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Mali: Fifth Review Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; and Press Release on the Executive Board Discussion

In the context of the Fifth Review Under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff paper for the fifth review under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **November 21, 2002,** 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 February 13, 2003**. 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 **February 28, 2003** updating information on recent developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its February 28, 2003 discussion** of the staff report that completed the review.

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

Joint Staff Assessment of the Poverty Reduction Strategy Paper
Letter of Intent sent to the IMF by the authorities of Mali*
Memorandum of Economic and Financial Policies by the authorities of Mali*
Technical Memorandum of Understanding*

*May also be included in Staff Report

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

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MALI

Fifth Review Under the Poverty Reduction and Growth Facility

Prepared by the African Department

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

Approved by Donal Donovan and Martin Fetherston

February 13, 2003

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Executive Summary

Recent developments

- President Amadou Toumani Touré won the presidential election in May 2002. Following legislative elections held in July 2002, newly appointed Prime Minister Ag Hamani formed a government that reiterated its strong commitment to implement the PRSP adopted in May 2002 and the program supported by the Fund. However, as no political party gained a majority in the National Assembly, the government will need to build a broad consensus for a sound implementation of the reform agenda.
- The crisis in Côte d'Ivoire has hit Mali's economy severely since September 2002, especially since about 70 percent of Mali's trade passed through the port of Abidjan. It has resulted in disruptions in trade, higher costs, and a shortfall in government revenue.
- The implementation of the program was satisfactory in the first nine months of 2002. All the quantitative performance criteria, benchmarks, and financial performance indicators were observed. The structural performance criteria and structural benchmarks for 2002 were met, except for one structural benchmark that was implemented late and another that will be implemented in June 2003.
- Economic performance was strong in 2002 as a doubling of cotton output boosted real GDP growth by 9.6 percent. Average annual inflation remained at 5.0 percent in 2002, instead of falling to 3 percent as anticipated, because of a fall in food production exacerbated by supply shortages and higher import prices resulting from the Ivorian crisis. The external current account deficit improved, even though one-fourth of the cotton output could not be shipped in 2002 due to the closing of the Abidjan-Bamako road. The fiscal program was on track at end-June and end-September 2002, with total government revenue higher and government expenditure lower than anticipated.
- On the structural front, the government improved public resource management by implementing key aspects of the Report on Observance of Standards and Codes (ROSC), and strengthened the auditing of government accounts. With the assistance of the World Bank, the authorities are finalizing a comprehensive medium-term public expenditure framework for education and health. The government has also implemented the civil service reform, and pursued the privatization program and the reform of the cotton sector.

Medium-term economic framework and program for 2003

- The authorities intend to implement the ambitious medium-term economic framework and adjustment path underpinning the poverty reduction strategy adopted in May 2002. However, they revised the economic framework and the draft budget for 2003, in light of an expected drop in agricultural production and the uncertainties created by the crisis in Côte d'Ivoire.

- In 2003, real GDP is forecast to decline by 0.4 percent, average annual inflation to remain at 5 percent, and the external current account deficit, excluding official transfers, to widen by ½ of 1 percentage point of GDP. On the fiscal front, the overall fiscal deficit is projected to narrow by about 1½ percentage points of GDP to 8.3 percent, reflecting efforts to boost revenue and contain outlays other than those for social sectors.
- The structural reform agenda for 2003 continues to focus on reforming the cotton sector and strengthening public expenditure management. As regards the cotton sector, the agenda for 2003 will focus on completing the withdrawal of the CMDT from its noncore activities, finalizing the sale of ginning plants in the OHVN/Kita area, and adopting an action plan for completing the restructuring and the liberalization of the sector. The reform of public expenditure management will aim at achieving a better allocation of resources and improving the tracking of poverty-related spending.
- The authorities intend to attain the poverty reduction objectives, and allocations of public resources to pro-poor spending will continue to be given a high priority. Increased efforts will be devoted to increasing absorptive capacity in social sectors; shortening delays between the formulation and the execution of investment projects; and strengthening coordination with donors so that they adopt the PRSP as the framework for their support, and thereby increase the funding for the strategy and improve the efficiency of assistance delivery.

Staff appraisal

- The successive governments that were in office during 2002 strongly backed the Fund-supported program, setting the stage for an impressive turnaround in Mali's economic situation. However, since the last quarter of 2002, the economic situation has dramatically changed, with the occurrence of the crisis in Côte d'Ivoire and inadequate rainfall. The authorities have acted promptly to manage the situation.
- The staff welcomes the authorities' resolve to continue to implement sound macroeconomic policies and attain the poverty-reducing objectives set in the PRSP, in spite of the worsened domestic and regional environment. However, this will be a difficult challenge for the new government, as it faces the double tasks of increasing government revenue, despite the weakening economy, and channeling more resources to the social sector in line with the objectives of the PRSP.
- Recent events demonstrate that, as a landlocked country in the Sahel region, Mali's economy remains highly vulnerable to exogenous shocks. Hence, it is essential that the authorities pursue the implementation of structural reforms aimed at liberalizing the economy and setting an enabling environment for the development of the private sector. In that context, the staff welcomes the new government's decision to pursue the liberalization of the cotton sector and complete the privatization program. However, the reforms' success will require time for the authorities to strengthen the dialogue with all stakeholders and ensure careful implementation.

- The main risks to the program for 2003 are a prolonged crisis in Côte d'Ivoire beyond the first quarter of 2003 and a sharp deterioration in the terms of trade. In both cases, the fiscal target would be in jeopardy, and it is likely that Mali would require additional financial assistance to continue to implement its poverty-reducing strategy.
- In light of the progress made and the strength of the program for 2003, the staff recommends the completion of the fifth review under the PRGF arrangement.

I. Introduction

1. The discussions for the fifth review under the four-year arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Bamako during the period November 7-21, 2002.[1] The November mission also discussed implementation of the poverty reduction strategy paper (PRSP) and finalized the work for the completion point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative).

2. Mali's four-year arrangement under the PRGF, in an amount equivalent to SDR 46.65 million (50 percent of quota), was approved on August 6, 1999.[2] Five disbursements have been effected under this arrangement. Mali's outstanding use of Fund resources at end-December 2002 amounted to the equivalent of SDR 121.75 million (130.5 percent of quota) (Table 1). Mali reached the decision point under the enhanced HIPC Initiative on September 6, 2000. Executive Board consideration of the completion point under the enhanced HIPC Initiative, together with the poverty reduction strategy document (PRSP; IMF Country Report No. 03/39; 2/27/03), and joint staff assessment (JSA; IMF Country Report No. 03/57; 3/04/03), is expected to take place at the same time as the fifth review under the PRGF arrangement. Cumulative assistance under the original and enhanced HIPC Initiative frameworks would amount to US$522 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).

3. The 2001 Article IV consultation was concluded on December 17, 2001, and the Executive Board completed the fourth review under the PRGF arrangement on July 26, 2002. In both cases, Directors reiterated the need to speed up structural reforms in a number of areas in order to diversify the productive base, promote private sector investment, and achieve high and sustainable growth.

4. In the attached letter and memorandum of economic and financial policies (MEFP), dated February 13, 2003 (Appendix I, Attachment I), the Minister of Economy and Finance reviews developments during 2002 and sets out the measures to be implemented during 2003

[1] The Malian representatives included Mr. Bassary Touré, Minister of Economy and Finance; Mr. Maïga, Minister of Equipment and Transportation, and former Minister of Economy and Finance; Mr. Boubacar Sidiki Touré, Minister in charge of privatization; Mr. Traoré, National Director of the Central Bank of West African States (BCEAO); and other senior officials. The staff team consisted of Mr. Briançon (head-AFR), Ms. Douoguih, Mr. Nachega, Mr. Wane (all AFR), and Mr. Tazi (Fund Resident Representative to Mali). The staff worked closely with a World Bank team that was in Bamako during the mission.

[2] At the time of the second review in July 2001, the arrangement was extended by one year, and its amount was increased by SDR 4.665 million (5 percent of quota).

in order to achieve the objectives of the program. A schedule of the remaining 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.

5. The World Bank approved a third structural adjustment credit (SAC III) in the amount of SDR 55 million (US$70 million equivalent) in December 2001. The first two of the three planned disbursements were made in January and December 2002, respectively. A summary of Mali's relations with the World Bank Group is presented in Appendix III.

6. Mali's statistical database is comprehensive and sufficient for program monitoring. The authorities are addressing statistical weaknesses by implementing the recommendations of technical assistance missions. However, program monitoring could benefit from a shortening of the period needed to produce the national accounts and balance of payments statistics (currently 9 to 12 months). Also, in the context of the regional convergence efforts, work is under way to harmonize the methodology for the national accounts with other West African Economic and Monetary Union (WAEMU) countries. Mali has been participating in the General Data Dissemination System (GDDS) since September 2001 and its metadata are posted on the Fund's Dissemination Standards Bulletin Board. The plans for improvement that are outlined in these metadata can, when fully implemented, be expected to further improve data quality and timeliness.[3]

II. Background and Recent Economic Developments

A. Background and Political Context

7. **Former President Amadou Toumani Touré won the presidential election in May 2002**. Following legislative elections held in July 2002, the newly appointed Prime Minister Ag Hamani formed a coalition government in October 2002 reflecting the composition of the National Assembly. As a result, the economic team was changed, and Mr. Bassary Touré, former Executive Director at the World Bank, became Minister of Economy and Finance. The new government reiterated its strong commitment to implement the PRSP adopted in May 2002 and the program supported by the Fund. They are committed to implementing policies that will spur growth and preserve macroeconomic stability, which are essential for a lasting reduction in poverty. However, as no political party gained a majority in the National Assembly, advancing the reform agenda, including liberalizing the cotton sector and carrying out the privatization program, will require the government to build broad coalitions, which is likely to take time.

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

8. **The crisis in Côte d'Ivoire and the closing of the Abidjan-Bamako road have hit Mali's economy severely since the end of the third quarter of 2002** (see Box 1). To deal with the crisis, the authorities have taken measures to divert trade to other ports in the region and find new sources of supply for key products. However, these measures have encountered difficulties because most other ports have limited capacity, the transportation system is in poor condition, and the distances to the new ports are much greater.

Box 1. Mali: Impact of the Crisis in Côte d'Ivoire on Mali's Economy

Until September 2002, about 70 percent of Mali's merchandise trade other than gold passed through the port of Abidjan. Since then the Abidjan-Bamako road has been closed, forcing a diversion of trade toward other ports in the region, especially Lomé, Cotonou, Dakar, and, to a lesser extent, Conakry and Takoradi.

Preliminary indications are that the crisis has reduced real GDP growth by about ½ of 1 percent in 2002, mainly by lowering activity in public works, construction, and trade. In addition, increased transportation costs contributed to keep inflation at about 5 percent.

As regards the balance of payments, the crisis delayed the shipment of cotton exports equivalent to 1.2 percent of GDP, prevented the export of livestock valued at CFAF 3 billion a month (equivalent to 1 percent of GDP on an annual basis), and forced Mali to find new sources of supply for key products, such as cement and petroleum products. Diversion of trade to other ports increased freight charges, a cost estimated to be equivalent to a worsening in the terms of trade of 4-5 percent. Also, workers' remittances from the estimated 1 million Malians living in Côte d'Ivoire are expected to decline.[1/] Overall, the narrowing in the external current account deficit in 2002, which is currently estimated at 2 percentage points of GDP, would have been twice as large if it had not been for the crisis.

As for the fiscal impact, the crisis resulted in a shortfall of tax revenue estimated at 1 percent of GDP in 2002 because of lower receipts from import duties and domestic value-added tax. The impact of the crisis on government spending was small in 2002, since refugees were mostly assisted by international relief organizations, bilateral donors, and nongovernmental organizations (NGOs).

1/ The estimate of the number of Malians in Côte d'Ivoire varies from 800,000 to 2,000,000. About 40,000 Malians had returned by mid-January 2003.

B. Economic Developments and Program Implementation Until September 2002

9. **The staff reviewed the implementation of the program supported by the PRGF arrangement at end-June 2002 and end-September 2002.** The authorities have also provided preliminary estimates for end-2002 that will be updated during the sixth and final review under the PRGF arrangement, which is due to expire on August 5, 2003. **Consistent with the interim PRSP, the program for 2002 aimed at reducing poverty** through a rebound in economic activity and an acceleration in the implementation of structural reforms, with the potential negative impact on the poor to be offset by appropriate fiscal measures.

10. **Mali enjoyed a strong economic performance in 2002.** Preliminary figures indicate that **real GDP growth rose from 1.5 percent in 2001 to 9.6 percent in 2002,** with cotton output doubling, cereal production increasing by 10 percent, and gold production rising by

17 percent, instead of falling as anticipated (Figure 1 and Table 3).[4] This exceptional performance is explained by a return of good rainfall, the resolution of the financial crisis in the cotton sector, and higher-than-expected gold content in one of the mines (see Box 2). Average annual inflation remained at 4.9 percent in 2002, instead of falling to 3 percent as anticipated. The seasonal decline in the consumer price index was less pronounced during the last quarter of 2002 than usual because a fall in food production, owing to insufficient rainfall late in the year, was exacerbated by supply shortages and higher import prices resulting from the closing of the Abidjan-Bamako road.

11. The external current account deficit, excluding official transfers, is estimated to have narrowed from 14.2 percent of GDP in 2001 to 10.7 percent in 2002, even though one-fourth of the cotton output could not be shipped in 2002 owing to the closing of the Abidjan-Bamako road. Including official transfers, the current account deficit narrowed by 2.4 percentage points of GDP to 9.5 percent. As indicated in Box 1, the improvement in the current account deficit would have been twice as large had it not been for the impact of the crisis in Côte d'Ivoire. The volume of exports rose by 24.5 percent, or more than expected, because of an unexpected increase in gold exports. In addition, the terms of trade did not deteriorate as much as anticipated because the price of gold rose instead of falling. Nevertheless, the positive impact of gold exports was partly offset by transfers abroad of the large profits made by foreign-owned mining companies. The overall balance of payments recorded a large surplus, owing to the improvement in the current account balance, as well as the substantial capital inflows connected with the sale of a telephone license to a foreign company, investments by the mining companies, and the sustained flow of foreign assistance. Hence, Mali contributed almost US$100 million to the international reserves of the Central Bank of West African States (BCEAO).

12. **Overall, the implementation of the program was satisfactory in the first nine months of 2002.** All the quantitative and structural performance criteria, benchmarks, and financial performance indicators were observed, at the exception of the structural benchmarks concerning the preparation of a list of government domestic liabilities, which was met one month late and the preparation of a detailed plan on the next stages of the reform of the cotton sector, which will be adopted in June 2003 (see para. 36, and MEFP, Table 2).

[4] Under the current methodology, the GDP figures for year *n* include agricultural production harvested at the end of year *n*-1 and marketed in year *n* (crop year *n*-1/*n*). Starting in 2003, countries in the WAEMU will implement a common GDP methodology, and agricultural production for crop year *n*-1/*n* will be reflected in the GDP for year *n*-1. This change will result in sharp changes in yearly GDP growth, given the high volatility in production recorded the last two years. For the purpose of the program, the methodology has not yet been changed.

Box 2. Mali: The Gold-Mining Sector

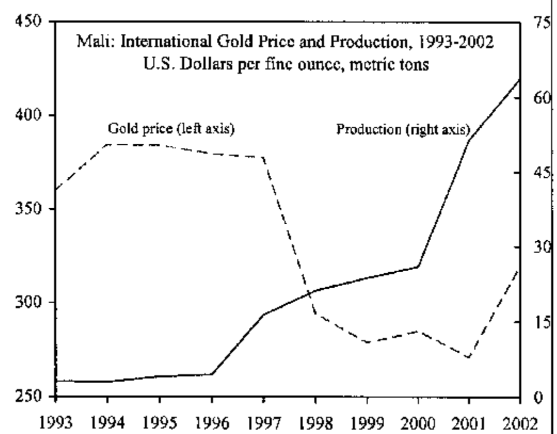
Industrial gold mining output increased from 54 tons in 2001 to 63 tons in 2002, the second consecutive year of record production. The value of gold production has risen from US$50 million in 1994 to US$584 million in 2002, accounting for two thirds of total exports. With an estimated 800 tons of reserves, Mali has emerged as the third-largest producer of gold in Africa after South Africa and Ghana.

The mining sector pays a 3 percent value-added tax and a 3 percent turnover tax. Pursuant to the terms of the 1991 mining code, the mining companies are exempt from the 35 percent tax on profits for the first five years of production and from most import duties. The government receives dividend payments as it owns 20 percent of the shares of the three industrial gold mines. The loss of government revenue due to exemptions was equivalent to 2-3 percent of GDP in 2002. A new mining code, introduced in 1999, has eliminated most of these exemptions; however, no mine is currently subject to the terms of this new code.

Mali: Summary of Mining Sector Operations, 2000-02
(In billions of CFA Franc, unless otherwise indicated)

	2000	2001 Est.	2002 Est.
Total gold sales	189	354	417
Total mining expenditure	107	218	196
Current expenditure	85	172	173
Salaries	3	9	11
Goods and services	70	147	146
Of which: imports	60	116	116
Exploration/development	12	16	16
Capital expenditure	14	30	17
Net tax payments	8	16	6
Gross profit	82	132	221
Dividends	14	20	100
To government	6	4	20
To foreign investors	8	16	80
Financing from abroad			
Direct investment	37	47	45
Memorandum items:			
Gold production (in metric tons)	28	54	63
Value added (percent of GDP)	6	11	10
Number of employees	...	...	2,668
Gold price (dollars/oz)	285	280	310
Average production cost (dollar per oz)	126	119	118

Sources: IAMGOLD annual report; and Fund staff estimates.



13. As regards the performance criterion on new short-term external debt, the cotton monopsony (CMDT) had contracted a short-term loan from a consortium of domestic and foreign banks at end-2001. The loan, which financed the imports of fertilizers, pesticides, and spare parts, as well as the purchase of seed cotton from producers, was guaranteed, up to

125 percent, by export contracts of cotton.[5] The loan was fully repaid in December 2002. The CMDT entered into a similar arrangement in December 2002 for the crop year 2002/03. The staff team was aware that the CMDT would borrow from the consortium of banks, since the domestic banking system is unable to lend such an amount (equivalent to 25 percent of credit to the private sector). Staff is of the view that these loans are not inconsistent with the performance criterion on short-term external debt. The TMU contains an exception for "import related loans" from the performance criterion. While the loans do not constitute standard import loans, the term is ambiguous in this context given the role of the CMDT in Mali. Indeed, it was not the understanding between staff and the authorities that the program's design should prevent such borrowing by the CMDT. However, to clarify the issue for the future, the performance criterion and benchmark on short term external debt has been revised to make explicit the exclusion of CMDT foreign borrowing secured by the proceeds of cotton exports, as well as import-related credits, and debt relief operations from its ambit. It also now excludes bonds and notes issued in CFA francs in the WAEMU regional market.

Fiscal performance

14. **Fiscal performance was on track at end-June and end-September 2002, with total government revenue higher and government expenditure lower than anticipated** (see MEFP para. 6). On an annual basis, the overall fiscal deficit, on a commitment basis and excluding grants, is estimated at 8.1 percent of GDP at end-September, compared with the 10.3 percent projected under the program (Table 5). Including grants, the deficit amounted to 4.6 percent of GDP. **Higher-than-anticipated revenue** was recorded from taxes on petroleum products and dividends distributed by gold-mining companies. However, since the mining code provides broad tax exemptions, the government benefited only marginally from the increase in gold production and the large windfall profits resulting from high gold prices on the world market. **On the expenditure side**, most categories of outlays were slightly less than programmed, except for transfer payments to the agency responsible for organizing the presidential and legislative elections; these payments were 10 percent higher than projected. Spending financed by HIPC-related savings was lower than anticipated, but the authorities took measures to accelerate spending procedures and ease capacity constraints in order to ensure that social sectors received all budgeted resources before the end of 2002. HIPC-related savings were mainly allocated to education (44.2 percent), health (14.2 percent), and rural development (8.5 percent). Data on total poverty-reducing spending were not available in 2002, but will be in 2003 (see para. 20).

15. **External financial budgetary support at end-September 2002 was less than programmed,** as CFAF 21.2 billion was disbursed, compared with the CFAF 34.9 billion

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[5] The loan contract called for foreign banks to lend CFAF 44 billion and domestic banks CFAF 41 billion. The CMDT's imports amounted to CFAF 43.2 billion in 2002.

anticipated.[6] The low level of support largely resulted from delays in agreeing with the European Union on indicators to monitor budget execution in the social sectors. The shortfall in external financing was more than covered by receipts from the auction of a second telephone license, which earned the government CFAF 28 billion, or CFAF 17 billion more than expected. Overall, since the overall fiscal deficit was smaller than anticipated, net domestic financing was kept below the level envisaged under the program at end-June and end-September 2002.

16. The staff will assess fiscal developments in the fourth quarter during the sixth review of the program. **Preliminary indications are that the fiscal situation deteriorated in the last months of 2002 because of the crisis in Côte d'Ivoire**. The crisis resulted in a sharp drop in trade in September and October, before the authorities could make alternative transport arrangements with other ports in the region. As a result, receipts from import taxes and indirect domestic taxes declined sharply during those months, before recovering somewhat thereafter. The shortfall in tax revenue, estimated at about 1 percent of GDP for 2002, was partly offset by higher-than-expected nontax revenue and a tightening of government spending. As a result, the budget deficit, on a commitment basis and excluding grants, is estimated to be slightly lower than the target of the program for 2002 of 10.3 percent of GDP. The deficit was financed by project-related external loans and grants, as well as by budget support received from the European Union, the World Bank, France, and Sweden for a total of CFAF 48.4 billion (2.2 percent of GDP), and by interim assistance under the enhanced HIPC Initiative.

Monetary and financial sector developments

17. **Monetary developments in the first three quarters of 2002 were characterized by a continued buildup of the net foreign assets of the banking system and a rapid expansion in broad money** (Table 8). Net domestic assets rose only marginally, as the government reduced its indebtedness vis-à-vis the banking system, while the increase in credit to the economy largely reflected the financing of the cotton crop. In April 2002, the BCEAO increased reserve requirements from 3 percent to 9 percent to absorb commercial banks' excess reserves and dampen inflationary pressures. **The financial strength of the banking system was largely unchanged in 2002,** (see MEFP, para. 10) with some banks and nonbank financial institutions experiencing difficulties meeting all prudential ratios (Box 3)

[6] Excluding financing tied to public investment projects.

Box 3. Mali: Compliance with Prudential Norms

Observance of Prudential Norms by the Commercial Banks and Nonbank Financial Institutions at End-September 2002

Prudential ratios	Compliance Limits and Ratios	Dec. 2001	Sep. 2002 1/
Effective capital	> CFAF 1 billion for banks > CFAF 0.3 billion for nonbank fin. institutions	9/12	10/13
Risk-weighted capital adequacy ratio	> 8 percent	9/12	10/13
Transformation ratio 2/	> 75 percent	7/12	7/13
Liquidity coefficient ratio 3/	> 75 percent	2/8	5/9
Participation in nonbank companies/ effective capital	< 15 percent	11/12	11/13
Fixed assets/effective capital	< 100 percent	11/12	11/13
Credit to management /effective capital	< 20 percent	10/12	10/13

Source: BCEAO.

1/ The number of banks increased from eight to nine banks in 2002.
2/ Liquid assets over short-term liabilities. This norm is applicable to banks only.
3/ Measured as the ratio of stable resources over fixed assets and medium-, and long-term loans.

18. **Microfinance institutions have continued to record strong growth in both deposits and loans**. During the period 1995-2001, total deposits increased by 62 percent and loans by 55 percent per year on average (to 0.8 percent and 1.1 percent of GDP, respectively, in 2001). The rapid growth reflects a substantial increase in membership (4 percent per year) as well as more deposits and loans. The government created the Banque Malienne de Solidarité (BMS) in April 2002, which has for main shareholders other microfinance institutions. The BMS refinances loans from microfinance institutions at a rate of 7 percent and finances small enterprises. The BMS received a government subsidy of CFAF 200 million in 2002. The loan repayment rate of microfinance institutions rose slightly to 95 percent in 2001, while the ratio of nonperforming loans to total credit fell to 4 percent. Nevertheless, the microfinance institutions will require continued donor support over the medium term, since net profit margins remain narrow and operating efficiency ratios are low.

Structural reforms

19. **The PRGF-supported program focuses on reforms aimed at improving public expenditure management and restoring the viability of the cotton sector,** reforms that are essential for Mali to achieve high economic growth, maintain a sound macroeconomic environment, and reduce poverty. The World Bank and other donors also support the authorities' efforts in these areas and in other not directly covered by the PRGF-supported program.

20. **To improve public expenditure management,** the government has implemented key aspects of the Report on Observance of Standards and Codes (ROSC) and the report on the capacity for tracking poverty-reducing spending, prepared in July 2001 (Box 4, and para. 12 of MEFP). A new budget classification includes a functional and economic classification of all poverty-reducing outlays, as defined in the PRSP, with a specific code for outlays financed by HIPC-related savings. The new coding scheme was partially introduced with the budget for 2003, and the authorities will monitor budget execution according to the current and new classifications. The authorities also prepared three-year budget programs for each ministry with the 2003 budget, together with sets of objectives and indicators. In addition, with the assistance of the World Bank, the authorities have completed a comprehensive medium-term public expenditure framework (MTEF) for health, and expect to finalize one for education by mid-2003. Other measures that were taken include the strengthening of the audits of budget execution with the appointment of six magistrates to the Accounts Section of the Supreme Court; the speeding up of the production of treasury balances; and the harmonization of the budget and accounting nomenclatures at the levels of the central and local governments. The government has also implemented measures to improve the civil service (see Box 5).

21. **The privatization program remained broadly on track in 2002** (see MEFP para. 13). In addition to the sale of a second telephone license, with assistance from the World Bank, the government requested bids for the privatization of a cottonseed oil-producing company (HUICOMA) in December 2002. As the bidding process for the privatization of the railroad company was twice unsuccessful, the government has opened discussions with the two companies that submitted bids, so that an agreement can rapidly be found. The Dakar-Bamako line, which needs to be rehabilitated, has become a vital element in the government's strategy to improve access to all ports in the region.

22. **The authorities continued to reform the cotton sector in 2002**, although there were some delays owing to the need to reach a broad consensus with all stakeholders (see MEFP para. 11). A new formula to set the producer price was used as a benchmark to reduce the producer price by 10 percent to CFAF 180 per kilogram for the crop-year 2002/03. The government implemented a plan to reduce the production costs and improve the management of the state-owned cotton company (CMDT). The authorities also adopted a strategy for the CMDT to withdraw from noncore activities; however, the associated personnel retrenchment is awaiting the preparation of a set of rules for severance packages, to be applied to all public

Box 4. Mali: Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending

Actions	Measures	Timing[1]	Status[2]	Updated Status	Comments
Budget formulation	Identify poverty-reducing items in budget	S	II	FI	Action completed in the fourth quarter of 2002.
Budget formulation	Improve accounting for external disbursements	S	II	II	Discussions with development partners continue.
Budget formulation	Include table showing poverty-reducing expenditures in 2002-03 budget	S	NS	FI	Implemented with the Budget Law of 2003.
Budget formulation	Improve classification with government finance statistics (GFS) economic objective as a basis	M	II	II	Implemented for central government. The chart of accounts for local governments has been harmonized with the central government accounts.
Budget formulation	Apply the classification of functions of government (COFOG) to recurrent and development budget	M	II	FI	The COFOG and WAEMU classifications are used to book government expenditure.
Budget formulation	Include two year projections in 2003-04 budget	M	II	FI	The annex to the 2003 budget gives projections for 2003-05. Program budgets for each ministry are now on a triennial basis.
Budget execution	Strengthen internal audit	M	NS	II	The Minister of Finance has strengthened the audit unit.
Budget execution	Finalize terms of reference for public expenditure tracking surveys	S	NS	II	Drafts terms of reference are ready.
Budget reporting	Set up template for local government reporting	S	NS	II	Local governments are required to send monthly balance sheets to a newly created treasury unit.
Budget reporting	Issue circular requiring local govt. quarterly reports	S	NS	II	A new treasury unit centralizes information on the budget execution of local governments.
Budget reporting	Establish training and enforcement measures for timely submission of local govt. reports	S	NS	II	The new treasury unit is responsible for strengthening local government accounting capacity.
Budget reporting	Create Quarterly monitoring reports	S	NS	II	The treasury unit has been producing monthly and quarterly statements since December 2002.
Budget reporting	Strengthen external audit measures	M	II	FI	Six additional judges and experts were added to the Accounts Section of the Supreme Court.

1/ S: Short term; M: Medium term
2/ As reported in the IMF staff report (IMF Country Report No. 02/157; 8/05/02). FI – fully implemented; NS - not started; II - implementation initiated

enterprise restructuring or privatization, as explained below. Also, the authorities launched in September 2002 a tender offer for the sale to a private operator of the assets of the CMDT and Office de la Haute Vallée du Niger (OHVN) in the OHVN/Kita area. In spite of these measures, the financial situation of the sector remained precarious, largely because of the large drop recorded in the world price of cotton. Hence, as programmed, the government supported the reform process by providing subsidies to the sector totaling CFAF 27.2 billion (1.2 percent of GDP) in 2002.

Box 5. Mali: The Civil Service Reform Plan and Its Financial Impact

The civil service reform plan was prepared as part of the implementation of the Solidarity Pact for Growth and Development, signed by the government and the trade unions in August 2001. The amendments to the statute of the civil service were adopted by parliament in November 2002. Key measures include harmonization of the pay scales of most civil service categories and a three-year postponement of the legal retirement age, which now varies between the ages of 52 and 62, based on grades and the number of years of duty. In the medium term, the authorities intend to introduce a health plan for the civil service. The reform, which the trade unions support, is supposed to improve civil service management and increase productivity by avoiding repeated protests and strikes.

The authorities have also launched a census of the civil service to improve the civil service roster. As a result, the civil service administrative and payroll files will be harmonized. This should reduce redundancies and improve controls over the wage bill.

The financial impact of the reform is estimated at CFAF 10.5 billion (4.6 percent of GDP), including CFAF 2.5 billion paid during 2002. The wage bill will increase by an additional CFAF 2.5 billion in 2003, mainly reflecting the recruitment of 847 agents in the education sector, 200 to 300 agents in the health sector, 200 workers for the Justice Department, 300 policemen to strengthen the domestic security system, and 500 agents for the rest of the civil service. The statutory salary increase to be paid in 2003 was postponed to 2004 and 2005 with the agreement of the trade unions. The cost of the statutory increase is estimated at CFAF 5 billion.

III. Medium-Term Economic Framework

23. **The authorities indicated that they intended to implement the ambitious medium-term economic framework and stay on the adjustment path underpinning the poverty reduction strategy adopted in May 2002.** To that end, in October 2002 they submitted a draft budget to the National Assembly that reflected this framework. At that time, the objectives for the period 2003-05 called for average real growth of 6.3 percent, an inflation of less than 3 percent, and an external current account deficit, excluding official transfers, averaging 7.6 percent of GDP a year. However, in light of the insufficient rainfall, depressed world prices for cotton, expected decline in gold production, and uncertainties created by the crisis in Côte d'Ivoire, the authorities agreed to revise the economic framework

and the draft budget for 2003, which had an impact on the medium-term projections. The PRSP framework is to be revised through a broad consultative process and taking into account recent economic developments. The authorities expected that, once the crisis in Côte d'Ivoire had been resolved, the economy would return rapidly to the adjustment path proposed in the PRSP. Accordingly, they felt that the medium-term objectives set for poverty reduction were still achievable. For the period 2003-05, real GDP is now forecast to grow by 4 percent per annum on average, inflation to average 3.5 percent, and the external current account deficit, excluding official transfers, to narrow from 11.2 percent of GDP in 2003 to 9 percent in 2005 (Table 9).

24. **As indicated in the enhanced HIPC Initiative completion point document**, the implementation of appropriate macroeconomic policies over the long term should result in a steady narrowing of the external current account deficit, including official transfers, provided that Mali suffers no major exogenous shock. Such an outcome would allow Mali to keep the NPV of external debt below 150 percent of GDP. The key for arriving at a high and sustainable rate of growth will be for the government to create an environment conducive to an increase in private investment and diversification. Hence, the staff urged the authorities to liberalize the economy, improve the country's infrastructure, and strengthen and develop financial institutions. In particular, as demonstrated by recent events, there is an urgent need for Mali to implement a transportation strategy that will improve its access to all ports in the region. However, as a landlocked country in the Sahel, Mali remains highly vulnerable to exogenous shocks, such as droughts and political disturbances. As described in the enhanced HIPC Initiative document (see enhanced HIPC Initiative document para. 40), recurrent droughts would make it very difficult for the government to attain its poverty reduction objectives and keep its debt burden down, unless the international community is willing to offset shortfalls in government revenue with grants.

25. The government has indicated that it intends to pursue fiscal consolidation over the medium term. Consequently, the overall fiscal deficit, on a commitment basis and excluding grants, is targeted to decline from about 9.9 percent of GDP in 2002 to 7.0 percent in 2005. To that end, the authorities will continue to improve tax administration and broaden the tax base, in order to increase total government revenue by more than 2 percentage points of GDP to 19½ percent. At the same time, the authorities intend to limit government spending to less than 27 percent of GDP while increasing outlays for the social sectors by further improving the management of public resources. However, in spite of its pursuit of fiscal consolidation, Mali will continue to require a high level of financial support from the international community to achieve its poverty reduction objectives. Currently, residual financing gaps averaging 1½ percentage points of GDP remain in 2004 and 2005, after taking into account the foreign funding of public investment projects, which is expected to average 8 percent of GDP per annum.

IV. THE PROGRAM FOR 2003

26. The economic outlook for 2003 is particularly uncertain owing to the crisis in Côte d'Ivoire and the closing of the Abidjan-Bamako road. While working closely with other

governments to find a peaceful solution to the crisis, the authorities have assumed, for the purpose of the program, that trade between the two countries will gradually return to the precrisis level during the second quarter of 2003. They have also indicated that they will reassess the situation and make necessary adjustments to the program if the situation requires it.

27. With this as a backdrop, and as indicated in the attached MEFP (para. 16) **real GDP is expected to decline by 0.4 percent in 2003**, primarily because inadequate rainfall during the second half of 2002 is expected to cause a drop of 3 percent in cereal production and 25 percent in cotton output for the 2002/03 harvest, which started last November. Cotton production was also hurt by a 10 percent reduction in producer prices, and by higher prices for fertilizers and pesticides. In addition, gold output is anticipated to decline from the high level recorded in 2002. Inflation is likely to remain at about 5 percent in 2003, given the adjustment in salaries, the likely rise in food prices owing to the drop in production, and higher transportation costs and potential supply shortages resulting from the crisis in Côte d'Ivoire.

28. **The external current account is expected to deteriorate in 2003** as a result of a drop in the volume of exports and the adverse impact of the crisis. Export volume is projected to decrease by 5.8 percent, owing to the reductions in cotton and gold production, while the volume of imports should be stable, given the expected decline in real national income. At the same time, the terms of trade are forecast to worsen slightly. Consequently, the current account deficit, excluding official transfers, is expected to widen by ½ of 1 percentage point of GDP to 11.2 percent. Including current official transfers, the deficit would be 10.3 percent of GDP. In addition to external loans and grants tied to the public investment program, the deficit is expected to be partly covered by private capital inflows, especially in the mining sector and in connection with the government privatization program. The overall balance of payments is likely to record a small deficit, which will be largely covered by debt relief granted under the HIPC Initiative.

A. Fiscal Policy

29. The authorities adopted a draft budget for 2003 last October that was fully consistent with the PRSP. However, when the outlook became less favorable, the authorities revised the budget; at the same time, they kept appropriations for social sectors mostly unchanged to ensure that the medium-term poverty reduction objectives remained achievable. The National Assembly adopted the revised draft budget at end-December 2002.

30. **On the revenue side, tax receipts are projected to increase by 1.6 percentage points of GDP to 15.8 percent in 2003,** with about one-third of the increase on account of the recovery in tax collection expected once the crisis in Côte d'Ivoire has been resolved. The remainder will come from tax measures adopted with the budget (0.2 percent of GDP; see MEFP, para. 20); a gradual adjustment in the tax on petroleum products, starting in February 2003; the expirations of tax exemptions granted to a bank and a major gold-mining company,

which will mainly boost receipts from the tax on profits (0.3 percent of GDP); and measures to improve tax administration (see MEFP, para. 22). Nontax revenue would increase by 0.3 percent of GDP to 1.6 percent, mainly because of higher dividends and royalty payments by gold-mining companies, given the large profits they are estimated to have made in 2002.[7]

31. **The authorities will contain total spending at 27.4 percent of GDP in 2003, or close to the level estimated for 2002,** while taking into account the priorities set in the PRSP. Total transfers will be reduced by 1.2 percentage points of GDP since payments to the cotton sector and the electoral agency that managed the presidential and legislative elections will not reoccur in 2003.[8] This has left room to increase other current expenditure by 0.8 percent of GDP, including an increase in salaries owing to the implementation of the civil service reform and the hiring of personnel, especially for the social sectors (see Box 5), as well as higher outlays on goods and services. The budget for 2003 also sets aside CFAF 20 billion (0.9 percentage point of GDP) to fund severance packages for employees who will be laid off in the context of the restructuring and privatization of public enterprises. Preliminary indications are that about 2,500 employees will be retrenched, mainly from the railroad company and the cotton company. While current labor laws and regulations offer some protection to laid-off employees, the judicial courts have held that severance packages should reflect the more generous benefits granted during prior privatizations. Hence, to clarify the situation and avoid the mounting cost of severance packages, the authorities agreed to prepare a unified set of rules that will apply to layoffs resulting from all forthcoming public enterprise privatization or restructuring.

32. **The authorities will keep capital expenditure at 11.2 percent in 2003, with outlays for the social sectors in line with the objectives set in the PRSP.**[9] At the same time, the ratio of domestically financed investment to tax revenue will increase by 1.1 percentage points of GDP to 22.8 percent, which is above the norm set by the WAEMU (20 percent of tax revenues). **HIPC Initiative expenditures will increase by 2.0 percent in 2003**, in line with the debt relief to be granted once Mali reaches the completion point under the Initiative.

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[7] The government owns on average close to 20 percent of the capital equity of the mining companies.

[8] For the cotton sector, however, the authorities indicated that, if the CMDT had difficulties repaying the bank credit granted to purchase the cotton crop, they would provide a loan for an amount up to CFAF 9 billion. This amount is included under nonbank financing.

[9] The program assumes that 80 percent of the budget appropriations for public investment will be effectively executed in 2003.

33. **The overall budget deficit, on a commitment basis and excluding grants, is projected at 8.3 percent of GDP in 2003.** In addition to foreign financing tied to investment projects amounting to 7.6 percent of GDP, the authorities have secured budget support in the form of loans and grants amounting to CFAF 48.7 billion, or 2.2 percent of GDP, mainly from the European Union, the World Bank, the African Development Bank and the Netherlands. Altogether, grants would amount to 3.5 percent of GDP. In addition, with debt relief under the enhanced HIPC Initiative estimated at 1.4 percent of GDP and privatization proceeds equivalent to 0.3 percent of GDP, the overall fiscal deficit should be more than fully financed. This will leave room for the authorities to reduce Mali's net domestic liabilities by the equivalent of 1 percent of GDP.

34. At the time of discussions for the sixth review of the program, which are tentatively scheduled for April 2003, staff will reassess the fiscal situation, and in particular the impact of the Ivorian crisis. If the Abidjan-Bamako road were to remain close much beyond the first quarter of 2003, the government would have difficulties achieving its revenue objective, while it may be facing higher spending for refugees and security. Hence, room for cutting non-social outlays would be limited, and Mali would require additional support from the international community to maintain poverty reducing expenditure.

B. Monetary Policy

35. **Monetary policy is conducted at the regional level by the BCEAO.** The objective is to maintain the parity of the CFA franc vis à vis the euro by strengthening the central bank's external reserves and maintaining inflation at a level compatible with that of the anchor currency. Broad money in Mali is projected to expand by 5.5 percent in 2003. It is expected that net bank credit to the government will increase only slightly, thereby allowing credit to the nongovernmental sector to rise by 9.0 percent. In accordance with the schedule adopted by the WAEMU Council of Ministers in September 2002, the authorities will repay CFAF 2.3 billion of the statutory advances payable to the BCEAO.[10] The staff urged the authorities to work with the Regional Banking Commission and the BCEAO to ensure that banks adhere to all prudential ratios, and that the commission recommendations are effectively implemented. With the assistance of the World Bank, under the Financial Sector Development Project, the authorities will continue to strengthen the legal and regulatory framework, and the supervisory agencies for the financial sector. They will also pursue the restructuring and privatization of all commercial banks, with the government expected to withdraw from the capital of all banks by end-2004. In that context, the authorities will undertake a study to assess the long-term viability of the Banque de l'Habitat du Mali in 2003.

[10] The statutory advances from the BCEAO amount to CFAF 23.2 billion. The plan calls for quarterly payments over a ten-year period, starting in January 2003. The interest rate is 3 percent for amounts below the ceiling for the statutory advances, and 7 percent for the amounts above. Statutory advances to the government are below the ceiling.

C. Structural Reforms

36. The structural reform agenda for 2003 continues to focus on issues essential to maintain macroeconomic stability and improve competitiveness, and to achieve high economic growth and reduce poverty. As regards the cotton sector, the government is monitoring the implementation of the plan for the CMDT to withdraw from public service activities and to that end included an appropriation in the budget for 2003 for their funding. In addition, the sale of the ginning plants in the OHVN/Kita area, should be completed during the first half of 2003. Discussions on a comprehensive plan to complete the restructuring and liberalization of the sector started last November. With the assistance of World Bank staff, the authorities intend to conduct a poverty and social impact assessment of the proposed options for the liberalization of the cotton sector in the second quarter of 2003. Consequently, the preparation of a comprehensive plan is now expected in June 2003.

37. The reform of public expenditure management continues to focus on achieving a better allocation of resources and improving the tracking of poverty-related spending. As indicated above (para. 20) the authorities launched a number of initiatives in 2002 that will have their full effect in 2003. The main purpose of these initiatives is to strengthen the budget process, the tracking of budget execution, and the assessment of the effectiveness of expenditures in meeting selected objectives. To improve the availability of information, the Ministry of Economy and Finance has launched a project to integrate all information system so that all phases of the spending procedures can be monitored and managed from a unified database (see MEFP, para. 31). In support of this process, the government will also implement an action plan to enhance governance and transparency in public management, as indicated in the PRSP. Furthermore, the authorities have required local government and autonomous agencies to report detailed monthly data on the execution of their budget, which will then be consolidated with data on the execution of the central government budget. The report for January 2003 is to be made available by March 2003.

D. Poverty Reduction Strategy

38. **The government has begun implementing the PRSP adopted in May 2002. The PRSP and JSA are scheduled to be considered by the Executive Board at the same time as the discussions on the fifth review of the PRGF-supported program.** The 2003 budget is the first to reflect the government's priorities set in that document, including increases in budget appropriations for health and education (see MEFP, para. 34). The government also indicated that it would protect poverty-reducing expenditures against potential cuts in the event that projected revenue failed to materialize.

39. Work continues on analyzing the expenditure data from the 2001 household survey, so that the results expected in the spring of 2003 can be used as benchmarks in assessing progress made in the fight against poverty. They will also serve for future Poverty and Social Impact Analysis (PSIA) of policies.

40. As noted in the JSA, more work is needed to strengthen mechanisms to monitor and evaluate the implementation of the strategy and its effect on poverty reduction. As a first step, the authorities agreed with the European Union, in the context of the latter's financial support to Mali, on a set of indicators to be monitored on a quarterly basis. In addition to fiscal and financial variables, **the indicators focus on health and education,** and include the gross enrollment rate in basic education; the percentage of population with access to health facilities within a radius of 15 kilometers; the number of functioning community health units; the rate of assisted births; and the immunization rate of children under age 1. The indicators were discussed with all stakeholders who contributed to the preparation of the PRSP. The authorities will report the information on indicators and outcomes every three months and discuss steps that may be required for a sound implementation of the strategy.

41. **In validating and adopting a set of impact- and results-oriented indicators for the PRSP, the authorities also collected baseline data for that purpose, which will be used to assess progress made in implementing the strategy**. In that regard, and as indicated in the JSA (para. 10), the objectives seem very ambitious. For instance, the government expects to reduce the incidence of poverty, based on an indicator of access to basic social services, from 63 percent in 2001 to 47.5 percent by 2006; the gross enrollment rate in basic education is to rise to 83 percent in 2006 from 62 percent currently; and the child immunization rate is to increase from 61 percent in 2001 to 75 percent in 2006. The authorities are also committed to meeting the Millennium Development Goals (MDGs) and the objectives of the New Partnership for Africa's Development (NEPAD).

42. **The authorities also intend to attain the PRSP's objectives through the implementation of sound fiscal policies, with an emphasis on increasing government revenue. Allocations of public resources to pro-poor spending will continue to be given a high priority,** with the share of poverty-related expenditures in total budgetary outlays to be increased from 36.5 percent in 2001 to 45 percent in 2006. Furthermore, drawing on lessons learned in the months since the PRSP has been adopted, the authorities are addressing the problems encountered in its implementation. Specifically, special efforts have been made to (i) increase absorptive capacity in social sectors; (ii) shorten delays between the formulation and the execution of investment projects; and (iii) strengthen coordination with donors, so that they adopt the PRSP as the framework for their support and thereby increase the funding for the strategy and improve the efficiency of assistance delivery.

V. Program Monitoring and Risks

43. Since the PRGF arrangement will expire on August 2003, quantitative benchmarks were set for end-March and end-June 2003. Economic performance and program implementation at end-December 2002 and in early 2003 will be assessed at the time of the discussions for the sixth review under the arrangement, tentatively scheduled for April 2003.

44. **The main risks to the program for 2003 are that the crisis in Côte d'Ivoire will continue much beyond the first quarter of 2003, and that the terms of trade will**

deteriorate sharply. The closing of the border between Mali and Côte d'Ivoire beyond the first quarter would dampen economic activity further and put upward pressures on domestic prices. It would also make it difficult to achieve the target for government revenue and would result in higher outlays for security and refugees. In such a situation, Mali would require additional international financial support to be able to implement its poverty reduction strategy. A deterioration in the terms of trade caused by a drop in cotton prices may force the government to provide additional financial support to the CMDT, while a rise in the price of imported petroleum products would make it more difficult to increase taxes on petroleum products, as planned. In both cases, the fiscal target would be in jeopardy. These developments would require the government to reduce expenditures in areas that have no impact on poverty reduction. The staff will discuss these issues in the context of the next review.

VI. Staff Appraisal

45. **The successive governments that were in office during 2002 strongly backed the Fund-supported program** and continued to implement key measures despite the long electoral campaigns for the presidency and the National Assembly. This broad consensus bodes well for the implementation of prudent macroeconomic policy in the future, even though no political party has gained a majority in the National Assembly.

46. **Program implementation was satisfactory during the first nine months of 2002** and contributed to an impressive turnaround in Mali's economic situation. Economic activity rebounded sharply, with cotton output more than doubling and food and gold production rising by 10 percent or more; meanwhile, the external balance of payments improved and inflation remained moderate.

47. **The government continued to strengthen fiscal policy and met the objectives for end-September 2002 by a comfortable margin.** Significant progress was also made in implementing structural reforms, including public expenditure management and civil service reform, and the opening of the cotton and telecommunication sectors to private operators.

48. **Since the last quarter of 2002, however, the economic situation has again dramatically changed,** owing to the crisis in Côte d'Ivoire and the inadequate rainfall. The authorities have acted promptly to manage the situation, helping the private sector divert trade to other ports in the region, and ensuring that key products have been available on local markets. Nevertheless, disruptions were inevitable and resulted in a shortfall in government tax revenue at end-2002 that was only partially offset by a cut in government outlays.

49. **The economic outlook for 2003 remains uncertain, given the situation in Côte d'Ivoire.** Real GDP is likely to decline because of lower production of cotton, food, and gold. At the same time, inflation is likely to remain at about 5 percent, while the external current account deficit is expected to widen slightly.

50. **The staff welcomes the authorities' resolve to continue to implement sound macroeconomic policies and attain the poverty-reducing objectives set in the PRSP, in spite of the worsened domestic and regional environment**. The staff agrees with the government decision to adjust the macroeconomic framework presented in the PRSP and the draft budget for 2003, and it is encouraged by the authorities' willingness to reassess, in a few months the validity of the assumptions underpinning the program, in order to ensure that economic policies remain appropriate.

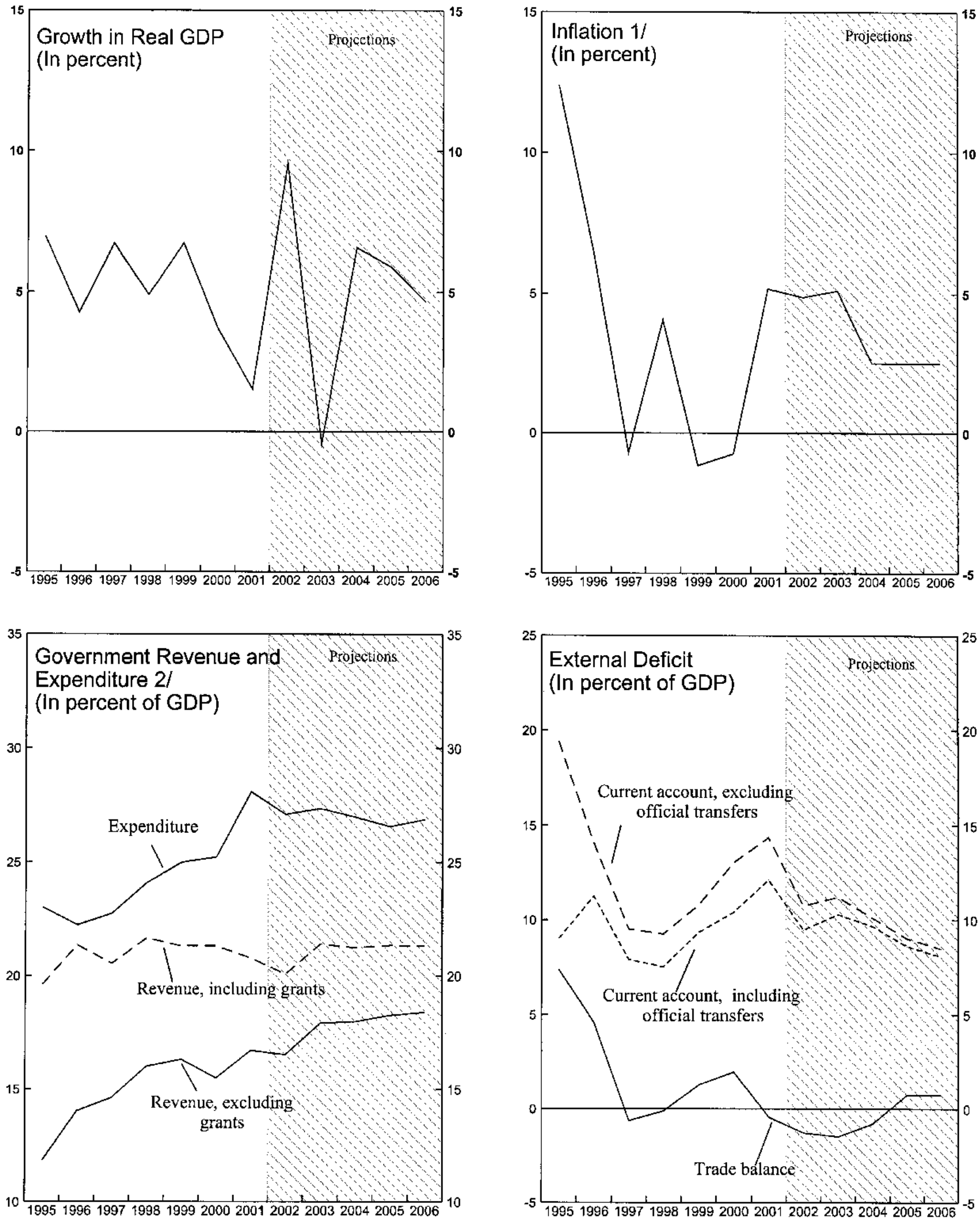
51. **The commitment to strengthen fiscal sustainability while attaining the poverty-reducing objectives set in the PRSP represents a difficult challenge for the new government**. The authorities face the double tasks of increasing government revenue, despite the weakening economy, and channeling more resources into the social sector in line with the PRSP objectives. Meeting the challenge, on the revenue side will require the authorities to implement all measures included in the program, strengthen tax administration further, reduce tax exemptions, and broaden the tax base. On the spending side, the authorities will need to set clear priorities, as to be able to act quickly if the projected revenues do not materialize and to ensure that the social sectors receive the needed funding. The authorities' remarkable progress in implementing the ambitious program to strengthen the management of public expenditure and monitor poverty-reducing outlays will help them accomplish these tasks.

52. Recent events demonstrate that, as a landlocked country in the Sahel region, **Mali's economy remains highly vulnerable to exogenous shocks**. Hence, it is essential that the authorities pursue the implementation of structural reforms aimed at liberalizing the economy and setting an enabling environment for the development of the private sector. In that context, the staff welcomes the new government's decision to pursue the liberalization of the cotton sector and complete the privatization program. However, the reforms' success will require time for the authorities to strengthen the dialogue with all stakeholders and ensure careful implementation. The authorities should also assist the BCEAO and the Regional Banking Commission in strengthening the financial situation of the banking system and ensuring that all prudential ratios are adhered to.

53. **The main risks to the program for 2003 are a prolonged crisis in Côte d'Ivoire beyond the first quarter of 2003 and a sharp deterioration in the terms of trade.** In both cases, the fiscal target would be in jeopardy, and it is likely that Mali would require additional financial assistance to continue to implement its poverty-reducing strategy.

54. In light of the progress made and the strength of the program for 2003, the staff recommends the completion of the fifth review under the PRGF arrangement.

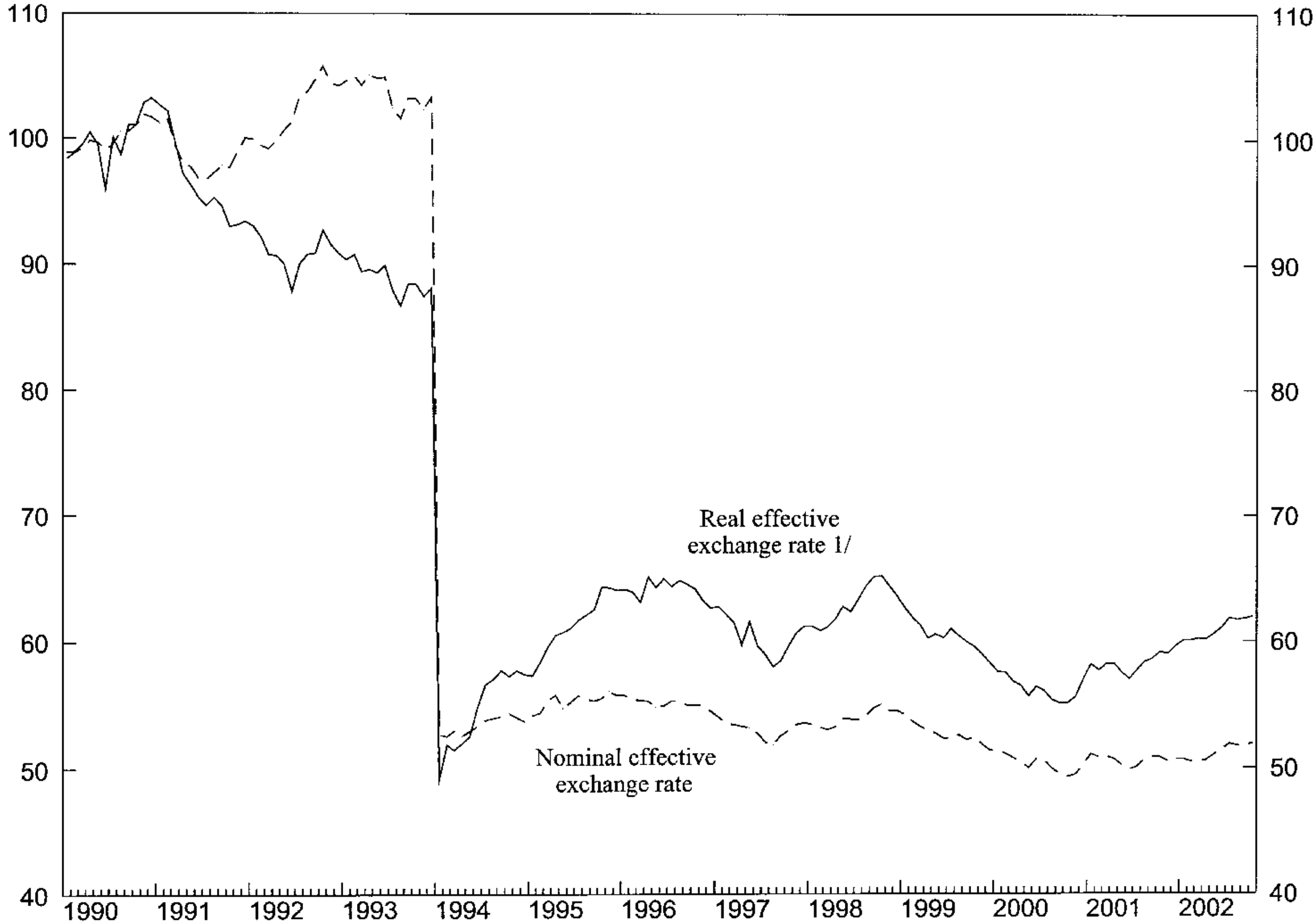
Figure 1. Mali: Main Economic Indicators, 1995-2006



Sources: Malian authorities; and staff estimates and projections.
1/ Percentage change in average consumer price index.
2/ Central government, on commitment basis.

Figure 2. Mali: Real and Nominal Effective Exchange Rates, January 1990 - October 2002

(Period average; 1990=100)



Source: IMF, Information Notice System.

1/ Based on relative consumer price indices.

Table 1. Mali: Fund Position, 2001-05

	2001					2002					2003	2004	2005
	Jan.-Mar.	Apr.-June	Jul.-Sep.	Oct.-Dec.	Total Act.	Jan.-Mar.	Apr.-June	Jul.-Sep.	Oct.-Dec.	Total Act.	Projections		
	(In millions of SDRs, unless indicated otherwise)												
Fund credit at beginning of period under Enhanced Structural Adjustment Facility (ESAF)	134.73	132.24	126.81	135.73	134.73	136.02	133.53	126.03	130.29	136.02	121.75	107.03	85.04
Net use of Fund credit	-2.49	-5.43	8.93	0.28	1.28	-2.49	-7.50	4.26	-8.54	-14.26	-14.72	-21.99	-14.88
Loans under:													
Structural Adjustment Facility (SAF)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: repayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Poverty Reduction and Growth Facility (PRGF)	-2.49	-1.02	8.93	0.28	1.28	-2.49	-7.50	4.26	-8.54	-14.26	-14.72	-21.99	-14.88
Disbursements	0.00	0.00	11.42	6.75	18.17	0.00	0.00	6.75	0.00	6.75	6.15	0.00	0.00
Repayments	2.49	1.02	2.49	6.47	16.88	2.49	7.50	2.49	8.54	21.01	20.87	21.99	14.88
Fund credit at end of period under Structural Adjustment Facility (SAF)	132.24	126.81	135.73	136.02	136.02	133.53	126.03	130.29	121.75	121.75	107.03	85.04	70.16
	(In percent of quota)												
Fund credit at end of period under SAF/PRGF	141.7	135.9	145.5	145.8	145.8	143.1	135.1	139.6	130.5	130.49	114.7	91.1	75.2

Source: IMF, Treasurer's Department.

Table 2. Mali: Revised Schedule of Projected Reviews and Disbursements Under the Poverty Reduction and Growth Facility (PRGF)Arrangement, 2002-03

Date	Action	Disbursement
March 2002	Fourth review mission under the PRGF arrangement	
July 2002	Executive Board consideration of the fourth review under the PRGF arrangement	SDR 6.750 million
End-June 2002	Performance criteria	
November 2002	Fifth review mission under the PRGF arrangement	
End-February 2003	Executive Board consideration of the fifth review under the PRGF arrangement	SDR 6.750 million
End-December 2002	Performance criteria	
April 2003	Sixth review mission under the PRGF arrangement	
June 2003	Executive Board consideration of the sixth review under the PRGF arrangement; final disbursement	SDR 6.150 million
August 2003	End of the PRGF arrangement	

Table 3. Mali: Selected Economic and Financial Indicators, 2001-2005

	2001	2002 Proj. Rev. EBS/02/127	2002 Est.	2003 Projections	2004 Projections	2005 Projections
	(Annual percentage change, unless otherwise specified)					
National income and prices						
Real GDP	1.5	9.3	9.6	-0.4	6.6	5.9
Nominal GDP (in billions of CFA francs)	1,927.4	2131.1	2,204.4	2,302.9	2,529.4	2,744.3
GDP deflator	9.0	1.2	4.4	4.9	3.0	2.5
Consumer price index (annual average)	5.2	3.0	4.9	5.1	2.5	2.5
External sector						
Exports, f.o.b.	36.9	6.4	19.7	-6.1	10.8	8.6
Imports, f.o.b	26.5	2.6	3.7	2.0	9.7	6.6
Export volume	24.7	16.4	24.5	-5.8	6.6	6.8
Of which: nonmining	-23.3	63.6	38.2	3.0	3.1	10.6
Import volume	24.3	0.7	6.3	1.3	7.4	5.0
Terms of trade	7.8	-10.2	-1.4	-1.1	1.9	0.2
Nominal effective exchange rate (average)	3.2	...	...	...	...	...
Real effective exchange rate (average)	3.7	...	...	...	...	...
Central government finance						
Total revenue	18.6	20.3	18.5	15.7	10.5	10.5
Total expenditure and net lending[2]	21.3	13.5	12.2	5.5	8.3	6.8
Current expenditure	22.3	16.9	15.2	1.2	9.2	8.1
Capital expenditure and net lending [2]	20.4	10.7	9.6	9.3	7.6	5.8
Money and credit						
Credit to the government[3]	4.6	2.2	0.9	2.5	...	...
Credit to rest of the economy	19.0	9.5	7.2	9.0	...	...
Broad money (M2)	19.3	10.6	14.4	5.5	...	...
Velocity (GDP/M2)	4.0	4.0	4.0	3.9	...	...
Interest rate (in percent; end of period)[4]	6.5	...	6.5	...	...	...
	(In percent of GDP, unless otherwise specified)					
Investment and saving						
Gross domestic investment	21.0	21.5	21.2	18.1	20.8	20.9
Government	10.1	9.8	9.3	9.3	9.8	9.6
Nongovernment	10.9	11.8	11.9	8.8	11.0	11.3
Gross domestic saving	10.3	13.2	15.1	10.5	13.6	14.8
Government	0.5	1.1	0.8	2.8	3.0	3.6
Nongovernment	9.8	12.2	14.4	7.6	10.5	11.2
Central government finance						
Total revenue	16.6	18.1	17.2	19.1	19.2	19.5
Total expenditure and net lending [2]	27.6	28.4	27.1	27.4	27.0	26.6
Overall balance (commitment basis, including grants)	-5.8	-6.6	-5.6	-4.7	-4.9	-4.3
Overall balance (commitment basis, excluding grants)	-11.0	-10.3	-9.9	-8.3	-7.8	-7.0
Basic fiscal balance[5]	-2.0	-1.9	-1.8	-0.7	0.3	0.9
Basic fiscal balance[6]	-0.2	-0.4	-0.4	0.7	1.6	2.0
External sector						
Current external balance, including official	-11.9	-11.4	-9.5	-10.3	-9.7	-8.6
Current external balance, excluding official	-14.2	-11.9	-10.7	-11.2	-10.1	-9.0
Debt-service ratio[7]						
Before debt relief	10.3	12.2	11.1	12.2	10.1	9.3
After debt relief	6.5	7.8	7.1	7.5	5.5	5.3
	(In millions of U.S. dollars, unless otherwise specified)					
Overall balance of payments	-44.4	-79.8	58.2	-53.0	-24.8	11.4
Gross international reserves	354.2	375.3	471.0	486.3	582.6	689.7
(In months of next year's imports)[8]	3.7	3.7	4.6	4.2	4.8	5.3
Exports (in percent of GDP)	27.6	27.0	28.8	25.9	26.1	26.2
Imports (in percent of GDP)	27.7	25.7	25.1	24.5	24.4	24.0
U.S. dollar rate (end of period)	732.4	...	...	...	...	...

Sources: Malian authorities; and staff estimates and projections.

1 The staff has updated the balance of payments to be fully consistent with the IMF's Balance of Payments Manual (5th edition) and the authorities' presentation.

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

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

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

5 Defined as total revenue (excluding grants) minus total expenditures and net lending, (excluding 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 services.

8 Goods and services.

Table 4. Mali: Selected National Accounts Indicators, 2001-05 1/

	Composition of GDP in 2000 (In percent)	2001 Est.	2002 Prog. EBS 02/127	2002 Est.	2003 Proj.	2004 Proj.	2005 Proj.
			(Annual percentage change in constant prices)				
Primary sector	40.2	-13.4	19.5	16.1	-4.6	5.9	5.3
Food crops	16.7	-16.5	16.5	9.7	-3.7	5.7	6.0
Industrial crops	7.7	-39.9	102.4	101.2	-20.6	14.4	9.2
Livestock	10.3	0.6	1.8	0.9	2.0	2.8	2.8
Fishing	1.0	1.4	1.4	1.4	1.4	2.0	2.0
Forestry	4.5	2.8	2.8	2.8	2.8	3.0	3.0
Secondary sector	23.5	31.0	-2.6	8.8	-2.9	8.0	6.0
Industry	5.2	0.7	1.6	2.6	5.7	6.9	6.9
Mining	11.4	85.1	-9.1	16.9	-11.5	9.1	4.1
Handicrafts	2.1	16.5	6.0	-3.8	6.0	8.6	8.1
Construction and public works	4.8	7.0	2.3	4.5	4.0	6.8	8.2
Tertiary sector	30.2	1.2	5.9	4.0	5.0	5.7	5.6
Transportation	5.0	-2.4	4.1	1.5	11.8	8.5	8.7
Trade	14.0	0.9	7.8	4.9	4.0	5.9	6.1
Public admininistration	5.9	4.5	2.9	2.5	2.8	5.0	4.0
Other services	5.3	2.2	6.2	6.0	3.7	3.0	3.0
GDP (at factor cost)	93.9	0.1	9.3	10.2	-1.1	6.3	5.6
Indirect taxes	6.1	26.0	9.1	1.1	10.0	10.2	10.2
GDP (at market prices)	100.0	1.5	9.3	9.6	-0.4	6.6	5.9
Nonmining real GDP		-3.7	11.4	8.7	1.0	6.3	6.1
		(Net financial balances; in percent of nominal GDP, unless otherwise indicated)					
Total economy		-11.9	-11.4	-9.5	-10.3	-9.7	-8.6
Gross national saving		9.1	10.6	12.0	8.7	11.3	12.5
Of which: domestic saving		10.3	13.2	15.1	10.5	13.6	14.8
Gross domestic investment		21.1	22.0	21.5	18.9	21.0	21.1
Private sector		-3.7	-1.8	-1.0	-2.9	-2.3	-2.0
Gross national saving		7.2	10.0	10.9	5.9	8.7	9.3
Of which: domestic saving		9.8	12.2	14.4	7.6	10.5	11.2
Gross domestic investment		10.9	11.8	11.9	8.8	11.0	11.3
Government		-8.2	-9.6	-8.5	-7.4	-7.4	-6.6
Gross national saving		1.9	0.7	1.1	2.8	2.7	3.2
Of which: domestic saving		0.5	1.1	0.8	2.8	3.0	3.6
Gross domestic investment		10.1	10.2	9.6	10.1	10.0	9.8
Memorandum items:							
External current account balance 2/		-11.9	-11.4	-9.5	-10.3	-9.7	-8.6
Nominal GDP (in billions of CFA francs)		1,927.4	2,131.1	2,204.4	2,302.9	2,529.4	2,744.3

Sources: Malian authorities; and staff estimates and projections.

[1] The staff has updated the balance of payments to be fully consistent with the IMF's Balance of Payments Manual (5th edition) and the authorities' presentation.

[2] Including official transfers.

Table 5. Mali: Central Government Consolidated Financial Operations, 2001-5 [1]

	2001 Est.	Prog. EBS/02/127	Est.	2003	2004	2005
				Projections		
			(In billions of CFA francs)			
Revenue and grants	420.4	463.1	474.3	521.1	558.3	611.9
Total revenue	320.1	385.1	379.4	439.2	485.2	535.9
Budgetary revenue	292.6	355.2	343.2	400.1	445.0	494.7
Tax revenue	281.6	331.0	313.6	363.7	404.7	452.8
Nontax revenue	11.0	24.2	29.6	36.4	40.3	41.9
Special funds and annexed budgets	27.5	29.9	36.2	39.0	40.2	41.2
Grants	100.3	78.0	94.9	82.0	73.1	75.9
Budgetary	27.5	0.0	16.9	12.2	0.0	0.0
Project	72.8	78.0	78.0	69.8	73.1	75.9
Total expenditure and net lending	532.6	604.5	597.4	630.1	682.4	729.1
Budgetary expenditure	515.7	578.7	565.2	595.0	648.2	693.9
Current expenditure	243.7	284.8	280.7	283.9	310.1	335.1
Wages and salaries	81.9	89.5	89.5	100.0	108.8	118.0
Materials and supplies	32.1	33.2	29.7	37.5	41.2	46.7
Transfers	54.3	79.2	78.6	53.6	64.7	64.8
Scholarships	4.7	5.6	5.6	5.6	5.6	5.6
Elections cost	8.0	9.0	10.4	1.0	4.0	0.0
Cotton sector	13.0	27.2	27.2	0.0	0.0	0.0
Others transfers	28.6	37.4	35.4	47.0	55.1	59.2
Other current expenditures	60.7	62.1	62.1	69.8	74.8	83.5
Interest	14.6	20.8	20.8	23.0	20.6	22.0
Domestic	0.8	2.1	2.1	3.3	1.5	1.5
External	13.8	18.7	18.7	19.7	19.1	20.6
Capital expenditure	235.9	252.1	246.6	258.6	298.9	321.0
Externally financed	174.0	178.4	178.4	175.6	203.9	216.5
Domestically financed	61.9	73.7	68.2	83.0	95.0	104.5
HIPC expenditures	16.8	31.8	31.8	32.5	34.2	32.8
Restructuring of public enterprises [2]	19.3	10.0	6.1	20.0	5.0	5.0
Special funds and annexed budgets	27.5	29.9	36.2	39.0	40.2	41.2
Net lending	-10.6	-4.1	-4.1	-3.9	-6.0	-6.0
Basic fiscal balance [3]	-38.5	-41.0	-39.5	-15.3	6.7	23.4
Overall fiscal balance						
Cash basis, including grants	-112.2	-141.4	-123.0	-109.0	-124.1	-117.2
Financing	112.2	98.1	123.1	109.0	79.1	88.7
External financing (net)	106.1	104.6	118.0	130.6	119.2	127.1
Loans	119.4	118.4	131.9	142.3	130.8	140.6
Project	101.2	100.4	100.4	105.8	130.8	140.6
Budgetary	18.2	18.0	31.5	36.5	0.0	0.0
Amortization	-36.4	-42.8	-42.8	-44.2	-45.8	-46.3
Debt relief	23.1	29.0	28.9	32.5	34.2	32.8
Of which: HIPC Initiative	23.1	29.0	28.9	32.5	34.2	32.8
Domestic financing (net)	6.1	-6.6	5.0	-21.6	-40.1	-38.4
Banking system	17.3	10.6	-4.3	13.4	-15.1	-13.4
Of which : net credit to the government	18.7	10.6	-4.3	14.2	-14.7	-13.0
Privatization receipts	0.0	11.0	29.5	8.0	0.0	0.0
Nonbank financing	-11.2	-28.2	-20.2	-34.0	-25.0	-25.0
Financing gap [4]	0.0	43.3	0.0	0.0	45.0	28.6
			(In percent of GDP, unless otherwise specified)			
Total revenue and grants	21.8	21.7	21.5	22.6	22.1	22.3
Of which: total revenue	16.6	18.1	17.2	19.1	19.2	19.5
Of which: tax revenue	14.6	15.5	14.2	15.8	16.0	16.5
Total expenditure and net lending	27.6	28.4	27.1	27.4	27.0	26.6
Of which : health and education	3.7	3.5	3.4	3.3		
Current expenditure	12.6	13.4	12.7	12.3	12.3	12.2
Overall fiscal balance						
Commitment basis, including grants	-5.8	-6.6	-5.6	-4.7	-4.9	-4.3
Commitment basis, excluding grants	-11.0	-10.3	-9.9	-8.3	-7.8	-7.0
Basic fiscal balance [3]	-2.0	-1.9	-1.8	-0.7	0.3	0.9
Basic fiscal balance [5]	-0.2	-0.4	-0.4	0.7	1.6	2.0
Memorandum item:						
GDP at current prices (in billions of CFA francs)	1,927.4	2,131.1	2,204.4	2,302.9	2,529.4	2,744.3

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] Expenditures from World Bank credit and financing of P.E.S.A.P. and public enterprises

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

[4] Expected to be covered by donor assistance.

[5] Defined as footnote 3 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, 2000-05
(In billions of CFA francs, unless otherwise specified)

	2000 Est.	2001 Est.	2002 Proj.	2003 Proj.	2004 Proj.	2005 Proj.
HIPC Initiative assistance given						
A. Interest due before HIPC Initiative assistance	15.6	13.8	18.7	19.7	19.1	20.6
B. Interest paid before HIPC Initiative assistance	15.6	13.8	18.7	19.7	19.1	20.6
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	0.0
D. Interest due after HIPC Initiative assistance	15.6	13.8	18.7	19.7	19.1	20.6
E. Amortization due before HIPC Initiative assistance 1/	39.1	32.3	55.2	51.9	56.2	55.0
F. Amortization paid before HIPC Initiative assistance	39.1	32.3	55.2	51.9	56.2	55.0
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	0.0
H. Amortization due after HIPC Initiative assistance	39.1	32.3	55.2	51.9	56.2	55.0
I. HIPC Initiative assistance provided as grants (to cover debt service due)	0.0	0.0	0.0	0.0	0.0	0.0
J. HIPC Initiative assistance as exceptional financing (to cover debt service due)	2.6	23.1	28.9	32.5	34.2	32.8
Total HIPC Initiative assistance (C+G+I+J) 1/	2.6	23.1	28.9	32.5	34.2	32.8
Total HIPC Initiative assistance (in millions of U.S. dollars) 1/	3.7	31.5	41.4	48.4	51.3	49.5
Net cash flow to the budget from HIPC Initiative	2.6	23.1	28.9	32.5	34.2	32.8
Memorandum items:						
Other donor flows	0.0	0.0	0.0	0.0	0.0	0.0
Total net external flows (net external financing less debt service due)	-52.1	-23.0	-44.9	-39.1	-41.1	-42.8
Functional and other poverty reduction government expenditures 2/	0.9	13.6	23.7	32.5	34.2	32.8
Baseline pre-HIPC Initiative assistance expenditure projections	74.6	81.7	88.2	93.3	100.7	108.7
Post-HIPC Initiative assistance expenditure projections	75.5	95.3	111.9	125.8	134.9	141.5
Memorandum items:						
Tax revenue (in percent of GDP)	13.4	14.6	14.2	15.8	16.0	16.5
Overall fiscal balance before HIPC Initiative assistance, excluding grants (in percent of GDP)	-9.9	-12.2	-11.2	-9.7	-9.2	-8.2
Overall fiscal balance after HIPC Initiative assistance, including grants (in percent of GDP)	-9.7	-11.0	-9.9	-8.3	-7.8	-7.0

Sources: Malian authorities; and staff estimates and projections.

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

Table 7. Mali: Compliance with WAEMU Convergence Criteria, 2000-05
(In percent, unless otherwise indicated)

	Ratio	2000	2001	2002	2003	2004	2005
		Actual		Est.	Projections		
Primary criteria							
Basic fiscal balance / GDP	>=0	-0.7	-2.0	-1.8	-0.7	0.3	0.9
Inflation (annual average)	<=3	-0.7	5.2	4.9	5.1	2.5	2.5
Total nominal debt / GDP	<=70	108.2	104.2	95.9	85.6	81.2	77.2
Domestic arrears accumulation (in billions of CFA francs)	<=0	0.0	0.0	0.0	0.0	0.0	0.0
External arrears accumulation (in billions of CFA francs)	<=0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary criteria							
Wages / fiscal revenue	<=35	31.3	29.1	28.5	27.5	26.9	26.1
Domestically financed investment / fiscal revenue	>=20	25.7	22.0	21.7	22.8	23.5	23.1
Current account deficit, excluding current official transfers / GDP	<=5	13.1	14.2	10.7	11.2	10.1	9.0
Fiscal revenue / GDP	>=17	13.4	14.6	14.2	15.8	16.0	16.5

Sources: Malian authorities; and staff estimates and projections.

Table 8. Mali : Monetary Survey, 2001-03 1/

	2001	2002											2003			
	Dec.	Mar.	Jun.		Jul.	Aug.	Sep.		Oct.	Nov.	Dec.		Mar.	Jun.	Sep.	Dec.
	Est.	Est.	Prog. EBS/01/204	Est.	Est.	Est.	Prog. EBS/02/127	Est.	Est.	Est.	Prog. EBS/02/127	Proj.	Proj.	Proj.	Proj.	Proj.
	(In billions of CFA francs)															
Net foreign assets	198.1	242.5	196.2	243.8	237.4	247.7	166.9	243.5	267.3	254.2	171.5	245.1	245.3	246.3	246.6	237.2
Central Bank of West African States (BCEAO)	115.4	177.3	128.0	201.8	188.8	195.4	116.4	196.4	202.4	206.3	129.5	184.9	185.1	184.9	184.5	187.6
Commercial banks	82.7	65.2	68.2	42.0	48.6	52.3	50.4	47.1	65.0	47.9	42.0	60.2	60.2	61.4	62.0	49.6
Net domestic assets	295.7	315.4	277.7	311.2	290.0	284.9	332.2	300.2	431.0	440.7	333.1	306.5	339.8	350.5	347.8	350.8
Credit to the government (net)	-18.7	-19.0	1.8	-0.5	5.1	-25.3	21.2	-14.3	-25.3	-10.6	-8.1	-14.4	-0.7	-2.4	2.1	-0.2
BCEAO	109.1	111.5	77.4	115.6	114.5	91.0	75.5	101.2	101.6	100.3	73.5	73.5	72.9	72.3	71.7	71.2
Commercial banks	-126.5	-128.9	-74.4	-114.7	-108.1	-115.1	-53.1	-114.5	-127.8	-113.0	-80.3	-86.6	-73.6	-74.8	-69.7	-71.4
Other	-1.3	-1.6	-1.2	-1.4	-1.3	-1.2	-1.2	-1.0	1.0	2.0	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Credit to the economy	338.5	365.0	292.0	356.3	351.6	358.7	319.5	356.5	377.6	384.5	371.8	362.9	382.5	394.9	387.7	393.0
Other items (net)	-24.0	-30.6	-16.1	-44.6	-66.7	-48.5	-8.5	-42.0	78.6	66.9	-30.6	-42.0	-42.0	-42.0	-42.0	-42.0
Money supply (M2)	487.2	550.6	472.8	554.0	527.0	527.5	499.0	534.8	539.5	557.4	538.7	557.3	585.1	596.8	594.3	588.1
Currency outside banks	179.0	212.6	165.5	235.9	216.8	217.7	170.0	218.6	214.4	216.3	193.2	227.8	234.4	243.6	240.2	235.7
Bank deposits	308.2	338.0	307.3	318.1	310.2	309.7	329.0	316.2	325.1	341.1	345.6	329.5	350.7	353.2	354.2	352.4
Memorandum items:	(Annual percentage change, unless otherwise indicated)															
Contribution to the growth of broad money																
Net foreign assets	7.4	14.9	3.2	10.1	11.3	14.9	-2.7	14.3	20.8	15.6	-5.5	9.6	0.5	0.5	0.6	-1.4
Net domestic assets	13.5	11.9	0.4	12.2	6.4	3.3	13.3	6.2	29.5	30.3	7.7	2.2	4.4	7.1	8.9	8.0
Of which : credit to the central government	4.6	3.0	0.8	5.4	5.3	-4.3	7.9	0.0	-4.1	-4.3	2.2	0.9	3.3	-0.3	3.1	2.5
Credit to the economy	19.0	19.2	3.3	26.3	23.9	28.8	9.8	22.5	21.3	20.3	9.9	7.2	4.8	10.8	8.8	8.3
Money supply	19.3	25.2	3.4	22.1	17.6	17.0	10.6	18.5	13.7	17.0	10.6	14.4	6.3	7.7	11.1	5.5
Currency	20.9	47.0	7.3	59.2	46.1	42.6	9.8	41.2	29.6	21.3	7.9	27.2	10.3	3.3	9.9	3.5
Deposits	18.4	14.6	1.3	4.1	3.6	3.9	11.0	6.7	5.1	14.4	12.1	6.9	3.8	11.0	12.0	7.0
Velocity (GDP/M2)	4.0	...	...	...	...	...	...	...	...	...	4.0	4.0	...	...	...	3.9
Currency outside banks /money supply (in percent)	36.7	38.6	35.0	42.6	41.1	41.3	34.1	40.9	39.7	38.8	35.9	40.9	40.1	40.8	40.4	40.1

Sources: BCEAO; 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.

Table 9. Mali: Balance of Payments, 2001-05 1/

	2001	2002		2003	2004	2005
	Act.	Prog. EBS/02/127	Est.	Projections		
	(In billions of CFA francs)					
Exports, f.o.b.	531.1	576.3	635.5	596.6	661.1	717.7
Cotton fiber	81.2	153.4	126.8	136.7	143.8	169.7
Gold	354.4	321.6	417.2	367.4	406.8	423.3
Other	95.5	101.2	91.5	92.4	110.5	124.7
Imports, f.o.b.	-533.1	-546.8	-552.7	-563.7	-618.1	-658.6
Trade balance	-2.0	29.5	82.9	32.9	43.0	59.1
Services (net)	-212.5	-216.8	-223.0	-227.9	-230.6	-232.9
Credit	75.2	85.1	85.1	86.4	90.4	95.1
Debit	-287.7	-301.9	-308.1	-314.3	-321.0	-328.1
Of which: freight and insurance	-192.2	-197.1	-203.3	-207.2	-211.7	-225.6
Income (net)	-97.9	-95.8	-123.7	-99.1	-112.0	-119.7
Of which: interest due on public debt	-14.3	-18.7	-19.2	-20.1	-19.4	-20.8
Private transfers (net)	39.5	29.0	27.0	36.1	44.0	46.0
Official transfers (net)	42.7	12.2	28.1	21.2	11.2	11.2
Of which: budgetary grants	27.5	0.0	16.9	0.0	0.0	0.0
Current account balance						
Excluding official transfers	-272.9	-254.2	-236.8	-258.0	-255.5	-247.5
Including official transfers	-230.2	-242.0	-208.7	-236.8	-244.3	-236.3
Capital and financial account	186.8	183.6	249.3	201.3	227.8	243.8
Capital account (net)	72.8	78.0	78.0	75.8	77.8	79.0
Of which: projects grants	72.8	78.0	78.0	75.8	77.8	79.0
Financial account	114.0	105.6	171.3	125.5	150.0	164.8
Private (net)	31.0	30.0	82.2	27.4	65.0	70.5
Official (net)	83.0	75.6	89.1	98.1	85.0	94.3
Disbursements (net)	119.4	118.4	131.9	142.3	130.8	140.6
Budgetary	18.2	18.0	31.5	36.5	0.0	0.0
Project related	101.2	100.4	100.4	105.8	130.8	140.6
Amortization due on public debt	-36.4	-42.8	-42.8	-44.2	-45.8	-46.3
Errors and omissions	10.9	0.0	0.0	0.0	0.0	0.0
Overall balance	-32.5	-58.3	40.6	-35.5	-16.6	7.6
Financing	32.5	58.3	-40.6	35.5	16.6	-7.6
Foreign assets (net)	9.4	-14.0	-69.5	3.0	-62.7	-68.9
Of which: IMF (net)	5.1	-6.9	-12.4	-7.7	-10.4	-8.7
HIPC Initiative assistance 2/	23.1	29.0	28.9	32.5	34.2	32.8
Financing gap	0.0	43.3	0.0	0.0	45.0	28.6
Memorandum items:	(Annual percentage change)					
External trade						
Exports volume	24.7	16.4	24.5	-5.8	6.6	6.8
Imports volume	24.3	0.7	6.3	1.3	7.4	5.0
Export unit value	9.8	-8.6	-3.9	-0.4	4.0	1.7
Import unit value	1.8	1.8	-2.5	0.7	2.1	1.5
Terms of trade	7.8	-10.2	-1.4	-1.1	1.9	0.2
	(In percent of GDP, unless otherwise indicated)					
External current account balance						
Excluding official transfers	-14.2	-11.9	-10.7	-11.2	-10.1	-9.0
Including official transfers	-11.9	-11.4	-9.5	-10.3	-9.7	-8.6
External public debt 3/	103.6	95.8	94.1	94.0	88.5	84.7
Debt-service ratio 4/						
Before debt relief	10.3	12.2	11.1	12.2	10.1	9.3
After debt relief (including HIPC Initiative)	6.5	7.8	7.1	7.5	5.5	5.3

Sources: Malian authorities; and staff estimates and projections.

1/ This balance of payment is presented according to the *Balance of Payments Manual* (5th ed).

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 services.

5/ Goods and services.

Table 10. Mali: External Financing Requirements and Resources, 2001-05
(In billions of CFA francs, unless otherwise indicated)

	2001 Est.	2002 Est.	2003	2004	2005
			Projections		
Requirements	287.7	332.4	331.4	359.4	359.3
Current account deficit,					
excluding official transfers 1/	272.9	236.8	258.0	255.5	247.5
Debt amortization 1/	36.4	42.8	44.2	45.8	46.3
IMF repurchases	15.7	19.0	10.0	10.4	8.7
Change in the net foreign assets (increase +) 2/	-37.4	33.9	19.3	47.6	56.8
Adjustment 3/	0.1	0.0	0.0	0.0	0.0
Resources	287.7	332.4	331.4	359.4	359.3
Official transfers 4/	42.7	28.1	21.2	11.2	11.2
Official project grants 4/	72.8	78.0	69.8	73.1	75.9
Long-term public loan disbursement 4/	101.2	131.9	142.3	130.8	140.6
Budgetary	0.0	31.5	36.5	0.0	0.0
Project related	101.2	100.4	105.8	130.8	140.6
Private capital (net)	31.0	59.5	60.2	65.0	70.2
Debt relief, including HIPC Initiative assistance 5/	23.1	28.9	32.5	34.2	32.8
Debt under negotiation/moratorium	0.0	0.0	0.0	0.0	0.0
Use of IMF resources: Enhanced Structural Adjustment					
Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF)	16.9	6.1	5.5	0.0	0.0
Exceptional financing	0.0	0.0	0.0	45.0	28.6
Memorandum item:					
Exchange rate: CFA francs per SDR	932.3	885.4	....	....	....

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-à-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, 2001-12
(In percent, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Act.	Est.	Projections									
Outstanding Fund credit/quota 1/	145.8	130.5	114.7	91.1	75.2	63.0	51.4	39.6	29.2	22.3	17.4	18.6
Outstanding Fund credit/GDP 1/	7.1	5.5	4.6	3.4	2.6	2.0	1.5	1.0	0.7	0.5	0.4	0.4
Outstanding Fund credit/exports of goods and nonfactor services 1/	22.4	16.9	15.7	11.3	8.6	7.0	5.5	4.0	2.9	2.1	1.5	1.6
Gross Fund financing/financing needs 1/ 2/	8.5	3.6	2.9	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/	3.2	3.2	3.5	3.5	2.2	1.6	1.7	1.5	1.3	0.8	0.6	0.0
Debt service to the Fund/total debt service 3/	33.7	31.5	30.2	31.5	20.5	15.2	15.9	15.3	12.8	8.2	5.5	0.0
Total debt service before rescheduling 3/	8.2	8.3	9.2	8.6	8.2	8.2	8.1	7.8	7.6	7.6	7.8	7.6
Total debt service after debt relief 4/	4.4	4.4	4.5	4.1	4.2	4.3	4.3	4.5	4.7	4.9	5.6	5.5
Memorandum item:												
Exports of goods and nonfactor services (in millions of SDRs)	567.8	671.8	616.5	666.5	719.7	747.0	775.7	803.4	837.9	875.4	924.1	986.0

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 2001-12), 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 2001-12), 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	2000-01	Sub-Saharan Africa	Low income
Population			(In units indicated)		
Total population, midyear (millions)	5.9	7.4	11.0	627.3	3,536.4
Growth rate (annual percentage change)	2.0	2.3	2.3	2.2	1.4
Urban population (percent of population, 1999)	16.2	21.0	29.4	33.3	30.5
Total fertility rate (births per woman, 1999)	7.1	7.1	6.4	5.4	3.1
Poverty					
(percent of population)					
National head count index, 1998	..	..	63.8	..	..
Urban head count index	..	..	..	..	..
Rural head count index	..	..	..	..	..
Income					
GNP per capita (U.S. dollars, 2000)	130	180	240	474	..
Consumer price index (1995=100)	..	..	112.7	143	..
Income/consumption distribution (1999)					
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	..	..	1.9 [1]	1.5	1.3
Education	..	..	3.2 [1]	4.1	3.2
Social security and welfare	..	1.7	..	..	..
Net primary school enrollment rate, 1999			(In percent of age group)		
Total	17	19	42	..	86
Male	21	24	49	..	89
Female	12	14	34	..	82
Access to safe water, 2000			(In percent of population)		
Total	..	..	65	..	..
Urban	..	..	74	..	..
Rural	..	..	61	..	..
			(In percent; under 12 months, unless otherwise indicated)		
Immunization rate					
Measles	..	..	57	54	80
DPT	..	..	71	54	82
Child malnutrition (percent under 5 years)	..	..	24.5	..	..
Life expectancy at birth			(In years)		
Total	40	45	43	50	63
Male	38	45	41	49	62
Female	41	46	44	52	64
Mortality, 1999			(In units indicated)		
Infant (per 1,0000 live births)	203	180	117	92	68
Under 5 (per 1,000 live births)	391	292	218	151	92
Adult (15-59)					
Male (per 1,000 population)	537	454	404	432	235
Female (per 1,000 population)	416	362	325	383	208
Maternal (per 100,000 live births)	..	..	580	..	..

Source: World Bank, *World Development Indicators*2002; and LDB.
1/ Source is Mali's Budget- programme, *exercice budgetaire 2002.*

Translated from French

Bamako, February 13, 2003

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

Dear Mr. Köhler:

1. On behalf of the government of Mali, please find attached Mali's memorandum of economic and financial policies for 2003. This memorandum has been prepared for the fifth review of the program supported by the poverty reduction and growth facility (PRGF) that was approved by the Executive Board of the IMF in August 1999. The memorandum describes the progress made in implementing the program up to October 2002, and the objectives to be reached by the end of the program in August 2003 and during the whole of 2003, including the policies to be pursued in reaching them.

2. Mali achieved strong growth in 2002 as a result of adequate rainfall, significant progress with the reform of the cotton sector, and an unexpected increase in gold production. Despite these successes, economic activity in 2003 may decrease due to poor rainfall, the drop in the price of cotton on world markets, a decline in gold production, and the impact of the crisis in Côte d'Ivoire.

3. The government has been implementing the PRGF-supported program throughout 2002. The quantitative performance criteria and benchmarks up to end-September 2002 have been observed. The structural performance criteria and benchmarks for 2002 were observed except for a benchmark that was satisfied a month late and another, concerning the reform of the cotton sector, that is expected to be met by June 2003. In the case of this last benchmark, the studies necessary for preparing a detailed plan of the future stages of the cotton sector reform took more time than expected, and the authorities have decided to conduct a poverty and social impact assessment of the proposed policies with the assistance of the World Bank.

4. The government notes that Mali has fulfilled the essential conditions for reaching its completion point under the HIPC Initiative. Since its adoption in May 2002, the government has begun to implement the poverty reduction strategy paper (PRSP), which was prepared by a process that included participation by all elements of civil society. The government is thus counting on continued Fund support to help it reach the program objectives and looks forward to the conclusion of the PRGF review.

5. The government remains determined to execute the set of reforms and measures embodied in the program. The policies and measures described in the memorandum are appropriate for achieving the goals of the program, and the government will take any other

measures that may be found necessary to that end. The IMF and the government of Mali will conduct a sixth and final review of the PRGF-supported program by end-May 2003 to assess progress made with its implementation.

6. Finally, the government will provide the Fund staff with all of the information described in the technical memorandum of understanding attached to this memorandum. As in the past, the government intends to publish its memorandum of economic and financial policies and the attached technical memorandum of understanding, and authorizes the Fund to publish the staff report.

Sincerely yours,

/s/

Bassary Touré
Minister of Economy and Finance

Attachments: Memorandum of economic and financial policies for 2003 and technical memorandum of understanding

MALI

Memorandum of Economic and Financial Policies for 2002 and 2003

Bamako, February 13, 2003

I. INTRODUCTION

1. The government continued to implement its economic and financial program in 2002, thereby reducing Mali's internal and external imbalances. The program is supported by the International Monetary Fund through a Poverty Reduction and Growth Facility (PRGF) arrangement. As a landlocked country in the Sahel region, Mali's economy greatly depends on rainfall conditions and access to the ports of neighboring countries for its foreign trade. This largely explains the significant swings in the level of activities during 2002 and those expected during 2003. The government is particularly concerned by the crisis in Côte d'Ivoire and the effects on Mali's economy of the closing of the Bamako-Abidjan road, which carried about 70 percent of the country's foreign trade. The Malian authorities are working with the other countries in the region to find a peaceful resolution to the conflict, and are taking steps to find alternative ports and avoid major economic disruptions.

2. Notwithstanding the difficult economic environment, the government will continue to pursue its implementation of the poverty reduction policy defined in the poverty reduction strategy paper (PRSP), adopted in May 2002. This will require devising policies and instruments suited to the objective, and implementing appropriate short- and medium-term measures enabling the government to use internal and external resources more efficiently. To attain its poverty reduction objectives, the government will be pursuing economic, financial, and social policies aimed specifically at promoting economic diversification and private sector development.

II. MACROECONOMIC SITUATION AND PROGRAM IMPLEMENTATION DURING THE FIRST NINE MONTHS OF 2002

3. The macroeconomic situation improved noticeably in 2002. Preliminary information indicates that real GDP grew 9.6 percent, compared with 1.5 percent recorded in 2001, and the approximately 5 percent achieved on average per year since the devaluation of the CFA franc in 1994. Strong growth during 2002 came mainly from three sectors. First, cotton production more than doubled after the producer price was raised from CFAF 175 per kilogram to CFAF 200 per kilogram and sector reforms took effect. Second, cereal production increased by 10 percent during the 2001/02 crop year, thanks to adequate rainfall. And finally, instead of declining as expected, gold production increased by 17 percent following the discovery of new deposits in one of the mines. However, the closing of the Bamako-Abidjan road since September and the need to redirect foreign trade to other more

distant and more expensive ports have led to a slowdown of activity in some sectors, increased costs, and supply shortages.

4. Supply difficulties and a decrease in agricultural production during the 2002/03 crop year—caused by inadequate rainfall—kept the consumer price index at a higher level than expected. Hence, **average inflation remained stable at 5 percent in 2002**, against a target of 3 percent.

5. **As regards the balance of payments**, the external current account deficit (excluding official transfers) declined from 14.2 percent of GDP in 2001 to 10.7 percent in 2002, an improvement exceeding the program target. Thanks to increased gold exports, the volume of exports rose by 24.5 percent in 2002, instead of the expected 16.4 percent, even though the cotton company, CMDT, was unable to ship one-fourth of the cotton production it had sold because of the closing of the Abidjan-Bamako road. The growth in the volume of imports is estimated to have been somewhat less than real GDP growth. The deterioration in the terms of trade was less severe than expected because the price of cotton rose slightly and the price of gold held steady on international markets. In addition, the good performance of the mining companies translated into payment of high dividends to nonresident investors and a worsening of the deficit in the income balance, which is estimated at 6.0 percent of GDP. The overall balance of payments posted a large surplus; this outcome was due to the improvement in the current account balance, as well as to substantial capital inflows resulting from the sale to a foreign firm of a license to operate a telephone network, investments in the mining companies, and the sustained flow of foreign aid, albeit at a lower level than expected.

6. **As regards fiscal policy**, the government ensured that the quarterly targets for the basic balance and the overall fiscal balance were met. At end-September 2002, the overall fiscal balance (excluding grants) reached 8.1 percent of GDP (annualized) rather than the 10.3 percent estimated in the program. The improvement is due to higher-than-expected receipts, especially from the taxation of petroleum products, and a large distribution of dividends by the mining companies. Expenditures were less than programmed, thanks to prudent budget implementation. Despite weak budget support (CFAF 21.2 billion, instead of CFAF 34.9 billion assumed in the program), the fiscal deficit was financed without recourse to the banking system, since the government received the proceeds from the sale of a license for operating a telephone network (thereby realizing CFAF 29.2 billion instead of CFAF 11.0 billion assumed in the program).

7. After the crisis in Côte d'Ivoire broke out in September 2002, the authorities took steps to limit the overall deficit (excluding grants) to about 10 percent of GDP in 2002, instead of the programmed 10.3 percent. Preliminary information indicates that a shortfall in fiscal revenue equivalent to 0.8 percentage point of initial GDP may be at least partly offset by a larger-than-expected distribution of dividends by the mining companies, which were partially reimbursed for payments of the value-added tax. The government also reduced non-poverty-related spending by 0.4 percent of GDP.

8. Faced with **lower budget assistance than expected** (CFAF 48.4 billion, instead of the CFAF 61.8 billion expected under the program), the government covered the deficit with higher-than-expected privatization receipts. Preliminary information suggests that, overall, net domestic financing of the fiscal deficit, adjusted for the shortfall in foreign financial assistance, remained within the limits set in the program.

9. **Monetary developments** during the first nine months of 2002 included a rapid increase in the net foreign assets of the Central Bank of West African States (BCEAO) and a sizable expansion in net domestic assets. Credit to the economy increased by 21.0 percent over the 12 months to September 2002, an increase partly offset by a slight decrease in net credit to the government. In April 2002, in response to the increase in the consumer price index, the BCEAO decided to increase the reserve requirement ratio from 3 percent to 9 percent, in order to absorb the excess reserves of commercial banks.

10. **The quality of bank portfolios has largely remained unchanged during the first eleven months of 2002.** The ratio of nonperforming loans to net credit to the economy rose from 10.1 percent in December 2001 to 10.4 percent at the end of November 2002. A number of these nonperforming loans are explained by the delayed repayment of loans connected with the African Cup of Nations (CAN) and the downgrading of certain claims following the merger of two banks. In addition, a number of banks are not in compliance with all prudential ratios. Microfinance institutions recorded significant growth in deposits and loans, and the government launched an action plan to encourage them to cover economically underprivileged areas.

11. **The government continued to implement the structural reforms included in the program**. In the cotton sector, the authorities adopted a mechanism in July 2002 for setting the producer price for seed cotton based on movements in international cotton fiber prices and taking account of producer prices prevailing in the region. The new mechanism, which was partly used during the 2001/02 crop year, will enter into full force before the end of May 2003 for the 2003/04 crop year. On September 30, the authorities launched the tender offer for the sale by the cotton company (CMDT) and the Office de la Haute Vallée du Niger (OHVN) of the assets needed to establish a new private sector operator in the OHVN/Kita zone. The successful bidders were requested to make financial offers on January 6, 2003. The interim report of the study on the stages and options for liberalizing the cotton sector was submitted to the cotton sector restructuring mission in October 2002. It was discussed by the steering committee on November 20 and is being examined by the World Bank before being submitted to the government.

12. In order to improve **public expenditure management**, the government has implemented the main recommendations of the Report on the Observance of Standards and Codes (ROSC), and of the Report on Procedures for Tracking Poverty-Reducing Expenditures, which was prepared in July 2001. With Fund technical assistance, the Budget Directorate completed a study for a new budget nomenclature, which, in addition to the usual economic and functional classification, will use specific codes to identify poverty-reducing

expenditure and outlays financed with resources related to the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). While the 2003 budget law was enacted based on the current nomenclature, the actual execution of the 2003 budget will be based on both nomenclatures. In addition, the government approved the draft budget audit law for 2000 in June 2002 and the draft budget audit law for 2001 in December 2002. In August 2002, the government appointed six magistrates to the accounts section of the Supreme Court. A draft law concerning the establishment of an Audit Office (Cour des comptes) has been presented to the government. This will further strengthen the system of ex post audits of government accounts and eliminate lags in this area. Also, based on a preliminary inventory of the government's domestic liabilities completed in October 2002, disputed claims are now being verified. Finally, as a result of the government's action plan for reforming the civil service adopted in April 2002, the National Assembly enacted the revised civil service statute in November 2002.

13. The implementation **of the privatization program during 2002** included the sale in August of a second telephone license for CFAF 29.2 billion. With World Bank assistance, the government also decided to proceed with the sale of 84 percent of its shares in HUICOMA, a company that produces cotton seed oil, and the tender offer was launched in December 2002. In addition, the two successive tender offers for the concession contract of the railroad (RCFM), which were issued in May and July 2002, were deemed unsuccessful. Nevertheless, with the support of World Bank staff, the authorities, together with the government of Senegal, have reopened discussions with the two groups of enterprises that participated in the tender offer and are seeking an agreement by end-March 2003, given the importance of quickly improving access to the port of Dakar.

14. Overall, the implementation of the government program that the International Monetary Fund supports has been satisfactory. As shown in Table 1, the quantitative performance criteria for end-June and the quantitative benchmarks for end-September were met. All the structural performance criteria for 2002 were observed, whereas the benchmark concerning the preparation of a comprehensive list of government liabilities vis-à-vis the rest of the economy was satisfied at end-November 2002 and the benchmark concerning the next steps in the cotton sector reform will be ready in June 2003, rather than at the end of November 2002, as planned.

III. Macroeconomic Framework for the Medium Term and 2003

15. **The government has decided to revise the macroeconomic framework presented in the PRSP** to reflect the unfavorable growth prospects for 2003 and the uncertainties created by the crisis in Côte d'Ivoire. The government intends to continue implementing policies and taking steps necessary for achieving its medium-term poverty-reduction targets, and to redirect public spending toward health, education, rural development, and infrastructure. The revised framework is based on the assumption that the effects of the closing of Bamako-Abidjan road will fade gradually during the second quarter of 2003, and economic activities will return to their usual level during the second half of the year. Should

this assumption need to be revised, the authorities would contact Fund staff to discuss changes to be made to the framework.

16. Real GDP is projected to fall by 0.4 percent in 2003, for the reasons stated in paragraph 17, before rebounding and attaining an average growth rate 6 percent in 2004-05. Increased transportation costs and supply problems would keep inflation at about 5 percent in 2003, before it returns to 2.5 percent per year in 2004-05. To accomplish this, the government will ensure that prices are set freely and will promote competition in the transportation sector.

17. Real GDP is projected to decline during 2003 mainly because of a fall in cereal and cotton production, due to inadequate rainfall. The decline in cotton production may also result from increases in the prices of pesticides and fertilizers. Gold production is expected to fall in 2003 from the exceptionally high level achieved in 2002. Under the program assumptions, the closing of the Bamako-Abidjan road during the first quarter of 2003 is estimated to dampen growth by about ½ of 1 percent, with the most severe impact on the secondary sector.

18. **As regards the balance of payments**, the volume of exports is expected to fall by 5.8 percent in 2003, owing to lower cotton and gold production (despite the shipment of the large stock of cotton that remained at end-2002). The current account deficit would widen by 0.5 percentage point of GDP to 11.2 percent. This deficit would be financed by private capital inflows and foreign aid, and possibly by a small reduction in international reserves. To finance the public investment program, the authorities will continue to rely solely on grants and concessional loans.

19. Given the importance of regional integration for a landlocked country, the government will take all steps needed to ensure strict compliance with the West African Economic and Monetary Union (WAEMU) convergence criteria. To this end, the government intends to reduce its financing requirement and to implement a rigorous fiscal policy and a cautious borrowing policy.

IV. Fiscal Targets Under the Program for 2003

20. **Fiscal policy in 2003 will reflect the poverty reduction targets that the government defined in the PRSP**. This policy aims at increasing poverty-reducing expenditures while lowering the basic fiscal deficit. The government's objective for 2003 is to turn the basic fiscal deficit (excluding HIPC Initiative spending), estimated at 0.4 percent of GDP in 2002, into a surplus equivalent to 0.7 percent of GDP, in line with the WAEMU convergence criteria. Accordingly, the overall budget balance deficit (on a commitment basis and excluding grants) will decrease from 9.9 percent of GDP in 2002 to 8.3 percent in 2003. In order to keep overall government spending at about 27.4 percent of GDP, the authorities intend to increase total government revenue by 1.9 percentage points of GDP to 19.1 percent in 2003, with tax revenue rising by 1.6 percentage points of GDP to 15.8 percent. About one-third of the improvement is expected to be due to a recovery in tax receipts once the crisis in

Côte d'Ivoire has ended. In addition, the government has decided to take the following specific measures:

- Increase the domestic tax on petroleum products by February 2003, as required, to reach the revenue target of CFAF 80 billion.
- Adopt a simplified tax system for taxpayers with turnover ranging between CFAF 30 million and CFAF 100 million.
- Harmonize the corporate income tax rate at 35 percent.

21. The authorities expect the WAEMU Commission to accelerate the compensatory payments owed for the loss of revenue resulting from the implementation of the common external tariff. Moreover, the establishment of a branch of the Banque Africaine pour le Développement et le Commerce (BADC) and the ending of the exemptions granted to the Banque Nationale de Développement Agricole (BNDA) are expected to increase receipts from the tax on financial transactions by CFAF 2.1 billion. All these measures, together with the effect over a full year of the increase in revenue stamp rates and the arrival in the market of a second mobile telephone provider, should help increase tax revenue by about 1.2 percentage points of GDP. Initiatives to increase the efficiency of tax administration will include a computerized survey of enterprises to incorporate the informal sector in the tax base, improved training for tax collection and assessment agents, and the installation of a new computer system in the Customs Department, which will connect it to the Treasury and Tax Department. The Treasury will also set up a special collection agency responsible for the largest taxpayers. In addition, the government will undertake an evaluation of the land tenure system for government-owned land during the first half of 2003, and will study the possibility of introducing a fee on unimproved lots in order to increase income from real estate taxes.

22. **To reduce shortfalls in the mobilization of domestic resources**, the government will ensure the strict application of laws and regulations governing the granting of tax exemptions to businesses, whose cost for 2002 is estimated at more than 1 percent of GDP. Aside from the agreements governing externally financed projects, only companies approved under the investment code or the mining code are eligible for exemptions. As to exemptions on petroleum products, the government will verify consumption by beneficiaries each quarter. In addition, it will strictly apply agreements providing exemptions, eliminate tax exemptions granted to government vehicles and, more generally, intensify antifraud efforts. The government has also requested technical assistance for assessing the effectiveness of the tax reforms implemented in recent years, and for recommending additional measures that would help raise the tax revenue-to-GDP ratio to the WAEMU target of 17 percent. Technical assistance has also been requested to improve the quality of its macroeconomic accounts, particularly the national accounts, and harmonize them with WAEMU criteria.

23. **Current expenditures** (excluding HIPC Initiative-related expenditures) are projected to decrease slightly to 12.3 percent of GDP in 2003. The decrease is due to a low budget

allocation for election expenditures and the discontinuation of the subsidy to the cotton sector. The wage bill is projected to increase by 10.5 percent to CFAF 100 billion, which will allow for the harmonization of the wage scale, a three-year postponement in the average retirement age, and recruitment of new personnel in education (847), health (300), justice (200), and security (300). In order to update the payroll records, the authorities will conduct a physical count of all civil servants, and contractual staff from December 2002 to March 2003. In connection with the government's divestiture of public enterprises, the authorities have planned a budgetary allocation of CFAF 20 billion to finance severance packages for employees who may be laid off. Before end-January 2003, the government will begin to prepare a general framework for severance packages to ensure that the same labor law provisions will apply to all layoffs resulting from the privatization program. Domestically financed capital expenditures will total 3.7 percent of GDP, up from 3.2 percent in 2002.

24. If government revenue is less than expected, the authorities will adjust overall expenditure levels to meet the target of basic balance. However, the government will maintain the level of budget allocations for poverty-reducing expenditures identified under the new budgetary nomenclature. Consistent with the goals of the ten-year program for education (PRODEC) and the ten-year program for health (PRODESS), and those of the basic infrastructure development program, these expenditures, including those financed with HIPC Initiative resources, will increase by 21.7 percent in 2003. HIPC Initiative-related expenditures are expected to reach CFAF 32.5 billion, and procedures will be streamlined to improve resource utilization in the target sectors. In addition, the authorities will prepare, with World Bank assistance, a strategy for using proceeds from privatization, in particular those from the sale of the telephone license. The government will also adopt a strategy to reduce its domestic liabilities by end-February 2003, based on the audit that was recently completed.

25. To finance the overall fiscal deficit, estimated at 4.7 percent of GDP, the government will have recourse to external resources. The external financing will consist solely of borrowings on concessional terms from its bilateral and multilateral partners. This will include CFAF 105.8 billion in the form of project loans. Net domestic financing will be negative, reflecting the government's efforts to reduce its debt to the rest of the economy by CFAF 38.5 billion, while net bank credit to the government would rise by an estimated CFAF 34.0 billion. A residual financing gap remains in the amount of CFAF 48.7 billion, or 2.2 percent of GDP, for which the government has received assurances from its development partners, in particular the African Development Bank (CFAF 19.8 billion), the World Bank (CFAF 16.8 billion), the European Union (CFAF 5.9 billion), and the Netherlands (CFAF 6.3 billion). Once the strategy for the utilization of privatization proceeds has been prepared, the level of net domestic financing will be adjusted to reflect the utilization of the proceeds from the sale of a telephone license in 2002.

26. Reflecting the **monetary policy** objectives of the BCEAO, which aim at strengthening the regional central bank international reserves and maintaining inflation at a level compatible with that of the anchor currency, broad money is projected to expand by

5.5 percent in 2003. Net credit to the government will increase slightly, while credit to the economy will rise by about 9 percent, which is consistent with the outlook for economic activity. In 2003, the authorities will repay the statutory advances from the BCEAO, according to the schedule agreed by the WAEMU Council of Ministers. To strengthen the financial situation of the banking system, the monetary authorities will ensure that all commercial banks adhere to prudential ratios. The government will continue to promote the sound development of microfinance, in particular by reinforcing the supervisory capacity, recognizing the important role played by those institutions in rural development and the fight against poverty.

V. Structural Reforms

27. The structural reform program for 2003 will continue to focus on two key issues: the reform of the cotton sector and the improvement of public expenditure management.

A. The Cotton Sector

28. The objective of the cotton sector reform, which the government has undertaken with the support from World Bank staff, is to increase the cotton sector's contribution to the national economy by opening it up to competition and privatizing the CMDT. After having reduced the CMDT's cost structure and established a new mechanism for setting producer prices in 2001 and 2002, the main measures to be undertaken in 2003 include refocusing the CMDT on its core activities; completing the sale of ginning plants in the OHVN/Kita area; completing the sale of the cottonseed oil company HUICOMA; and adopting an action plan defining the next steps for the restructuring of the sector. The refocusing of the CMDT will consist in withdrawing the company from public service responsibilities and downsizing it accordingly. The government will ensure that the withdrawal plan agreed in April 2002 is effectively implemented. Budget allocations have been provided in the 2003 budget to defray the cost of transferring these responsibilities. The CMDT reviewed its staffing plan in November 2002, and a severance package is being prepared for the personnel who will be laid off. Discussions with CMDT staff representatives also began in November 2002. As noted above, the authorities will ensure that the CMDT's severance package is consistent with the general framework that the government plans to propose for such package.

29. As regards the sale of the ginning plants in the OHVN/Kita area, bidders that were retained after the tender offer of September 2002 were requested to submit financial offers in January 2003, and the sale should be completed during the first half of 2003. To continue the reform of the sector, the authorities, with the assistance of the World Bank, will conduct a poverty and social impact assessment of the options for liberalizing the cotton sector and will adopt a comprehensive action plan by end-June 2003.

B. Public Expenditure Management

30. The Malian authorities are continuing to improve public expenditure management with support from their development partners. The objective is to move gradually from the current approach, which focuses on spending appropriations and the observance of spending procedures and regulations, to an approach that is focused on the effectiveness of expenditures and is, therefore, essentially results oriented. The new approach presupposes that information is well managed, comprehensive, and readily available.

31. Budget monitoring will be facilitated by the introduction of a new budget nomenclature that identifies poverty reduction expenditures and budgets based on three-year programs. The latter were included in the budget for 2003. In addition, with the assistance of the World Bank, work is well advanced on the preparation of a medium-term expenditure framework for the health and education sectors, and for the application of a harmonized budgetary and accounting nomenclature by local governments. The government also intends to implement an integrated information system for budget execution and public expenditure management by April 2004. This system will make it possible to monitor the different phases of public expenditure from a unified database accessible to all budget managers; hence, it will improve budget management, facilitate controls, and improve public resource management. The authorities will also prepare a monthly table on the consolidated financial operations of government autonomous agencies, including the Caisse de Retraite du Mali (CRM) and the Institut National pour la Prévoyance Sociale (INPS). The table for January 2003 will be available in March 2003.

32. To strengthen control over outlays for water, energy, and telecommunications, a computer program has been implemented to monitor consumption of all government offices. The current agreement defining the relations between the government and the electricity and water company (EDM) will be expanded to include the telecommunications company (SOTELMA), so that bills and payments can be reconciled each quarter.

VI. Implementation of the PRSP

33. The government began implementing the program presented in the PRSP, which was adopted in May 2002. The government has established a mechanism for monitoring and evaluating the implementation of the PRSP that will provide necessary information to the government, the population, and development partners. This mechanism, which was the subject of a seminar in November 2002, is based on (i) identifying and analyzing financial resource allocations, (ii) monitoring resources and activities relative to the initial plans, (iii) monitoring and measuring the success of activities in meeting targets, (iv) monitoring and measuring the efficiency of the activities undertaken, and (v) analyzing the overall impact of the PRSP, and of each of its priority poverty-reducing actions. Accordingly, the government has adopted performance indicators that cover financial resources and physical outcomes. The authorities will broaden the list of such indicators once additional data are available and will extend their coverage to regions and/or target groups. The government will

prepare quarterly report on the current list of indicators. In addition, with the support of development partners, the authorities will regularly commission independent and targeted audits to ensure that the resources intended for poverty alleviation are being properly used.

34. Overall, the results achieved in the education and health sectors at the end of 2002 are consistent with the objectives of PRODEC and PRODESS. Education's share in the government's current expenditure increased from 24.9 percent in 2001 to 25.4 percent in 2002 (excluding HIPC Initiative resources). The share of current resources allocated to health has increased in line with the targets set under PRODESS. HIPC Initiative-related resources allocated to education is estimated at CFAF 14.7 billion, or about 44.2 percent of the total debt relief obtained in 2002. This compares with a 46.0 percent share in 2001. The share of HIPC Initiative resources allocated to health rose from 9.2 percent in 2001 to 14.2 percent in 2002. The authorities will take steps to substantially increase the capacity of health training institutions, and will review incentives in order to improve recruitment of health care personnel for underprivileged areas.

35. The proposed budget for 2003, which is the first to be prepared since the adoption of the PRSP, explicitly reflects the government strategy defined in the PRSP. It includes significant increases in the budget allocations for the social sectors, specifically health and education, which account for 28.6 percent of the total increase in government expenditure in 2003, compared with 29.0 percent in 2002. To safeguard implementation of the PRSP, the government will adopt budget regulations that will protect allocations identified as poverty-reducing, in case of a shortfall in revenue.

VII. Prior Actions, Performance Criteria, and Benchmarks

36. The following measure constitutes a prior action for concluding the fifth review under the Poverty Reduction and Growth Facility (PRGF): launching of the physical census of all civil service and contractual staff in Bamako.

37. Program implementation will be monitored and evaluated on the basis of the quantitative benchmarks described in detail in Tables 1, 2, and 3 of this memorandum and in the attached technical memorandum of understanding.

Table 1. Mali: Quantitative Performance Criteria and Benchmarks for 2002 and 2003

(In billions of CFA francs)

	2002							2003	
	March				September		December	March	June
	Benchmark EBS/01/204	Est.	Performance Criteria	Est.	Benchmark EBS/02/127	Est.	Performance Criteria	Benchmark	Benchmark
Quantitative performance criteria and benchmarks									
Net domestic financing 1/ 2/	16.5		16.5		31.8		-1.6	5.5	-9.5
Net domestic financing adjusted 1/ 2/	23.7	-0.8	21.6	13.2	42.6	22.2			
Cumulative change in government payments arrears 3/									
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 2/ contracted or guaranteed by the government and public enterprises 4/ on nonconcessional terms 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: public enterprises 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding short-term external loans (less than one year) 7/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial performance indicators									
Cumulative tax revenue 8/	67.5	74.8	148.0	161.0	231.7	240.3	331.0	72.7	163.7
Cumulative wage bill 2/	21.8	20.7	43.6	42.1	67.1	64.5	89.5	25.0	50.0
Overall basic fiscal balance 9/	-14.5	5.8	-43.3	1.4	-15.1	7.7	-9.2	-10.8	-2.3
Memorandum items:									
External budgetary assistance during the year 10/ 11/	9.8	0.2	16.4	3.2	16.7	3.2	43.3	16.0	35.2
HIPC debt relief	6.4	4.7	12.8	11.8	18.6	18.5	29.0	6.5	13.0
Expenditure financed with HIPC resources	2.6	4.1	12.8	10.9	19.9	17.1	31.8	6.5	13.0
Balance of HIPC resources 12/	10.1	6.9	6.3	7.2	5.0	7.7	3.5	6.3	6.3

1/ The adjustment factors are described in paragraphs 9 and 10 of the technical memorandum of understanding.

2/ Maximum.

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

4/ The public enterprises in question are CMDT, SOTELMA, and RCFM.

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

6/ See paragraph 19 of the technical memorandum of understanding for the donors concerned.

7/ Excluding import-related credit and CMDT borrowing from foreign banks secured by the proceeds of cotton exports, and debt relief.

8/ Minimum. The program figures for December 2001 and June 2002 were corrected because they previously showed total revenue.

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

10/ Excluding use of Fund resources.

11/ Excluding World Bank disbursment in January 2002.

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

Table 2. Mali: Status of Implementation of Structural Measures Constituting Prior Actions, Performance Criteria, and Benchmarks, June-December 2002

Measures	Date	Status
Prior actions		
Launching of the physical census of all civil service staff in Bamako		Implemented in January 2003
Structural performance criteria		
Adoption by the government of the 2000 draft audited budget act (*loi de règlement*).	June 30, 2002	Implemented in end-June
Launching of the call for bids for the sale by CMDT and Office de la Haute Vallée du Niger (OHVN) of the assets (including ginneries, trucks, and other agricultural equipment) necessary for the installation of a private operator in the OHVN zone.	September 30, 2002	Implemented in end-September
Adoption by the government in the draft 2003 budget of an expanded nomenclature to track poverty-reducing expenditures.	October 31, 2002	Implemented in end-September
Structural benchmarks		
Completion of a study on the introduction in the 2003 draft budget of specific budget codes to track poverty-reducing expenditures.	June 30, 2002	Implemented in June
Enhancement of the system of ex post auditing by appointing six magistrates and temporarily assigning qualified staff to the Accounts Section of the Supreme Court.	August 31, 2002	Implemented in August
Preparation of a comprehensive list of the government's liabilities vis-à-vis the rest of the economy using a recognized audit firm.	October 31, 2002	Implemented in November
Preparation of a detailed plan on the next stages in the reform of the cotton sector.	November 30, 2002	Delayed. To be completed by June 2003

INTERNATIONAL MONETARY FUND

MALI

Technical Memorandum of Understanding

February 13, 2003

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

I. Definitions

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

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

(a) As set out in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing, adopted by the Executive Board on August 24, 2000, 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 purposes 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 the 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 also debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

II. Quantitative Performance Criteria

A. Ceiling on the Net Bank Credit to Government and Net Domestic Financing

Definition—net bank credit to government

4. Net bank credit to government is defined as the balance between government debts and government claims vis-à-vis the central bank and commercial banks. The scope of net bank credit to government is that used by the Central Bank of West African States (BCEAO) and is consistent with established Fund practice in this area. It implies a broader definition of government than that specified in paragraph 2. Government claims 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 (EPICs) and public enterprises, which are excluded from the calculation. Government debts to the banking system include all debts 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 net bank credit to government.

5. Net bank credit to government, as defined above, stood at CFAF -18.7 billion at end-December 2001 and CFAF -20.6 billion at end-September 2002.

6. The change in net bank credit to government on 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 18.7 billion as of December 31, 2001 and CFA -1.9 billion as of September 2002.

Definition —net domestic financing

7. The key quantitative performance criterion is net domestic financing of the government, defined as the sum of (i) net bank credit to government, as defined above, (ii) other government claims and debts vis-à-vis national banking institutions, and (iii) 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. These receipts are defined as the proceeds from the sale, effectively received by the government during the fiscal year, of all or part of the shares held by the government in privatized enterprises. In the event that payments in respect of these sale transactions are expected to extend beyond the fiscal year, the residual will be included in the calculation of nonbank financing of the government in each of the subsequent years, in accordance with the annual scheduling of the expected payments.

8. Figures on net bank credit to government as calculated by the BCEAO, and on nonbank financing as calculated by the public treasury, are final in the context of the program.

Adjustment factor

9. The ceiling on the change in net bank credit to government and net domestic financing of the government 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). The ceiling will be lowered by the amount by which budgetary assistance exceeds the programmed amount. Conversely, the ceiling will be raised by the amount by which budgetary assistance falls short of the programmed amount. These ceilings are set at CFAF 15 billion at end-September 2002; CFAF 25 billion at end-December 2002; and CFAF 15 billion at end-March 2003 and end-June 2003. In the context of the program, cumulative external budgetary assistance (excluding the World Bank disbursements in January 2002) is expected to reach CFAF 43.3 billion on December 31, 2002. For 2003, external budgetary assistance is forecast at CFAF 16.0 billion at end-March, and CFAF 35.2 billion at end-June.

10. The ceiling on the change in net bank credit to government and net domestic financing will be adjusted by the difference between the amount of HIPC Initiative resources programmed and the amount actually spent. If the amount actually spent exceeds (or 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 cumulative change in net domestic financing is established at CFAF -1.6 billion at December 31, 2002; CFAF 5.5 billion at March 31, 2003, and

CFAF -9.5 billion at end-June 2003. The ceiling is a performance criterion at end-December 2002, and benchmarks at end-March 2003, and end-June 2003.

Reporting deadline

12. Provisional data on net bank credit to 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. Final 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(a) 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 applied on a continuous basis throughout the program period.

C. Nonaccumulation of Domestic Public Payments Arrears

Definition

15. Domestic payments arrears are government expenditures for which payment authorizations have been issued (*dépenses ordonnancées*) but not paid within 90 days of the date of the payment authorization. Domestic arrears also include expenditure commitments to public enterprises for which payment authorizations have 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 applied 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 has been 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, administrative public institutions (EPAs), scientific and/or technical public institutions, professional public institutions, industrial and/or commercial public institutions (EPICs), and local governments.

Performance criterion

20. Starting in January 2002, a ceiling of zero is set for nonconcessional borrowing. This performance criterion is monitored on a continuous basis.

21. 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, adopted by the Executive Board on August 24, 2000, 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 West African Economic and Monetary Union (WAEMU) regional market.

Reporting deadline

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

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

Definition

23. The definitions in paragraphs 18 and 19 also apply to this performance criterion.

24. Short-term external debt is debt with a contractual term of less than one year. Import-related credit, CMDT foreign borrowing secured by the proceeds of cotton exports, and debt-relief operations are excluded from this performance criterion. Treasury bills issued in CFA francs on the WAEMU regional market are also excluded.

Performance criterion

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

26. This performance criterion is monitored on a continuous basis.

III. Quantitative Indicators

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

A. Floor for Tax Revenues

Definition

28. Government tax revenues are defined as those that figure in the Table on government financial operations (TOFE).

Performance indicators

29. Quantitative performance indicators for tax revenues are set at CFAF 331 billion at December 31, 2002. For 2003, these indicators are set at CFAF 72.7 billion at end-March, and CFAF 163.7 billion at end-June.

Reporting deadline

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

B. Ceiling on the Wage Bill

Definition

31. The wage bill includes all public expenditure on wages, bonuses, and other benefits or allowances granted civil servants employed by the government, the military, and other security forces, and includes 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

32. The quantitative performance indicators for the wage bill are set at CFAF 89.5 billion at December 31, 2002; CFAF 25.0 billion at end-March 2003, and CFAF 50 billion at end-June 2003.

Reporting deadline

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

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

Definition

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

Performance indicators

35. The floors for the performance indicators for the basic fiscal balance, excluding HIPC Initiative-related expenditure, are set at CFAF -9.2 billion at December 31, 2002. For 2003, they are set at CFAF -10.8 billion at end-March and CFAF -2.3 billion at end-June.

Reporting deadline

36. The authorities will report provisional data on the basic fiscal balance monthly to IMF staff, in the context of the TOFE. 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 Measures

37. Table 2 of the memorandum of economic and financial policies describes the structural measures identified as prior actions, performance criteria, and structural benchmarks for 2002 and 2003. This table provides information regarding the implementation dates for the structural reforms envisaged.

38. Data on the introduction of the structural benchmarks and performance 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

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

- The TOFE with a breakdown of fiscal revenue and expenditure, including priority expenditure (health, education, and basic infrastructure), along with a separate report on HIPC Initiative-related expenditure will be provided. The data will be forwarded monthly within six weeks following the end of the previous month for the TOFE, and within twelve weeks for the breakdown of HIPC Initiative-related expenditure.
- Starting at end-March 2003, disaggregated data (same classification as in the TOFE) for government administrative agencies and special budgets, including the Caisse de Retraite du Mali (CRM) and the Institut National pour la Prévoyance Sociale (INPS) will be provided. The data will than be consolidated with the TOFE. The first data will cover revenue and expenditure for January 2003. The data will be forwarded monthly within eight weeks following the end of the previous month.
- Quarterly data on the implementation of the public investment program, including a breakdown of the sources of financing will be provided within eight weeks following the end of the quarter).
- 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

40. 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 the banks;

- summary accounts of the banking system;
- lending and deposit interest rates, and the BCEAO's intervention rates and reserve requirements; 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

41. 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

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

- the harmonized monthly consumer price index disaggregated by category of consumption, 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.

E. Information Regarding the Implementation of the PRSP

43. To monitor the government's progress in achieving the physical objectives of the strategy, the government will provide IMF staff with the following:

- The share of poverty-reducing expenditure (commitment and cash basis) in the total of budgetary outlays will be provided, with its breakdown among the different social sectors and ministries and also its breakdown among the different regions of the country. This information will be retrieved using the newly adopted extended budget classification.
- Quarterly data on the share of primary education outlays in total outlays of the education sector to be forwarded within four weeks following the end of the previous quarter.
- Annual data on the gross enrollment ratio in primary education, with its breakdown between girls and boys will be made available. A preliminary estimate would be made available within two months following the end of the academic year, and final data within one month after the beginning of the next academic year.

- Annual data on the percentage of the population having access to health care facilities within a radius of 15 kilometers will be submitted within two months following the end of year.
- Annual data on the rate of assisted births will be submitted within two months following the end of year.
- Annual data on the DTCP3 immunization rate for children below 1 year will be submitted within two months following the end of year.

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 indexes	Monthly	End of month + 2 weeks
Government finances	Net government position (including the list of accounts of other 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 of the central government and consolidated TOFE	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Breakdown of fiscal revenue and expenditure in the context of the TOFE	Monthly	End of month + 6 weeks (TOFE)
	Separate report on outlays financed with HIPC resources	Monthly	End of month + 6 weeks
	Execution of capital 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
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 reserve requirements	Monthly	End of month + 4 weeks
	Bank prudential ratios	Monthly	End of month + 6 weeks
Balance of payments	Balance of payments	Annual	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
PRSP	Share of poverty-reducing expenditure	Quarterly	End of quarter + 4 weeks
	Share of primary education in total outlays of the education sector	Quarterly	End of quarter + 4 weeks
	Gross enrollment ratio in the primary education, with its breakdown between girls and boys	annual	Beginning of the next academic year +1 month (final)
	Percentage of the population having access to health care facilities within a radius of 15 kilometers	annual	End of year + 2 months
	Rate of assisted births	annual	End of year + 2 months
	Data on immunization rate DTCP3 of child below 1 year	annual	End of year + 2 months

Mali: Relations with the Fund

As of December 31, 2002

I. Membership Status: Joined: September 27, 1963; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	93.30	100.00
Fund holdings of currency	84.47	90.53
Reserve position in Fund	8.83	9.47
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	15.91	100.00
Holdings	0.03	0.16

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	121.75	130.49

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	Aug 06, 1999	Aug 05, 2003	51.32	38.42
ESAF	Apr 10, 1996	Aug 05, 1999	62.01	62.01
ESAF	Aug 28, 1992	Apr 09, 1996	79.24	79.24

VI. Projected Payments to Fund (without HIPC Assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	21.07	21.68	18.17	14.07	13.57
Charges/interest	0.87	0.76	0.66	0.57	0.50
Total	21.94	22.44	18.83	14.64	14.07

Projected Payments to Fund (with Board-approved HIPC Assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	19.44	19.94	16.55	12.99	12.70
Charges/Interest	0.87	0.76	0.66	0.57	0.50
Total	20.32	20.71	17.21	13.56	13.20

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Sep. 1998	Sep. 2000	
Assistance committed by all creditors (US$ Million) 1/	121.00	401.00	
Of which: IMF assistance (US$ million)	14.00	43.70	
(SDR equivalent in millions)	10.80	33.60	
Completion point date	Sep. 2000	Floating	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	10.80	9.08	19.88
Interim assistance	--	9.08	9.08
Completion point balance	10.80	--	10.80
Additional disbursement of interest income 2/	--	--	--
Total disbursements	10.80	9.08	19.88

1/ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.

2/ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period. Definitions of these terms are provided as follows. **Decision point** - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed. **Interim assistance** - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances). **Completion point** - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income, as defined above. The timing of the completion point is linked to the implementation of preagreed key structural reforms (i.e., floating completion point).

Repurchase expectations apply to purchases after November 28, 2000 in the credit trenches, including the Compensatory Financing Facility, and under the Extended Fund Facility. Repurchases in the credit trenches and the Extended Fund Facility are expected to be completed in 2¼ - 4 years and 4½ - 7 years, respectively. The Fund has the option of extending the repurchase expectations upon request by members.

VIII. Safeguards Assessments

The Central Bank of the West African States (BCEAO) is the common central bank of the west African states, including Mali. An on-site safeguards assessment of the BCEAO proposed specific remedies to alleviate vulnerabilities that were identified by staff. Although Fund staff and BCEAO authorities disagreed on the initial modalities of the recommendations, the following specific understandings were subsequently reached regarding the key remedies:

Financial Reporting Framework. Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed by the BCEAO and Fund staff that the **BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS**, as adopted internationally by other central banks.

Internal Controls System. The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represents a significant risk. It was agreed by the BCEAO and Fund staff that, after seeking the opinion of the external auditor (*Commissaire Contrôleur*), BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby **the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the BCEAO**.

The staff will follow up on the progress of the BCEAO in implementing the proposed recommendations as part of the on-going safeguards monitoring process.

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 July 8, 2002, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 883.66. 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 2001 Article IV consultation was completed by the Executive Board on November 30, 2001 (EBS/01/204).

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 Initiative 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 Practices on Fiscal Transparency were (i) an unclear legislative basis for budget making; (ii) the lack of formal dissemination to the public of quarterly budget reports; (iii) incomplete coverage of the budget; (iv) the lack of a medium-term budget framework; and (iv) a dysfunctional external audit agency.

Using a HIPC Initiative 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 eleven 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 Initiative-related expenditures);
- introducing a medium-term budget framework;
- preparing more timely monthly treasury balances and deriving the consolidated monthly report of government operation (TOFE) from treasury balances;

- improving the timeliness of the preparation of final accounts by the Treasury and, especially, their audit by the Section des Comptes (the external audit agency); and
- computerizing further the PEM system.

XII. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
STA	Staff	July 17-29, 1991	Assisting through multitopic technical assistance mission in the elaboration of a statistical action plan.
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 missions recommendations in the area of tax administration.
STA	Staff	June 16-27, 1997	Improving the national accounts statistics.

Department	Type of Assistance	Time of Delivery	Purpose
STA	Staff to BCEAO headquarters	July 30-August 11, 1997	Improving quality and timeliness of monetary statistics.
FAD	Staff and expert	March 24-April 18, 1998	Advising on fiscal implications of the common external tariff, and the reform of indirect taxation, and following up on earlier recommendations on the reform of tax policy and administration.
FAD	Staff and expert	August 11-November 10, 1998	Following up on previous FAD mission on direct and indirect tax reforms, including the value-added tax (VAT).
STA	Staff/BCEAO	February 4-17, 1998	Assisting 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 an assessment of an action plan, as well as of the capacity of the public expenditure management system to track and report on the uses of HIPC Initiative assistance and all poverty-reducing expenditures.
FAD	Staff	February-March 2002	Assisting the authorities in improving the existing expenditure classifications.

XIII. Resident Representative

Mr. Tazi, the current Resident Representative, took up this assignment in September 2002. Previously, a resident representative was stationed in Bamako between 1982 and 1991, from October 1993 until October 1995, from July 1996 to August 1998, and from September 1998 to September 2002.

Mali: Relations with the World Bank Group
As of February 2003

Partnership in Mali's Development Strategy

Mali's development objectives place increased emphasis on poverty reduction and growth, as reflected in its Poverty Reduction Strategy Framework (PRSF) approved by the Government in May 2002. The SFPR process enabled the country to articulate an integrated growth and poverty strategy framework for medium- and long-term development, building upon the national poverty strategy formulated in 1998 with UNDP assistance and situating Mali's main poverty reduction challenges explicitly within a sound macro-economic framework.

The IMF continues to take the lead in assisting Mali in maintaining macroeconomic stability and financial sustainability through setting quantitative targets within the framework of the Poverty Reduction Growth Facility (PRGF), which has been in place since August 1999 and will expire in April 2003. Structural measures in the program are coordinated with the World Bank and structural conditionality limited to areas with significant macroeconomic, typically fiscal, implications. Thus the IMF's structural performance criteria focus on cotton sector reforms (measures impacting on the government's transfers to the sector), and structural benchmarks include measures related to public expenditure management (efficient use of HIPC and other resources) as well as civil service reform (primarily issues impacting on the wage bill).

The World Bank continues to lead the policy dialogue on structural, social and institutional reforms in a number of sectors. A US$70 million Structural Adjustment Credit was approved by the World Bank Board in December 2001, comprising cotton sector reform and public expenditure management reform measures. Other Bank operations that address, respectively, private sector development, financial sector development, education sector reforms and investment program, and health sector reforms and investment program, have been under implementation for varying lengths of time. Progress is being made in all these operations, albeit slower than anticipated in some sectors.

Bank Group Strategy

The current Country Assistance Strategy (CAS) for Mali was approved by the Board in April 1998. Its focus is on stable economic growth, and sustainable human development. The next CAS currently under preparation, will be presented by the Board by end June 2002. The new CAS would support elements of the country's PRSP which was approved by the authorities in May 2002, and would also support the government's desire to enter into new relationships with its development partners based on a gradually-phased switch from projects to programmatic lending underpinned by more effective and efficient use of aid resources.

The Bank's Third Structural Adjustment Credit (SACIII; US$70 million) to Mali has as objectives, the following: (i) to help Mali restore the basis for stable economic growth by restructuring the all-important cotton sector to make it more efficient and capable of adjusting smoothly to changing international economic conditions; and (ii) to improve the tools for planning and managing public expenditures for more effective poverty reduction.

IDA support since FY99 has included lending for two projects aimed at strengthening the basis for stable growth (a rural infrastructure project and a financial sector project); and three others focused on human development (a health sector project supporting the country's decadal program – PRODESS; an education sector operation; and a long-term education sector project supporting the country's decadal program – PRODEC). Other projects include an Agricultural Services Project (FY02; US$43.5 million); a Household Energy and Universal Access Project (FY02; US$59 million); an Institutional Development Project (FY03); and a Telecommunications Sector Project (FY03).

The active portfolio comprises fifteen projects: five in rural development, four in infrastructure and energy, four in health and education, and one each in private sector development and the financial sector. The performance of the portfolio is satisfactory overall, both in terms of development objectives and implementation progress. Non-lending analytical services under the assistance program have comprised an irrigation strategy, a poverty and household survey, a poverty profile update, and technical assistance on public expenditure reviews. The Bank is also supporting capacity building on analytical skills for macroeconomic and poverty analysis, as well as on sectoral medium-term expenditure frameworks.

An important element of the Bank's support to Mali is assisting the authorities to strengthen governance and improve accountability in the use public resources. In this context, work is under way with the Malian authorities on capacity building for managing public financial accountability. These efforts also extend to encouraging greater openness in the Malian administration, of which an important step will be the willingness to share the contents of the next CAS with the population and interested donors. The strengthening of the knowledge base and the support for building capacity to handle fiduciary imperatives should position Mali for assistance through a Poverty Reduction Strategy Credit in the new CAS period.

Bank-Fund Collaboration in Specific Areas

The IMF and World Bank staff maintain a collaborative relationship in supporting the Government's structural reforms. As part of its overall assistance to Mali through lending, country analytic work and technical assistance, the Bank supports policy reforms in the following areas in collaboration with the Fund:

Cotton sector reforms

The objectives of the cotton sector reforms are to safeguard the main source of growth and income generation of the economy. Difficulties experienced in the late 1990s highlighted the sector's vulnerability to external shocks such as the continued decrease of cotton prices on the international markets. The Government's decision to pull out of productive, industrial and commercial activities has led it to design a reform strategy with the following objectives: (i) the improvement of the flexibility and responsiveness of the institutional structure of the cotton sector; (ii) the reduction of the risks associated with having only one operator; and (iii) the establishment of a higher visibility (transparency and capacity to anticipate) in the management of the sector. These objectives will be achieved through a comprehensive program to redefine the parastatal company's role in core cotton production activities, increasing participation of producers and the private sector in managing the cotton sector, and liberalizing cotton and cottonseed oil markets and enterprises.

In view of the budgetary impact of cotton sector losses, the Bank and the Fund collaborate closely on the reform program, with the Bank taking the lead in the policy dialogue and program implementation under the SACIII.

Public expenditure management

Mali has made significant progress in the last several years to move the public expenditure system closer to the desired level of effectiveness, and the Government is steadily implementing measures in its ongoing reform program. The objectives of the current reform program are: (i) improving the budget preparation process in order to progressively reach a system that establishes solid links between the allocation of public resources and the poverty reduction objectives of the development programs; (ii) improving the efficiency and effectiveness of public expenditure execution; and (iii) improving financial transparency and managerial accountability in the use of budget resources, through an effective expenditures monitoring and control system and information reports on budget execution. These reforms have been supported by the donor community including through successive World Bank projects, and the donor community continues to work with the Government on the ongoing reform program.

The reform program is supported by the Bank under the SACIII which includes, among other actions, a better integration of the various budget documents, improving classification of expenditures to enable better poverty-oriented monitoring (including at the decentralized level), automation of budget execution through an integrated information system, actions to improve the timeliness of government account preparation, strengthened internal and ex-post audit functions, and preparation of a medium-term expenditure framework (MTEF) globally and at key sector levels (initially in the social sectors and subsequently in rural development).

The Bank and Fund have collaborated in reviewing Mali's public expenditure management (PEM) performance, through the sharing of SACIII mission documents and those of the Fund's Fiscal Affairs Department (FAD) which, together, yielded a comprehensive action plan for PEM reforms (ROSC AAP). The Fund FAD team has, consistent with the program under the SACIII, provided technical assistance on specific areas, notably on the classification of poverty and HIPC expenditures. In 2002, the Bank undertook a Country Financial Accountability Assessment (CFAA) that highlights key policy measures relating to strengthening financial management in readiness for the potential shift to programmatic lending. The CFAA recommendations will be incorporated in the upcoming CAS and subsequent adjustment lending operations.

Privatization Program

Mali has been engaged in far-reaching reforms in the private sector, which has been supported through a telecommunications support program, a railway support program, a financial sector development project, the SACIII (on the cotton sector), and the Private Sector Assistance Project that closed in mid 2002. The program's objectives are (i) the reduction of state ownership of the banking sector to less than 20 percent; (ii) the divestment of the state from ten non-bank enterprises (either through the sale of shares, liquidation, or the establishment of concession contracts);[11] and (iii) the continuation of private sector development initiatives, through enhancing competition and improving the business environment in key sectors of the economy. A key issue of mutual interest to the Bank and the Fund is the associated retrenchment program and its potential impact on the government budget. The Bank is taking the lead in evaluating the retrenchment plans in the course of supervision of the various sector reform programs.

Questions may be addressed to Ms. Wood, Sr. Economist (473-5829).

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[11] Eighteen non-bank enterprises were to remain in the government portfolio—those with majority government holding – CMDT (cotton fiber), ON (agricultural development), RCFM (railways), OPAM (food management), ONP (post office), PPM (pharmaceuticals products market), PMU-Mali (horse racing), ADM (airport management), COMANAV (river transport), CESPA (film production); and those with minority government holding – EDM (electricity and water), SOTELMA (telecom), COMATEX-SA, (textiles) ITEMA (textiles), SOMISY-SA (mining), SEMOS-SA (mining), ACI-SA (real estate), and SUKALA (sugar and alcohol).

Mali: Statistical Issues

(As of January 2003)

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 making 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. Mali has been participating in the General Data Dissemination System (GDDS) since September 2001 and its metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB). 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. There are some weaknesses in the accuracy, coverage, and timeliness of national accounts data. Technical assistance needs, including the review of data sources, as well as training in collection and compilation methods, were addressed by a Fund resident expert in national income accounting (May 1995 to August 1996). A follow-up mission on national accounts visited Mali 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 the common framework that has been developed with technical assistance from the Fund (the 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. Mali does not report annual statistics for publication in the *Government Finance Statistic Yearbook*, nor any subannual government finance statistics for publication in *International Finance Statistics;* data for both 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 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 Dakar in May 2001. The mission provided technical assistance in addressing the main shortcomings pertaining to the 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 *International Financial Statistics* (*IFS)* for the WAEMU; the new page has been published for the first time in *IFS* dated January 2003. Moreover, 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 are now 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 relating to 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 January 22, 2003)

	Exchange Rates	International 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	12/02	12/02	12/02	12/02	12/02	12/02	2001	2001	12/02	2001	2002
Date received	Current	01/03	01/03	01/03	01/03	01/03	01/03	11/02	11/02	01/03	11/02	01/03
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/e-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); and IMF, Treasurer's Department.
2/ Central Bank of West African States (BCEAO).
3/ Preliminary data for staff use only; actual data unrestricted.

Statement by the IMF Staff Representative
February 28, 2003

Since the issuance of the staff report for the fifth review under the PRGF arrangement, staff received the following information:

- Cereal production is estimated at 2.3 million tons in 2002/03, down 11.4 percent from 2001/02. The cereal deficit is estimated at 0.4 million tons, and the government has started distributing food in some areas.

- The overall fiscal deficit, on a commitment basis and excluding grants, is now estimated at 9.5 percent of GDP in 2002, instead of 9.9 percent indicated in the staff report. The revision mostly reflects higher government revenue.

- The consumer price index declined by 1.9 percent in January 2003, bringing 12-month inflation down to 2.6 percent. The decline is mostly due to a fall in food prices.

- The authorities announced that electricity tariffs would be cut by 10 percent, and discussions are underway on how the measure will be financed. Prices of telecommunications are also expected to be reduced.

- The state monopsony CMDT agreed with trade unions on a severance package estimated at CFAF 8.5 billion for the 673 employees (about 25 percent of permanent employees) to be laid-off in March 2003. The budget for 2003 includes an allocation of CFAF 20 billon for severance packages to be granted in the context of the privatization program.

- The government received only one low bid for the installation of a private ginning company in the OHVN/Kita area. Another investor withdrew from the bidding, concerned by the crisis in Côte d'Ivoire. The authorities are assessing the situation with World Bank staff.

- The government accepted two technical bids for the privatization of the vegetable oil producing company Huicoma. Financial bids are expected in March 2003.

The new information does not change the thrust of the staff appraisal.

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FOR IMMEDIATE RELEASE
February 28, 2003
Corrected: 3/3/03

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes in Principle Fifth Review Under Mali's PRGF Arrangement and Approves US$9 million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed in principle the fifth review of Mali's economic performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. The IMF Board's decision will become effective after the World Bank's Executive Board review of Mali's Poverty Reduction Strategy Paper (PRSP), scheduled for March 6, 2003. Upon effectiveness of the IMF's Board decision, Mali will be able to draw SDR 6.750 million (about US$9 million) under the arrangement.

Mali's program is supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF)[1], approved on August 6, 1999 (see Press Release No. 99/39) for SDR 46.65 million (about US$64million). This amount was increased in July 2001 by SDR 4.665 million (about US$6 million). So far, Mali has drawn SDR 38.42 million (about US$53 million) under the arrangement.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are 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 PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. 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:

"The Malian authorities continue to make good progress in implementing their Fund-supported economic program under difficult conditions. All the program's quantitative performance criteria through June 2002 and all the structural performance criteria through December 2002 have been observed. Increases in cotton production, and gold mining output, resulted in a strong rebound of economic growth in 2002. However, the external environment is clouded. In particular, the crisis

[1] Formerly the Enhanced Structural Adjustment Facility (ESAF)

in Côte d'Ivoire has disrupted trade, increased transportation costs, and reduced government revenue, and will constitute a major challenge to fiscal consolidation. Nevertheless, the broad support in Mali for the economic program augurs well for continued satisfactory program implementation.

"Over the medium term, the authorities intend to continue to vigorously implement the ambitious economic framework underpinning the poverty reduction strategy that was adopted in May 2002. They are committed to pursuing prudent macroeconomic policies and implementing the structural reform agenda. The primary fiscal objective for 2003 is to strengthen the fiscal position while increasing social spending, by increasing tax revenue—in particular, by broadening the tax base and strengthening tax administration—and limiting nonproductive outlays.

"Structural reforms are crucial to achieve sustained broad-based economic growth and poverty reduction. The authorities attach high priority to private sector development, and to broadening the production and export bases to reduce the economy's vulnerability to weather and external shocks. Reforms will focus on further liberalizing the cotton sector, strengthening public resource management, completing the privatization program, promoting good governance, and enhancing competitiveness.

"The poverty reduction strategy was prepared through a broad consultative process and sets out a credible policy framework for reducing poverty. The authorities are encouraged to deepen their analysis of the poverty situation, pay adequate attention to the prioritization of reforms, and reinforce mechanisms to monitor implementation and evaluate outcomes.

"Mali's performance with respect to the conditions for reaching the completion point under the HIPC Initiative has been satisfactory. A decision on Mali's debt relief under the enhanced HIPC Initiative is pending action next week by the World Bank's Executive Board. A press release will be issued jointly with the World Bank following those deliberations," Mr. Aninat said.