years with a 5½ year grace period.

reaching the completion point under the original Heavily Indebted Poor Countries Initiative (HIPC) and the decision point under the enhanced HIPC Initiative, and that the interim poverty reduction strategy paper (I-PRSP) included an appropriate preliminary analysis of poverty in Mali and strategies to alleviate it.

Mali's macroeconomic performance has been satisfactory under the ESAF and PRGF-supported programs. In 1999, real GDP rose by 6.6 percent, while the consumer price index declined because of abundant food supplies. However, in 2000 the economy was buffeted by a number of exogenous shocks, including a severe drought, which depressed cereal production, the hike in oil prices, and adverse developments in the sub-region, which raised transport costs. In addition, cotton production was halved owing to a producers' boycott in protest of the low producer price paid by the Compagnie Malienne de Developpement des Textiles (CMDT), a state-owned cotton company. The cotton sector crisis was triggered by weaknesses in the management of the cotton monopsonist, and was compounded by the depressed world price for cotton fiber.

Real GDP growth slowed to about 4 percent in 2000 from 6½ percent in 1999, but inflation remained subdued. Fiscal revenue was lower than envisaged under the program (mainly owing to the downturn) and despite total outlays being kept in check, as programmed, the overall fiscal balance was below the program target. The current account deficit, excluding grants, widened by about 1 percentage point to 12 percent of GDP in 2000, largely reflecting the drop in export volume.

Program implementation during 2001 has been satisfactory to date, with all quantitative performance criteria and benchmarks observed through end-July 2001. Structural measures have been implemented in the cotton sector, the taxation of petroleum products, the pricing of public utilities, and the tracking of expenditures from HIPC Initiative resources. Fiscal developments through September 2001 have been in line with program projections. Nonetheless, reflecting the cumulative lagged impact of the above-mentioned shocks in 2000, real GDP is projected to stagnate in 2001. The current account deficit is expected to widen further in 2001 reflecting a drop in cotton export and a rise in profit transfer from mining companies. Furthermore, owing to the food shortages, inflation rose sharply to 6.3 percent (year-on-year) in July 2001, before decelerating due to improved prospects for cereal production stemming from the good rainfall.

Monetary policy, conducted at the regional level by the Central Bank for West African States, has remained prudent. While credit to the economy declined in 2000, reflecting the slowdown in economic activity, it has picked up in 2001 with the satisfactory implementation of a financial rescue plan in the cotton sector.

With a view to tackling the weaknesses in the management of the cotton sector, the government, with participatory input from cotton growers, has launched a reform program for the sector. The satisfactory implementation of the short-term aspects of the program (namely, the financial crisis resolution plan for the CMDT) to date has restored confidence among cotton growers, and cotton production is expected to fully recover in 2002. The CMDT is also taking steps to cut costs.

Executive Board Assessment

Executive Directors noted that, after several years of robust growth and improving poverty indicators, economic activity stagnated in 2001 as a result of drought and a fall in cotton prices. Directors commended the authorities for adhering to the program targets in the face of these adverse exogenous shocks, observing that this revealed a high degree of ownership of the program and a strong commitment to economic reform by the authorities. They welcomed the prospect that growth would resume in 2002, based on a recovery in cotton production and continued sound economic policies. Nevertheless, they underscored Mali's vulnerability to exogenous shocks and stressed the need to diversify the economic base, especially through the development of downstream activities in the cotton sector. Therefore, they encouraged the authorities to push ahead with structural reforms and with efforts to develop the human capital and physical infrastructure bases and to lower energy costs, and called on the international community to provide the necessary financial and technical support of the economic program.

Directors expressed satisfaction that Mali has largely maintained the gains in external competitiveness it achieved after the 1994 devaluation and that this improved competitiveness has provided the basis for the solid economic growth since then. However, they noted that the external sector remains fragile, in part because of the depressed prices of cotton and gold exports, and that this strengthens the case for export diversification and continued firm adherence to the economic program.

Directors considered that, given the cotton sector's crucial role in the economy, the reforms in this sector will be critical to Mali's medium-term economic prospects, as these constitute a key component of the structural reform. They therefore regretted the delay in undertaking key reforms in this sector, and urged the authorities to complete these reforms as quickly as possible in early 2002. In this regard, they were encouraged by the authorities' efforts to continue building consensus on the need to liberalize the cotton sector, especially since this would help ensure that the reform agenda is adopted by the post-election administration in 2002. Some Directors noted that price supports and cotton subsidies in developed countries have tended to amplify the decline in cotton prices. The view also was held that other factors such as the decline in global demand and the demand for cotton specifically as a result of technological change have contributed to the difficulties in the sector, further underscoring the need for Mali to diversify its economic base.

Directors considered the prudent fiscal stimulus incorporated into the 2002 budget to be appropriate in view of the need to address the problems in the cotton sector and to minimize the adverse social impact of the liberalization of the economy. Nonetheless, they encouraged the authorities to persevere in their efforts to broaden the tax base, to strengthen customs administration, and to observe a strict limit on current expenditures. Directors welcomed the initiative to reform the civil service, which would help control public sector wages and attain fiscal consolidation. They also strongly endorsed the efforts underway to improve governance, including the strengthening of democratic process, the establishment of a commercial court, the increase in the transparency of the public expenditure management system, and the establishment of a new coding system to better track poverty-related spending.

Directors commended the progress made in strengthening the banking sector, particularly the micro finance sector. They welcomed the authorities' intention to assist in the expansion of the micro finance sector, as this can play an important role in economic diversification and poverty alleviation, and stressed the role of donor financing in this area.

Directors commended the authorities emphasis on poverty reduction, and the progress that is being made in meeting the floating completion point conditions for debt relief under the enhanced HIPC Initiative. Continuing efforts are needed, however, to ensure that, remedial actions are also taken to meet the targets on health indicators set out in the I-PRSP. Directors welcomed the progress that is being made in the preparation of the PRSP using a participatory process and urged the authorities to allow sufficient time to produce a high-quality and inclusive document.

Directors were satisfied that Mali's statistical base is adequate for surveillance and program monitoring, but encouraged the authorities to continue to implement the recommendations of various technical assistance missions.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2001 Article IV Consultation with Mali is also available.

Mali: Selected Economic and Financial Indicators

	1997	1998	1999	2000	2001 Proj.
	(Annual Percentage change)				
Real GDP	6.7	4.9	6.7	4.6	0.1
GDP deflator	1.8	6.7	-1.7	3.6	4.6
Consumer prices (annual average)	-0.7	4.1	-1.2	-0.7	4.6
Real effective exchange rate 1/	-6.0	...	-4.1	-7.4	...
	(In percent of GDP)				
Gross domestic investment	23.3	21.1	20.0	20.6	20.8
Gross domestic savings	13.6	12.8	8.9	8.6	10.3
Gross national savings	14.0	13.6	13.7	10.7	8.9
	(In million US dollars)				
Exports (f.o.b)	561.4	561.7	510.9	533.0	651.1
Imports (f.o.b)	545.8	558.2	605.4	593.5	651.5
Current account balance, excluding official transfers	-178.5	-203.0	-292.2	-306.5	-335.7
Gross official reserves	425.4	387.4	310.8	377.4	376.7
	(In percent of GDP)				
Current account balance, excluding official transfers	-9.5	-9.3	-10.8	-12.0	-3.01
Current account balance, including official transfers	-7.3	-7.5	-9.3	-9.5	-11.9
External public debt	117.7	111.8	106.2	104.0	103.0
	(In percent of GDP)				
Financial variables					
Government revenues	15.9	14.6	15.7	14.9	16.7
Domestic primary expenditures and net lending 2/	23.9	24.7	24.1	24.2	28.3
Primary balance deficit	1.6	1.0	0.2	-2.2	-1.4
Overall fiscal balance, excluding grants	-7.8	-8.1	-8.4	-9.3	-13.0
Overall fiscal balance, including grants	-2.1	-2.4	-3.6	-3.8	-7.6
Change in broad money (in percent)	8.7	4.3	1.3	11.9	8.2
Interest rate 3/	6.0	6.3	5.8	6.5	...

1/ (+) = appreciation

2/ Current and capital expenditure excluding interest and foreign financed investment.

3/ Central bank rediscount, end of period.

NEWS  BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 01/130
FOR IMMEDIATE RELEASE
December 17, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF completes Review Under Mali's PRGF Arrangement and Approves US\$9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Mali's performance under the three-year Poverty Reduction and Growth Facility (PRGF)¹ arrangement. As a result, Mali will be able to draw up to SDR 6.75 million (about US\$9 million).

Mali's program was originally supported under the Enhanced Structural Adjustment Facility (ESAF), approved on August 6, 1999 (see [Press Release No. 99/39](#)) for SDR 46.65 million (about US\$59.24 million). So far, Mali has drawn SDR 24.92 million (about US\$31.64 million) under the arrangement.

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. For Malian authorities, the poverty reduction objectives remain the top priority and their implementation is being made along the lines described in the interim PRSP. 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.

After the Executive Board's discussion on Mali, Mr. Eduardo Aninat, Deputy Managing Director and Acting Chairman, stated:

"Notwithstanding several adverse economic shocks, program implementation to date has been satisfactory, with all quantitative performance criteria and benchmarks observed through end-July 2001. Structural measures have been implemented in the cotton sector and with respect to the taxation of petroleum products, the pricing of public utilities, and the tracking of expenditures financed by the HIPC Initiative.

"With the deterioration in the world cotton price outlook, the macroeconomic outlook is projected to weaken over the medium term. Notwithstanding a projected rebound in cotton production in 2002, the external current account balance is expected to deteriorate relative to earlier projections owing to a sharp decline in private transfers from abroad and an increase in net remittances of mining companies. Also, the pace of fiscal consolidation in 2002 and beyond will be slower than envisaged owing primarily to the lower profitability in the cotton sector.

"The 2002 budget reflects efforts to lower poverty, address the problems in the cotton sector, foster the democratization process, minimize the social impact of economic liberalization, and start the fiscal consolidation process. Addressing these priorities will require additional expenditures, for which the authorities aim to mobilize additional revenues and minimize non-essential expenditures.

"The structural reform program focuses on the cotton sector and public expenditure management. The preparation of an action plan for the reform of the cotton sector, as well as of a short-term financial rescue plan for the Compagnie Malienne de Développement des Textiles, is encouraging. The authorities will need to maintain the momentum of reform in the cotton sector during the run-up to the upcoming presidential elections. The early implementation of delayed reforms in this sector will signal the authorities' resolve to move ahead with the reform program. A key measure in 2002 will be the completion of a study on the liberalization of the cotton sector. Also, in preparation for the switch to a market-based pricing mechanism, the sole cotton buyer is expected to deepen its cost-cutting efforts. The reform of public expenditure management will focus on improving the external control system and the tracking of poverty-related spending," Mr. Aninat said.