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Mali: 2003 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with Mali, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **September 19, 2003,** with the officials of Mali on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on November 21, 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 Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its December 15, 2003 discussion** of the staff report that concluded the Article IV consultation.

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

Selected Issues Paper and Statistical Annex

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

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INTERNATIONAL MONETARY FUND

MALI

Staff Report for the 2003 Article IV Consultation

Prepared by the Staff Representatives for the 2003 Consultation with Mali

Approved by Amor Tahari and Martin Fetherston

November 21, 2003

- Discussions on the 2003 Article IV consultation were held in Bamako during September 5-19, 2003. The Malian representatives included Mr. Bassary Touré, Minister of Economy and Finance, and other ministers and senior officials. The team also met the President of the National Assembly, representatives from the business community, trade unions, NGOs, and donors.

- The staff team consisted of Mr. Briançon (head), Mr. Bouhga-Hagbe (EP), Mr. Nachega, Mr. Tazi (Resident Representative), Mr. Wane, Mr. Yao, and Ms. Kanyabutembo (Assistant) (all AFR). The staff worked with a parallel World Bank team.

- The staff reviewed recent economic developments and discussed prospects for the rest of 2003 and 2004, including the draft budget for next year. Since the authorities requested continued Fund financial support after the expiration of the last PRGF arrangement in August 2003, the mission also discussed Mali's performance under the last three Fund-supported programs and challenges to be addressed over the medium term.

- Key issues discussed included the following: fiscal consolidation and strengthening of public expenditure management; poverty reduction; economic diversification; private sector development; reform and privatization of the cotton sector; implementation of the PRSP; and the strengthening of institutions' capacity to implement reforms.

- Mali's last arrangement under the PRGF, in an amount of SDR 52.3 million (55 percent of quota), expired on August 5, 2003 after the completion of the sixth and final review on July 23, 2003 and the full disbursement of all loans. Mali's outstanding use of Fund resources at end-October 2003 amounted to SDR 123.61 million (132.49 percent of quota).

- Mali's political and social situation has greatly improved over the past decade. Democratic presidential elections have taken place every five years since 1992. Mr. Amadou Toumani Touré won the presidential elections of April-May 2002 and led the first democratic transition from one elected president to another. No party gained a majority in the legislative elections held in July 2002, and the President appointed Mr. Ag Hamani to form a broad coalition government in October 2002.

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I. Introduction

1. The last Article IV consultation with Mali was concluded on December 17, 2001. On that occasion, Executive Directors commended the authorities for their continued sound macroeconomic policies and structural reforms. They stressed the need to maintain steady and rapid growth, speed up structural reforms, especially in the cotton sector, diversify the productive base, promote private sector development, and strengthen governance, with a view to improving the economy's ability to reduce poverty and withstand exogenous shocks.

2. In early March 2003, Mali reached the completion point under the enhanced Initiative for the Heavily Indebted Poor Countries (HIPC Initiative), and Paris Club creditors agreed to reduce Mali's debt stock on March 12, 2003. Total debt relief is estimated at US$417 million in net present value (NPV) terms, of which the Fund will provide US$45.2 million (SDR 34.7 million).

3. The World Bank approved a third structural adjustment credit (SAC III) of US$70 million (SDR 55 million equivalent) in December 2001. The third and final tranche was disbursed in August 2003. The World Bank also intends to help Mali deal with the impact of the crisis in Côte d'Ivoire by adding a US$15 million supplement to the SAC III, which will be disbursed before end-2003. Summaries of Mali's relations with the Fund and the World Bank Group are presented in Appendices II and III, respectively.

4. Mali's statistical database is adequate for monitoring macroeconomic developments (see Appendix IV). 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. A recent multisector mission from the Fund's Department of Statistics noted a number of methodological shortcomings and institutional weaknesses, especially in the compilation of the national accounts, which make it difficult to assess the impact of alternative policies. Implementation of the resulting recommendations, which are outlined on the Dissemination Standards Bulletin Board, is expected to further improve data quality and timeliness. The national accounts should also be improved by using expenditure data from the 2001 household survey, the results of which are to be available soon. Mali's debt-monitoring system provides for a comprehensive accounting of medium- and long-term public and publicly guaranteed debt on a loan-by-loan basis. Portfolio analysis and debt sustainability analysis are conducted annually, as well as on an ad-hoc basis. The concessionality of new loans is systematically evaluated. Areas for improvement include the monitoring of parastatal debt, a systematic reconciliation and updating of debt data with information provided by creditors, and the integration of data on debt relief granted under the initial and the enhanced HIPC Initiative. The authorities have also agreed on a work program with the West Africa Regional Technical Assistance Center (West AFRITAC) that seeks to strengthen data collection, compilation, and publication.

II. Recent Developments

5. Overall, Mali's economic performance has been satisfactory in 2002 and 2003, in spite of a difficult regional environment resulting from the crisis in Côte d'Ivoire (Box 1). Based on the national accounts methodology used until now, real GDP grew by 9.7 percent in 2002, as cotton production recovered from a depressed level and gold output reached a new high of 66 tons. Real GDP is forecast to decline by about 0.4 percent in 2003, or slightly less than the rate projected earlier, owing to a fall in gold output and weather-related declines in cereal and cotton production during the 2002/03 crop year, in addition to the adverse impact of the continuing Ivoirien crisis (Table 2 and Figure 1).

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

The crisis in Côte d'Ivoire and the closing of the Abidjan-Bamako road have hit Mali's economy hard since the end of the third quarter of 2002. The authorities reacted rapidly, and trade has been diverted to other ports in the region and new sources of supply found for key products. However, the distance to new ports and their limited capacity, in addition to the poor condition of the transportation system, have created great difficulties.

Real GDP growth is estimated to have been reduced by about ½ of 1 percent in 2002 and 2003, owing to lower activity in public works, construction, and trade. In addition, increased transportation costs helped to keep inflation at about 5 percent in 2002. Since the Abidjan-Bamako road reopened officially in May 2003, traffic has yet to recover, because of security concerns and a fee equivalent to US$300 to be paid per truck per trip to Abidjan.

As regards the external sector, in 2002 the crisis delayed the shipment of cotton exports for an amount equivalent to 1.2 percent of GDP and prevented the export of livestock (equivalent to 1 percent of GDP on an annual basis). Diversion of trade to other ports also increased freight charges. In 2003, the current account deficit, excluding official transfers, is projected to be 1 percentage point of GDP wider than initially projected, mainly because of continued delays in exporting cotton via other ports in the region.

As for the fiscal impact, the shortfall in tax revenue is estimated at 1 percent of GDP in 2002, mainly from lower receipts on import duties and domestic value-added tax. In addition, the government, to assist enterprises, granted tax exemptions estimated at 0.3 percentage point of GDP in the first semester of 2003 and delayed increasing the special tax on petroleum products by three months to May 2003. The impact of the crisis on government spending was small in 2002 and 2003, since refugees were mostly assisted by the international community. However, because of the regional tension, there have been pressures to increase outlays on security.

6. On the basis of the new national accounts methodology recently adopted by the West African Economic and Monetary Union (WAEMU), real GDP increased by 4.4 percent in 2002 and is expected to grow by at least 3.2 percent in 2003. The differences in GDP growth are mainly due to the recording of crops at the time of production rather than the time of sale, which has the effect of moving the recording of most crops up by one year (Box 2).[1] Furthermore, given the very good rainfall during the second half of 2003, the latest indications are that agricultural production could rise by as much as 30 percent this year. If this is confirmed, real GDP growth would be twice as high as currently projected.

Box 2. Mali: Impact of Changes in National Accounts Methodology, 2000-03

(Annual percentage change at constant prices, unless otherwise indicated)

	2000		2001		2002		2003	
	Old	New	Old	New	Old	New	Old	New
Primary sector	6.2	-10.4	-12.9	11.7	16.2	-4.4	-4.4	9.0
Of which: food crop	15.7	-19.7	-16.5	3.2	9.7	2.9	-6.6	8.0
cotton	-11.4	-47.2	-47.2	135.2	135.2	-26.5	-26.5	34.3
Secondary sector	7.5	4.4	31.1	26.1	11.5	20.0	-3.8	-7.5
Of which: cotton ginning 1/	...	-11.4	...	-47.2	...	135.2	...	-26.5
Tertiary sector	4.9	4.3	6.5	5.7	0.6	1.1	4.3	4.0
Real GDP	3.5	-3.2	3.5	13.3	9.7	4.4	-0.4	3.2
Nominal GDP (In billions of CFA francs)	1,741.7	1,899.4	1,927.7	2,210.5	2,194.6	2,344.8	2,263.0	2,487.1

Sources: Malian authorities; and staff estimates and projections.

1/ Cotton ginning and rice hulling were previously included in the primary sector.

7. **Inflation has been considerably lower than anticipated in 2003,** with the consumer price index falling by 1.4 percent over the 12 months to September. The price of food declined as the authorities and development partners distributed food in early 2003, and farmers and traders reduced stocks once it became evident that the forthcoming crop would be very good. Hence, average inflation is likely to be below 1 percent in 2003, compared with the projected 3.8 percent and the 5.0 percent recorded in 2002. Excluding food, inflation is expected to average 2 percent in 2003.

8. **As regards the balance of payments,** the external current account deficit, excluding official transfers, narrowed by 6.7 percentage points of GDP to 5.8 percent in 2002 because

[1] Other differences include the treatment of owner-occupied dwellings and the consumption of fixed capital by the government, all of which have the effect of raising the level of GDP for all years. A note in the Statistical Annex to be issued provides more details on the new methodology. All ratios to GDP refer to the revised figures, unless otherwise indicated.

of a sharp increase in exports of cotton and gold (Table 7). However, in 2003, the deficit is expected to widen by almost 3½ percentage points of GDP to 9.2 percent, compared with the 8.2 percent anticipated previously. The volume of cotton exports is likely to fall as a result of the drop in cotton production in the 2002/03 crop year and continued difficulties in shipping cotton. Also, receipts from tourism are likely to decline from the high level attained in 2002, when they were boosted by the holding of the African Soccer Cup in Mali. Including current official transfers, the current account deficit would increase from 4.3 percent of GDP in 2002 to 6.5 percent in 2003. The deficit in 2003 is expected to be more than financed by official assistance, including debt relief under the enhanced HIPC Initiative, and private capital inflows, some of it due to businesses moving their financial operations from Côte d'Ivoire to Bamako. Hence, Mali is expected to record a surplus in the overall balance of payments and to continue contributing to a buildup in the international reserves of the Central Bank of West African States (BCEAO).

9. **The real effective exchange rate has appreciated by 4 percent since end-2001** (see Figure 2),[2] mostly reflecting an appreciation of the euro, to which the CFA franc is pegged, against the U.S. dollar. Longer term, the real effective exchange rate has depreciated by 4 percent since end-1995, when the effects of the devaluation of the CFA franc in January 1994 had worked their way through the economy. However, other factors, such as the evolution of labor costs, and increased transport costs owing to the Ivoirien crisis, would suggest that Mali's competitiveness may have eroded to some extent over the past few years (Box 3).

10. **As regards monetary developments, broad money expanded by 21.8 percent over the 12 months to end-June 2003,** which is partly due to the transfer of some firms' financial operations from Côte d'Ivoire (Table 6). Over the same period, credit to the economy slowed to 9.9 percent, as the cotton company repaid bank loans. For the year as a whole, broad money is expected to expand by 15.4 percent, compared with 28.4 percent in 2002, with credit to the economy rising by 10.5 percent. The BCEAO reduced the discount rate by 150 basis points to 5.0 percent between July and October 2003 in response to the fall in inflation, the decline in interest rates in the euro area, and the high level of international reserves. However, the measure is unlikely to have a major impact on bank lending in the short run since commercial banks have had a high level of free reserves for some time.

[2] Based on consumer price indices.

Box 3. Mali: Competitiveness of the Economy

Since the devaluation of the CFA franc in 1994, high economic growth has to a large extent been export led, reflecting regained competitiveness, the streamlining of the regulatory framework, the government divestiture program, price and trade liberalization efforts, and the exploitation of new gold mines.

Mali's trade remains, however, heavily concentrated in a few commodities—gold, cotton, and livestock accounted for 91 percent of exports in 2002. With gold exports starting to decline and cotton production likely to grow at a moderate rate in the coming years, the authorities are seeking to add value to those traditional exports in which Mali has a comparative advantage and promote nontraditional exports, in order to maintain growth at a high and sustainable level and reduce Mali's vulnerability to exogenous shocks. In particular, the government aims at creating 16,000 jobs in manufacturing and increasing the share of manufacturing in GDP from 8 percent to 12 percent over 2003-07.

The government goals are ambitious, given that the authorities face many challenges in attracting private investment, including poor human and physical resources, limited financial development, inadequate property rights and a weak judicial system, and high costs of energy, communication, and transportation. The level of financial deepening remains very low; bank lending is mostly limited to short-term trade finance; and the spread between lending and deposit rates remains wide, owing to insufficient competition, a high level of nonperforming loans, difficulties in recovering overdue loans, and high operating costs. Unit labor costs are relatively high and rising. For instance, the civil service salary for the average grade has more than doubled since 1994, compared with an increase of 36 percent in the consumer price index over the same period. The price of energy has risen by 21 percent since 1998, even after a 10 percent cut imposed in February 2003, and is among the highest prices in the region.

The key, therefore, is for the government to promote growth and the diversification of the economy by improving infrastructure, increasing labor productivity, and reducing public utility and transportation costs. Private sector investment should also be promoted by streamlining the regulatory framework, strengthening the judicial system and governance, and deepening financial intermediation. At the same time, the government should refrain from granting tax exemptions and subsidies, which risk increasing distortions in the economy, threatening fiscal consolidation, and reducing the level of resources available for poverty reduction.

11. **The financial strength of the banking system deteriorated somewhat in the first half of 2003,** with the ratio of nonperforming loans to gross bank credit to the economy rising from 18.7 percent in December 2002 to 21.6 percent at the end of June 2003. Taking into account loan provisions, the ratio of net nonperforming loans to bank credit rose from 9.2 percent to 10.8 percent over the same period. The increase stems from delays in the repayments of trade credit, reflecting the longer time needed to transport imports from more distant ports. The authorities viewed this as a temporary problem that will be resolved as financial institutions and traders adapt to the situation created by the crisis in Côte d'Ivoire. Financial institutions generally meet prudential ratios, as indicated in Box 4, and the financial situation of the larger banks has improved over the past 12 months. Nevertheless, the maturity mismatch of assets and liabilities remains an issue, as banks rely largely on demand deposits to finance long term loans. The authorities are seeking to address this issue by encouraging banks to create new financial instruments that will lengthen the maturity of resources available for development purposes. **Microfinance institutions have continued to record strong growth in both deposits (21 percent) and loans (17 percent) in 2002 (see Box 5)**. The latest data show that microfinance institutions as a group were profitable in

2000. However, the first quarter of 2003 was characterized by a significant reduction in outstanding credit (12 percent) and an increase in the ratio of nonperforming loans to total credit from 4.4 percent at end-December 2002 to 5.6 percent at end-March 2003.

Box 4. Mali: Compliance with Prudential Norms, 2001-03 1/

Prudential Ratios	Compliance Limits and Ratios	Dec. 2001	Dec. 2002 2/	June 2003 2/
Minimum capital requirement	> CFAF 1 billion for banks	9/12	12/13	11/12
	> CFAF 0.3 billion for nonbank fin. institutions			
Risk-weighted capital adequacy ratio	> 8 percent	9/12	12/13	11/12
Transformation ratio 3/	> 75 percent	7/12	10/13	8/12
Liquidity coefficient ratio 4/	> 75 percent	2/8	5/9	7/9
Participation in nonbank companies/ effective capital	< 15 percent	11/12	13/13	12/12
Fixed assets/effective capital	< 100 percent	11/12	13/13	12/12
Credit to management /effective capital	< 20 percent	10/12	11/13	8/12

Source: BCEAO.

1/ Number of complying commercial banks and nonbank financial institutions out of the total number of institutions.

2/ The number of banks increased from eight to nine in 2002. Nonbank financial institutions comprise two leasing companies, a mortgage company and a financing company for small- and medium-size enterprises.

3/ Measured as the ratio of stable resources to fixed assets and medium- and long-term loans.

4/ Ratio of liquid assets to short-term liabilities. This norm is applicable to banks only.

12. **Fiscal policy in 2002 was tighter than originally envisaged,** as the overall fiscal deficit, on a payment order basis and excluding grants, is estimated at 7.2 percent of GDP (Table 4), compared with the 9.4 percent set under the program for 2002 (adjusted for the revised GDP). This outcome reflects both higher revenue (16.6 percent of GDP) and lower expenditure (23.8 percent of GDP) than targeted. Including grants, the fiscal deficit for 2002 is estimated at 3.6 percent of GDP. **The fiscal objectives for June 2003 were met** mainly because government revenue was higher than targeted on account of settlements of tax arrears and payments of profit taxes and dividends by the mining sector. This additional revenue more than offset the high level of tax exemptions granted to enterprises facing difficulties because of the Ivoirien crisis. **The fiscal objectives for the year as a whole are also likely to be met,** provided that, as agreed, the authorities refrain from granting ad-hoc tax exemptions and keep the tax on petroleum products at its current level. On the expenditure side, the government should contain the wage bill by updating the civil service payroll using the results of the civil service census conducted last February. As a first step, salaries for November 2003 of civil servants who did not participate in the census will be

paid only after their administrative situation can be verified. Overall, the fiscal deficit, on a payment order basis and excluding grants, would widen to 8.2 percent of GDP in 2003, with total revenue increasing by 0.6 percentage point of GDP to 17.2 percent and total government expenditure and net lending rising from 23.8 percent of GDP to 25.4 percent. Including grants, the overall fiscal deficit is expected to be contained to 3.9 percent given budget support likely from the European Union, the World Bank, and bilateral donors, part of which has been granted to mitigate the impact of the crisis in Côte d'Ivoire. The remaining deficit is expected to be financed by debt relief under the enhanced HIPC Initiative, and by loans tied to investment projects and sectoral programs. After conducting an inventory of all government domestic debt in the fall of 2002, the authorities agreed to settle an amount equivalent to 1½ percent of GDP, which was mostly due to public utility companies.

Box 5. Mali: Developments in Microfinance

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

There are currently 465 microfinance institutions, with a total membership of about 520,000 individuals. At end-March 2003, total deposits of these institutions amounted to CFAF 21.2 billion, while total loans were CFAF 21.1 billion (equivalent to 5 percent of loans made by commercial banks). The gap in resources was financed by borrowing from the banking sector and external resources. The sector's overall performance has been satisfactory, as the credit recovery rate exceeds 90 percent and the ratio of nonperforming loans to total loans rose only slightly to 5.6 percent at end-March 2003 from 4.4 percent at end-2002.

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

13. During the first nine months of 2003, the management of the railroad company (RCFM) was privatized under a concession contract, and a tender was launched for the management of Mali's airports. The authorities are discussing terms of the privatization of the cottonseed oil-producing company (HUICOMA) with the successful bidder. As for the cotton sector, the parapublic enterprise (CMDT) reduced staffing by one-fourth and offered a severance package that was partly financed through the budget. To ensure that the CMDT meet minimum capital ratios under regional business laws (OHADA), the government and other shareholders decided to revalue the enterprise's assets. The authorities have also agreed with the World Bank and other bilateral and multilateral development partners on a timetable

for splitting the CMDT into three or four private enterprises, each of which would have exclusive rights to purchase cotton seeds in its designated area. This regional monopsony status of each enterprise is expected to end over the medium term.

III. Policy Discussions

14. The staff discussed with the authorities the assessment of Mali's performance under past Fund-supported programs, challenges facing the economy, policies that the authorities intended to implement in 2004 and over the medium term, and the possible future engagement of the Fund with Mali.

A. Assessment of Performance Under Past Fund-Supported Programs

15. Following the expiration of the Fund arrangement with Mali last August, the staff conducted an ex post assessment of performance under the last three Fund-supported programs covering the period 1992-2002. **The main conclusion is that important progress was made in restoring macroeconomic stability, laying the foundations for sustainable growth, and reducing poverty** (Boxes 6 and 7, and Appendix I). The improvement resulted from the government's commitment to the programs, the political transition to democracy, and the devaluation of the CFA franc in January 1994, as well as a high level of international financial assistance. Real GDP growth rose from 1 percent per year on average over 1991-93 to 5.7 percent over the last five years, with more than 50 percent of growth concentrated in the production of three primary commodities—cotton, rice, and gold. Inflation remained low, except in the aftermath of the CFA franc devaluation. Although the volume of exports of goods grew by 13½ percent a year on average over the 1992-2002 period, or twice as fast as imports, the improvement in the external current account deficit, excluding official transfers, was somewhat limited because of unfavorable terms of trade and a sharp increase in the repatriation of profits by mining companies. At the same time, the economy became more open following the implementation of a common external tariff within the WAEMU and the gradual elimination of barriers to intraregional trade. **Nevertheless, in spite of these achievements, Mali, as a landlocked country in the Sahel region, faces many challenges and remains vulnerable to exogenous shocks, including bad weather, terms of trade fluctuations, and the political environment in the region.**

16. **Fiscal performance improved over the past ten years,** as the streamlining of the tax system boosted revenue mobilization, while enhanced government resource management helped keep spending under control. However, the overall fiscal deficit fell somewhat less than envisaged, especially under the last Poverty Reduction and Growth Facility (PRGF) supported program, when spending started to rise again, partly as a result of the implementation of the poverty reduction strategy, including programs financed by HIPC Initiative resources.

17. **As regards structural reforms,** the privatization program is well advanced, and the authorities have improved the legal and regulatory environment. Nevertheless, liberalizing the cotton sector has been difficult because of the authorities' concern that, given the size of

the sector, introducing competition might disrupt production and have serious political repercussions. In addition much remains to be done to enhance the investment climate, improve governance, and reduce government intervention in the economy. At the level of the financial system, Mali has made notable advances in strengthening its banking sector and deepening financial intermediation over the past decade, even though, overall, the financial sector remains underdeveloped.

18. **The authorities agreed with the thrust of the assessment of Fund-supported programs.** They observed that, after more than 20 years of heavy government intervention in the economy, Fund-supported programs contributed to the design of sound economic policies and structural reforms that reduced external and internal imbalances and opened the economy to private sector initiatives. The authorities considered that conditionalities and financing assurances associated with the arrangement with the Fund were key elements in that process. As the reform agenda is unfinished, they viewed a new formal agreement with the Fund as an essential element in their efforts to move the process forward and mobilize foreign financial assistance.

19. **The authorities also noted several points where Fund-supported programs could be improved**. In their view, first, the adjustment pace had been too rapid and had not given the government sufficient time to deal with the political and social aspects of reforms. A related point is that the earlier programs had too many measures for effective monitoring. Second, they considered that the decision to delay a disbursement when a single condition was not met was too severe a measure, since it disrupted programs, including social programs, that were unrelated to the unfulfilled condition. Third, programs did not take sufficiently into account the vulnerability of the economy to exogenous shocks. And, finally, they felt that program conditionality was often imposed on them and, therefore, weakened program ownership. In response, the staff noted that conditionality was streamlined over the last Fund-supported programs and that all six reviews under the last PRGF were completed not withstanding the fact that less than half of the structural performance criteria and benchmarks were observed on time.

B. Medium-Term Outlook and Strategy

20. The staff discussed with the authorities the key challenges faced by Mali, as indicated in Box 6 above. In particular, given the slow progress made in reducing poverty over the past ten years, the mission discussed policies to accelerate growth through a diversification of the economy and an increase in private sector investment, and to reduce Mali's vulnerability to exogenous shocks. The authorities reiterated that they were committed to sustaining Mali's record of macroeconomic stability; to pursuing fiscal consolidation and further improving expenditure management to meet the social policy objectives set in the PRSP; to completing the privatization program and liberalizing the cotton sector; to promoting private sector development; and to strengthening institutions and their capacity to implement reforms. They also indicated that they would seek to reverse the decline in international assistance, which was essential to underpin accelerated growth, and to increase the share of grants in external financing in order to ensure that external debt remained sustainable.

Box 6. Mali: Performance Under Fund-Supported Programs, 1992-2002

The main achievements under the Fund-supported program were the following:

- **Macroeconomic imbalances were reduced and growth accelerated,** as a result of the government's commitment to the program, the transition to democracy, and the devaluation of the CFA franc. **Debt sustainability improved after** Mali reached the completion point under the enhanced HIPC Initiative.
- **The fiscal stance improved markedly,** thanks to a streamlining and strengthening of tax policy and administration that boosted government revenue.
- **Together with other WAEMU countries, Mali liberalized trade** by implementing a common external tariff and narrowing the range of tariffs on imports.
- **The privatization program advanced well, competition increased, and the soundness of the financial sector improved.**
- **The management, monitoring, and auditing of government public expenditure improved.**

Remaining challenges include the following:

- **Poverty reduction, economic diversification, private sector involvement, and the lowering of vulnerability to exogenous shocks are still elusive goals.** Progress on these issues is likely to be slow and uncertain, requiring a steady, high level of international support for the foreseeable future.
- **Fiscal consolidation needs to be pursued,** while public expenditure priorities should better reflect social policy objectives, given the low level of poverty-related spending.
- **The financial sector requires further strengthening.**
- **The benefits of privatization need to be more visible** for the program to be broadly supported by the population.
- **The liberalization of the cotton sector is still at a very early stage,** although a broad consensus seems to be emerging on the need to end the CMDT's monopsony.
- **Institutions and the capacity to design, implement, monitor, and evaluate reforms need to be strengthened through technical assistance.** Governance remains an issue, and the government should refrain from direct interference in the economy. **Improvement in the macroeconomic and social indicators databases would facilitate the assessment of alternative policies.**

Aspects of program design

- **Implementation of programs was generally satisfactory,** with performance somewhat better in the quantitative than in structural areas, and under the Enhanced Structural Adjustment Facility (ESAF) than under the Poverty Reduction and Growth Facility (PRGF) arrangements.
- **Prior actions were extensively used.** The streamlining of conditionality was relatively limited since the focus of structural conditionality tended to be on noncore areas of the Fund (e.g., the cotton sector reform) that were nevertheless considered essential to maintain macroeconomic stability.

Box 7. Mali: Key Economic Indicators, 1992-2002 1/

	1992-93 2/		1994-95 2/		1996-99		1999-2002	
	Prog	Act.	Prog	Act.	Prog	Act.	Prog	Act.
	(Annual percentage changes, unless otherwise indicated)							
National income and prices								
Real GDP	5.0	1.9	3.7	4.8	4.5	5.3	5.4	5.9
Consumer price index (annual average)	2.5	-3.2	21.6	18.0	3.2	3.3	2.5	2.1
External sector								
Export volume	3.9	7.6	7.8	4.0	7.1	16.1	5.1	17.5
Import volume	0.4	-1.8	0.7	7.2	4.1	2.1	3.7	12.0
Terms of trade	-2.5	-6.6	-0.6	0.1	-0.1	0.6	0.1	-1.4
	(In percent of GDP, unless otherwise indicated)							
Central government finance								
Total revenue	15.1	14.2	13.6	12.9	14.4	15.9	16.5	16.5
Total expenditure and net lending	23.9	26.8	27.3	25.8	23.6	24.1	22.9	24.7
Overall balance (payment order basis)	-8.9	-10.3	-13.8	-12.9	-9.1	-8.1	-6.4	-8.2
External sector								
Current external balance, excluding	-13.0	-15.1	-18.0	-18.7	-11.5	-10.9	-7.9	-11.0
Debt-service ratio 3/ (before debt relief)	...	18.3	18.8	19.8	23.6	13.5	13.7	11.4
Exports	12.9	14.1	20.1	18.9	18.7	20.3	19.3	25.2
Imports	23.5	19.4	35.8	25.9	28.2	21.5	19.0	24.3

Sources: Malian authorities; and staff estimates.
1/ The GDP figures are based on the old national accounts methodology.
2/ The medium-term program covering the period 1992-95 was split into two periods because of the devaluation of the CFA franc in January 1994.
3/ In percent of exports of goods and services.

21. **As regards diversification and sources of growth,** the staff noted that the International Trade Center (ITC) ranked Mali 144th out of 184 countries with respect to the diversification of agricultural exports and 46th with respect to its diversification of industrial exports. The authorities observed that agriculture was the sector with the highest growth potential and that the PRSP included a broad range of projects that could contribute to diversification. They also indicated that they would seek financing for those projects from bilateral and multilateral development partners during a donors' roundtable to be held early next year. However, strong concerns were expressed about the agricultural subsidies and trade barriers in industrial countries that were preventing Mali from benefiting fully from the potential in agriculture. According to the ITC, Mali's agricultural exports are subject to average ad valorem equivalent tariffs[3] of 10.5 percent in the United States and 20.7 percent

[3] The ad valorem equivalent (AVE) tariff calculated by the ITC includes all ad valorem tariffs, plus ad valorem equivalents for specific tariffs and tariff quotas. The ITC figures on

(continued)

in the European Union, whereas Mali's industrial exports to those countries face almost no tariff. The authorities regretted that the request for a progressive elimination of subsidies on cotton that Benin, Burkina Faso, Chad, and Mali had submitted to the Ministerial conference of the World Trade Organization (WTO) held in Cancun last September was not successful. They were nevertheless encouraged by their ability to mount a broad campaign for the elimination of cotton subsidies and to put the issue on the agenda for trade negotiation.

22. The authorities considered attracting private foreign investment as crucial for keeping economic growth above 5 percent over the medium term, given the projected decline in gold production and a moderate increase in cotton output. However, they were concerned that foreign firms had not shown a greater interest in investing in Mali; they attributed this to the high cost of doing business in Mali, owing to its poor infrastructure, excessive cost of energy and telecommunications, insufficient tax incentives, and distance from ports in the region. The crisis in Côte d'Ivoire had also deterred some investors from coming to Mali. Private sector representatives considered that, in addition to the high cost of doing business, the lack of a skilled workforce was a major impediment, which can be alleviated only partly by hiring foreign workers. They also stressed that governance was an issue, especially the insufficient transparency of procurement procedures and the inadequate judicial system. To gain a better understanding of the obstacles to private investment, the authorities intend to undertake, with the assistance of the World Bank, an Investment Climate Assessment that will (i) evaluate the state of the private sector; (ii) assess the competitiveness of firms in Mali; and (iii) identify the key constraints on increases in firm productivity.

23. **The staff agreed with the authorities' strategy of developing infrastructure, adding value to exports of raw materials, and promoting the textile industry, rice and sugar production, and meat processing.** However, it cautioned against achieving these objectives by granting tax exemptions and subsidies. For instance, a new foreign-owned cotton spinning company is expected to receive broad tax exemptions and purchase cotton fiber below the world market price. The staff observed that such measures would increase distortions, reduce resources available for social sectors, and jeopardize fiscal consolidation. It also noted that Mali was likely to face strong competition on the world textile market, as the bilateral quotas that had dominated trade in their sector for several decades would be phased out by early 2005. Instead, the authorities were urged to address more forcefully impediments to private investment first, by strengthening Mali's competitiveness through the adoption of a prudent wage policy and the implementation of structural reforms and training programs that would increase labor productivity; and second, by streamlining further the regulatory environment, strengthening property rights, and improving the judicial system. In that context, the staff encouraged the authorities to pursue the reform of the cotton sector,

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European Union and U.S. agricultural tariffs for Mali are estimates, and may not fully reflect the impact of European Union's "Everything But Arms" initiative and the U.S.'s African growth and opportunity Act (AGOA). Both initiatives provide duty- and quota-free access for most Low Income Country exports.

complete the privatization program, and strengthen the financial system. In addition, greater regional integration within the WAEMU and Economic Community of West African States (ECOWAS) would offer new opportunities for companies in Mali, provided that the security situation improves.

24. Against this background, the authorities are revising the medium-term macroeconomic framework in the context of the first annual review of the poverty reduction strategy paper (PRSP) (see below). Preliminary indications are that the framework will reflect the challenges of raising the rate of economic growth given Mali's limited policy implementation capacity, as well as a decline in gold mining output and slow growth in cotton production. Hence, real GDP growth would average 5-5.5 percent over 2004-06, or about ½ of 1 percentage point less than projected initially. Inflation would remain stable at 2.5 percent on average, with annual fluctuations reflecting mostly the impact of rainfall on the production and prices of food.

25. **The fiscal position is likely to improve only slightly over the next three years as the government intends to increase social spending further in an effort to meet the Millennium Development Goals (MDGs).** The overall fiscal deficit, on a payment order basis and excluding grants, is expected to decline from the 8.2 percent of GDP expected in 2003 to 7.4 percent by 2006; meanwhile total government revenue would rise by 1.1 percentage points of GDP to 18.3 percent while total expenditure would remain at about 25½ percent of GDP. Including project-related grants, the overall fiscal deficit would amount to about 4.7 percent of GDP by 2006, which is about ½ of percentage of GDP higher than over the period 2000-02.[4] Hence, the fiscal situation will need to be monitored closely to ensure that the external debt remains at a sustainable level, and to avoid that excess aggregate demand puts pressure on price of nontradables and hence on the economy's competitiveness. The staff suggested that the authorities reduce the fiscal deficit first, by increasing tax revenue to at least 17 percent of GDP—one of WAEMU's convergence criteria—through a strengthening of the tax administration and a broadening of the tax base; and, second, by containing government spending through a reduction in the share of outlays not related to poverty reduction. In addition, the share of grants in total financing would need to be raised above the current level.

C. Macroeconomic Policies for 2004

26. The authorities expect domestic demand to rise significantly in 2004, given that household income would benefit from an anticipated increase in cereal and cotton production and higher producer prices for cotton. Hence, assuming that the regional situation remains stable, real GDP is expected to grow by 5 percent next year, in spite of a decline in gold production. At the same time, inflation is likely to remain low, at less than 3 percent.

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[4] Assuming that Mali receives budgetary support in the form of grants amounting to 1.2 percent of GDP, the yearly average for 2000-02.

Fiscal policy

27. The staff discussed the draft budget for 2004, which has since been approved without modification by the government and submitted to the National Assembly (Box 8). It is projected that **the overall fiscal deficit, on a payment order basis and excluding grants, would remain stable at about 8.0 percent of GDP in 2004.** Including grants, the deficit would rise from 3.9 percent of GDP in 2003 to 5.1 percent in 2004 because the government has yet to secure budget support from bilateral and multilateral donors. There currently remains a residual financing gap, projected at 2.5 percent of GDP. As such financing may be difficult to secure, it may be necessary to roll over maturing government domestic bonds, instead of reducing net domestic liabilities by 1.3 percent of GDP as currently envisaged.

28. **Total government revenue is projected to increase from 17.2 percent of GDP in 2003 to 18.1 percent in 2004,** with tax revenue rising from 14.2 percent of GDP to 15.3 percent through an improvement in tax collection. Nontax revenue will decline slightly relative to GDP because of lower dividend payments by gold mining companies. The mission agreed that tax collection needed to be strengthened further, in particular via an improved computer system and closer collaboration among tax agencies. However, administrative measures alone are unlikely to yield the projected additional revenue. Therefore, the staff recommended that the authorities reduce exemptions, which rose considerably in the first half of 2003; tighten controls on reimbursement of value-added taxes paid by exempt companies; and keep the specific tax on petroleum at least at the level set in August 2003, instead of modifying it to cushion the effect of fluctuations in international prices of petroleum products. It also suggested that the authorities review taxes on property, which currently yield little revenue. In the coming months, a technical assistance mission from the Fund is expected to assess tax policy and recommend measures to increase revenue.

29. **Total government spending is projected to rise by 0.6 percentage point of GDP to 26.0 percent in 2004.**[5] This would bring the total increase in spending since 2000 to 4 percentage points of GDP, including an increase of 1.4 percentage points of GDP in outlays for health and education over the period. Discussions focused mainly on the wage bill and wage policy, and on the increase in transfer payments and subsidies. The wage bill is to rise by 15.8 percent in 2004, with recruitments for the priority sectors—education, health, and justice—accounting for just 38 percent of the increase. The remainder is due to the regular progression up the pay scale and recruitments for the security forces and other sectors, as well as the financial impact of the reform of the civil service agreed with trade unions in 2001. The latter includes adjustment to the pay scale and benefits of some categories of employees, as well as an allowance for overtime pay. The staff expressed concern because the continued increase in the wage bill—about 1 percentage point of GDP from 2000 to 2004—was due to a large extent to higher pay rather than to recruitments in social sectors. It suggested that the authorities assess wage policy in a medium-term context to ensure that it

[5] Assuming that 80 percent of the public investment program included in the budget will be implemented in 2004.

was compatible with the need to increase recruitments in social sectors, pursue fiscal consolidation, and maintain the competitiveness of the economy. Also, as indicated earlier, greater attention should be paid to improving the skills of the labor force.

30. **Government transfers and subsidies are expected to rise by 15.2 percent in 2004,** owing to the widening deficit of the civil service retirement fund (CRM), which is financed through the budget. The deficit of the CRM is expected to double to 0.7 percent of GDP in 2004 because of an increase in retirement benefits, which are tied to current civil service salaries. The authorities agreed with the staff on the need to verify the list of beneficiaries, conduct a financial audit of the fund, and study the possibility of removing the link between current salaries and retirement benefits. In other areas, the authorities intend to renew in 2004 the subsidies paid in 2003 to the water and energy company as a compensation for the cut in tariffs imposed by the government in February 2003. However, discussions are continuing between the government and the company on the level of the subsidy that is required. While staff suggested that the tariff cut be limited to the lowest-level consumption tranches, the government, as well as trade unions and private enterprises, has called for further cuts in tariffs, given that the cost of producing electricity should have dropped with the coming on stream of the Manantali Dam in 2002. At the same time, the utility company considers the high tariffs as essential for financing the agreed-upon extension of water and electricity distribution.

Monetary and banking issues

31. Monetary policy, which is conducted at the regional level by the BCEAO, aims at preserving the parity of the CFA franc vis à vis the euro by maintaining an adequate level of external reserves and keeping inflation at a rate compatible with that of the anchor currency. Given developments in 2003, broad money is anticipated to expand by 11.9 percent in 2004, with credit to the economy rising by 18.3 percent. The government is also pursuing the restructuring and privatization of commercial banks, and expects to reduce its participation in their capital to below 20 percent by end-2004. In addition, the authorities are working on the strengthening of the legal and regulatory framework for the financial system with assistance provided by the World Bank under the Financial Sector Development Project.

D. Structural Reforms

32. The focus in the coming year and over the medium term will remain on strengthening public expenditure management, implementing the reform of the cotton sector, and completing the privatization program. As regards public expenditure management, the implementation of a new budget classification system allows the monitoring of budget expenditure, contributing to poverty reduction (Box 9). At the same time, the authorities have strengthened the medium-term budget programs that are submitted to the National Assembly, together with the annual budget, and are working with the World Bank on medium-term expenditure frameworks (MTEFs) for health and education. The MTEFs are to be extended to all ministries over the medium term.

Box 8. Mali: Total and Poverty-Reducing Expenditures, 2002-04 1/

	Budget 2002		Budget 2003		Draft Budget 2004			
	Total expenditure	*Of which*: poverty-reducing expenditure	Total budget appropriations	*Of which*: appropriations for poverty reduction	Total budget appropriations		*Of which*: appropriations for poverty reduction	
	(In billions of CFA francs)	(In percent of total expenditure)	(In billions of CFA francs)	(In percent of total expenditures)	(In billions of CFA francs)	Annual percentage change	(In percent of total expenditures)	Annual percentage change
Total	590.4	60.7	737.6	59.2	787.2	6.7	59.7	7.8
Economic classification								
Wages and salaries	94.0	54.4	110.8	51.8	128.3	15.8	53.0	9.3
Other recurrent expenditures	74.8	36.5	86.9	33.2	102.9	18.5	34.2	17.1
Transfers	75.6	89.0	69.2	81.1	77.6	12.1	77.1	6.2
Other expenditures (including debt)	120.3	13.3	145.4	7.4	130.0	-10.5	6.7	19.6
Equipment and investment	225.7	87.2	325.3	85.3	348.4	7.1	85.7	6.4
Administrative functions								
Primary education	49.6	83.6	56.0	99.1	64.5	15.3	99.2	15.5
Secondary education and university	29.4	84.1	46.3	83.0	54.0	16.7	83.7	17.6
Health	31.5	99.9	52.0	99.5	53.4	2.6	99.5	2.6
Other social sectors	9.8	100.0	17.1	100.0	28.4	65.9	100.0	65.9
General administration	49.6	39.8	80.4	48.6	89.9	11.8	45.3	4.3
Foreign affairs	11.2	0.3	12.9	0.3	13.1	2.1	0.7	111.0
Defense and police	46.2	1.9	48.7	1.9	55.3	13.7	2.1	29.7
Culture, youth, and sport	5.6	49.9	8.5	46.1	9.9	17.0	36.8	-6.5
Civil service and labor	0.7	91.9	1.0	100.0	1.7	69.1	100.0	69.1
Agriculture	105.7	100.0	111.4	100.0	116.5	4.6	100.0	4.7
Mines, water, and energy	31.2	69.4	27.8	87.7	27.6	-0.6	69.9	-20.7
Urban development and public works	47.7	97.7	77.3	86.4	81.8	5.8	82.2	0.7
Transportation	12.0	52.8	10.8	54.6	11.7	8.6	71.0	41.1
Communications	3.7	83.4	9.1	90.8	8.9	-1.3	87.2	-5.2
Domestic debt	8.5	0.0	13.0	0.0	1.7	-86.6	0.0	...
External debt	52.1	0.0	63.4	0.0	55.5	-12.5	0.0	...
Unallocated	95.8	45.4	101.9	11.8	94.0	-7.8	13.7	7.5

Source: Ministry of Economy and Finance.

1/The coverage and the classification of expenditure differ from those in the table on central government financial operations. The budget includes outlays to be effected over several years and financing items, such as debt-amortization payments.

33. **On the cotton sector,** as indicated in paragraph 13, CMDT's assets will be divided into 3 or 4 lots, and the bidding process for their sale will begin before end-2004. The authorities are discussing terms of reference for the IFC to advise them on the privatization process. Given the recovery in the world market price of cotton, the CMDT is expected to make a profit next year, even though the producer price was increased from CFAF 180 per kilogram to CFAF 200 for the crop year 2003-04. In other sectors, the authorities are expected to complete in 2004 the privatization of the cottonseed oil company, HUICOMA, and the company managing airports; they also intend to start the process for the privatization of the telecommunications company, SOTELMA.

E. PRSP and Poverty Reduction

34. A first-year assessment of the PRSP adopted in May 2002 will be completed by November 2003 and serve as a basis for a donors' roundtable to be organized with the assistance of the United Nations Development Program (UNDP) in early 2004. As noted in previous staff reports, the 7.4 percent objective for economic growth set in the PRSP will not be reached in 2003[6] because of a decline in agricultural production and the impact of the crisis in Côte d'Ivoire. In other areas, preliminary results have been mixed, owing to the lack of human and financial resources, inadequate prioritization of projects and programs, and weak mechanisms for monitoring and assessing the implementation of reform, elements that were highlighted in the joint staff assessment (EBD/03/13; 2/14/03). The authorities also noted the difficulties of conducting a yearly assessment of the PRSP in spite of a strengthening of the unit responsible for coordinating its implementation. The Fund and Word Bank staffs urged the authorities to fully integrate the PRSP review process in the budget cycle, so that relevant recommendations can be integrated in the budget of the coming year. The government was also encouraged to improve the list of indicators to be used for monitoring PRSP implementation, as this would greatly facilitate annual assessment.

F. Regional Integration, Exchange System, and Trade Regime

35. **Mali has made progress in observing WAEMU's convergence criteria in recent years** (Table 5). By end-2003, Mali is expected to respect four out of five primary criteria (the criterion on the ratio of total debt to GDP will not be met), and two out of four secondary criteria. Achieving compliance with all criteria implies continuous adjustment efforts over the medium term. In particular, the government needs to follow prudent fiscal policies and lower its financing needs in order to reduce the debt-to-GDP ratio over time. Likewise, the authorities should continue their efforts to broaden the tax base and increase domestic revenue, so as to lift fiscal revenue above the level of 17 percent of GDP. However, it may be difficult for Mali to reduce its external current deficit to less than 5 percent of GDP, given the expected fall in gold exports.

[6] The PRSP framework is still based on the old methodology for national accounts.

Box 9. Mali: Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending

Actions	Measures	Timing[1]	Status[2]	Updated Status	Comments
Budget formulation	Improve accounting for external disbursements	S	II	II	Discussions with development partners continue.
	Include table showing poverty-reducing expenditures in 2002 and 2003 budget	S	NS	FI	Implemented with the Budget Law of 2003.
	Apply the classification of functions of government (COFOG) to recurrent and development budget	M	II	FI	The COFOG and West African Economic and Monetary Union (WAEMU) classifications are used to book government expenditure.
	Include two year projections in 2003 and 2004 budget	M	II	FI	The annex to the 2003 budget provides program budgets for each ministry for the period 2003-05.
Budget execution	Strengthen internal audit	M	NS	II	The Minister of Finance has strengthened the audit unit.
	Finalize terms of reference for public expenditure tracking surveys	S	NS	II	Draft 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.
	Issue circular requiring local government quarterly reports	S	NS	II	A new treasury unit centralizes information on budget execution by local governments.
	Establish training and enforcement measures for timely submission of local government reports	S	NS	II	A new treasury unit is responsible for strengthening local government accounting capacity.
	Create quarterly monitoring reports	S	NS	FI	The treasury unit has been producing monthly and quarterly statements since December 2002.
	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). FI: fully implemented; NS: not started; II: Implementation initiated.

36. Mali accepted the obligations of Article VIII, Sections 2, 3, and 4 effective June 1, 1996. Mali's exchange system, common to all members of WAEMU, is free of restrictions on making payments or transfers for current international transactions. In addition, Mali does not engage in multiple currency practices. Mali's trade regime is relatively open. The country shares a common trade regime with other members of the WAEMU. The common external tariff (CET) was adopted in January 2000. Mali is compliant with the tariff rate structure of the union and has effectively implemented the dismantling of internal tariffs. Imports to Mali are not subject to quantitative restrictions. Concerning common safeguard measures established by the WAEMU, Mali does not implement the decreasing protection tax to provide temporary and declining protection for selected products, nor does it apply the compensatory import levies. While a common antidumping legislation for the WAEMU still has to be prepared, Mali does not implement antidumping tariffs unilaterally. Mali is a signatory of the Cotonou Convention,[7] and as such Malian exports to the European Union generally enjoy nonreciprocal preferential treatment in the form of exemption from import duties. Likewise, Malian goods enjoy nonreciprocal preferential access to the markets of developed countries other than the European Union member states under the Generalized System of Preferences. Mali is also eligible for the benefits of the United States' African Growth and Opportunity Act (AGOA). At the WAEMU level, Mali does not officially experience legal or regulatory impediments to its exports.

G. Balance of Payments Outlook and Debt Sustainability

37. Fluctuations in the trade balance are likely to remain large over the medium term, reflecting the lack of diversification of exports, variations in the terms of trade, and weather-related production shocks. The trade surplus should narrow because the growth in the volume of exports is likely to slow considerably, given the expected decline in gold exports. Exports of gold, cotton, and livestock are likely to continue to account for the bulk of total exports. At the same time, the volume of imports is likely to grow at about the same rate as real GDP. The external current account deficit, excluding current official transfers, is projected to remain stable at about 7.1 percent of GDP over the 2004-06 period, as the deficit in the income balance should narrow with the decline in activity in the gold sector. Including current official transfers, the current account deficit is projected to average 6.4 percent of GDP, before taking into account external grants that the authorities expect to receive to finance the budget deficit. The current account deficit is expected to be covered by official loans to finance the public investment program, and debt relief provided under the HIPC Initiative, as well as additional exceptional financing that Mali is seeking to finance the implementation of the PRSP.

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

38. **The staff has updated the debt sustainability analysis conducted in the context of the enhanced HIPC Initiative** (Tables 11 and 12) in early 2003. The analysis show that, as indicated in the completion point document for the enhanced HIPC Initiative (IMF Country Report No. 03/61), the NPV of debt-to-exports ratio, after debt relief, is likely to rise in the coming years from 110 percent projected at end-2003 to 143 percent on average over 2011-21. The upward trend is due to the expected decline in gold output, which will restrain the growth in the exports of goods and services to 5 percent per year in nominal terms. Compared with the debt sustainability analysis done at the completion point, the NPV of debt-to-exports ratio is now projected to be lower in the near term because of a higher level of exports of gold; however, the ratio is projected to be slightly higher on average over 2007-21, reflecting additional borrowing to finance the fiscal deficit. Relative to government revenue, the NPV of debt would steadily decline, provided that total government revenue would rise from 17.2 percent in 2003 to 20 percent in 2011-21. Alternative scenarios that include a growth of exports of less than 5 percent would result in a NPV of external debt-to-exports ratio that is higher than 150 percent by 2015. The authorities share these conclusions, which were discussed during a seminar on debt sustainability held last summer in Bamako. Hence, they agreed with the staff on the need to increase the proportion of grants in external financing in order to meet the objectives set in the PRSP and keep external debt at a manageable level. Grants averaged 55 percent of total external financing over 1996-2001, but dropped to 45 percent in 2002.

IV. Future Role of the Fund

39. **The authorities reiterated their interest in having a successor PRGF arrangement,** noting that, in spite of the progress accomplished over the past ten years, the economy remained very fragile and susceptible to exogenous shocks. They added that the reform agenda was unfinished and that continued Fund policy advice and financing was essential to help the process move forward. As indicated earlier, key issues in the Fund's core areas concern fiscal consolidation, public resource management, debt management, the deepening of financial intermediation, the soundness of the financial sector, and the complex process of integrating the PRSP into sound multiyear macroeconomic framework. In addition, it is unlikely that Mali will have high access to international capital markets in the foreseeable future, and the authorities considered that a Fund-supported program would help their efforts to attract foreign investment. Such a program would also help ensure that the level of funding on concessional terms remains adequate to finance the development program, a view shared by many donors in Mali. The authorities also attached more importance to reaching agreement on a Fund-supported program than to the level of access to Fund resources.

40. **The staff considers that a Fund arrangement with low access would help the authorities** to prepare a comprehensive set of policies and measures aimed at accelerating growth and reducing poverty. Hence, an arrangement would reduce the risk of slippages in the pursuit of fiscal consolidation, and in the implementation of the reform agenda. It would also provide a framework for policy adjustment in case of exogenous shocks. In addition, an arrangement would facilitate the securing of international financial support. Continued Fund

involvement should rest on three main pillars: (i) helping preserve a stable macroeconomic framework; (ii) focusing the reform agenda on the core areas of the Fund, notably fiscal consolidation, external sector sustainability, and financial sector reforms to foster financial intermediation and investment; and (iii) collaborating with the World Bank and other donors to encourage an acceleration of structural reforms aimed at economic diversification and private sector development.

V. Staff Appraisal

41. **Mali's economic situation has remained relatively stable in 2003, considering the difficult regional environment.** A prompt response by the authorities and additional financial assistance from the international community have helped the country weather the impact of the crisis in Côte d'Ivoire. In addition, higher-than-average rainfall in the second half of the year contributed to an improvement in agricultural output and a lowering of inflation. Given the anticipated increase in revenue in the agricultural sector, **the economic outlook for 2004 is favorable,** provided that the regional environment does not deteriorate further.

42. **The staff encourages the authorities to stay the course of fiscal consolidation and to continue the reform process.** In particular, additional revenue-enhancing measures may be needed in order to attain the 2004 revenue target. At the same time, government expenditures should be contained by focusing on poverty reducing expenditure, reducing the widening deficit of the civil service retirement fund, and tightening wage policy over the medium term. The latter measure is especially important, given the large recruitments required for health and education. Longer term, the staff recommends a tightening of the fiscal stance and a greater reliance on external grants to ensure that external debt remains at a sustainable level. As indicated at the time of the enhanced HIPC Initiative completion point, the NPV of debt-to-export ratio is likely to rise over the coming years since export growth is projected to slow down with the expected decline in gold output. The staff welcomes the progress made in strengthening public resource management and monitoring poverty-reducing outlays.

43. **The staff agrees that diversifying the economy is essential for maintaining high and sustainable growth.** This should be achieved by bolstering competitiveness through the development of infrastructure, the completion of the privatization program and other key structural reforms, as well as the implementation of a cautious wage policy. Private sector investment should also be promoted by streamlining the regulatory framework, strengthening the judicial system and governance, deepening financial intermediation, and improving labor skills and productivity. In addition, the authorities should refrain from intervening directly in the economy and from granting tax exemptions or offering subsidies, which, experience has shown, are likely to aggravate distortions in the economy, jeopardize fiscal consolidation, and reduce the resources available for social sectors.

44. **The staff encourages the authorities to complete the assessment of the first year implementation of the PRSP**, deepen the poverty policy analysis with the help of the

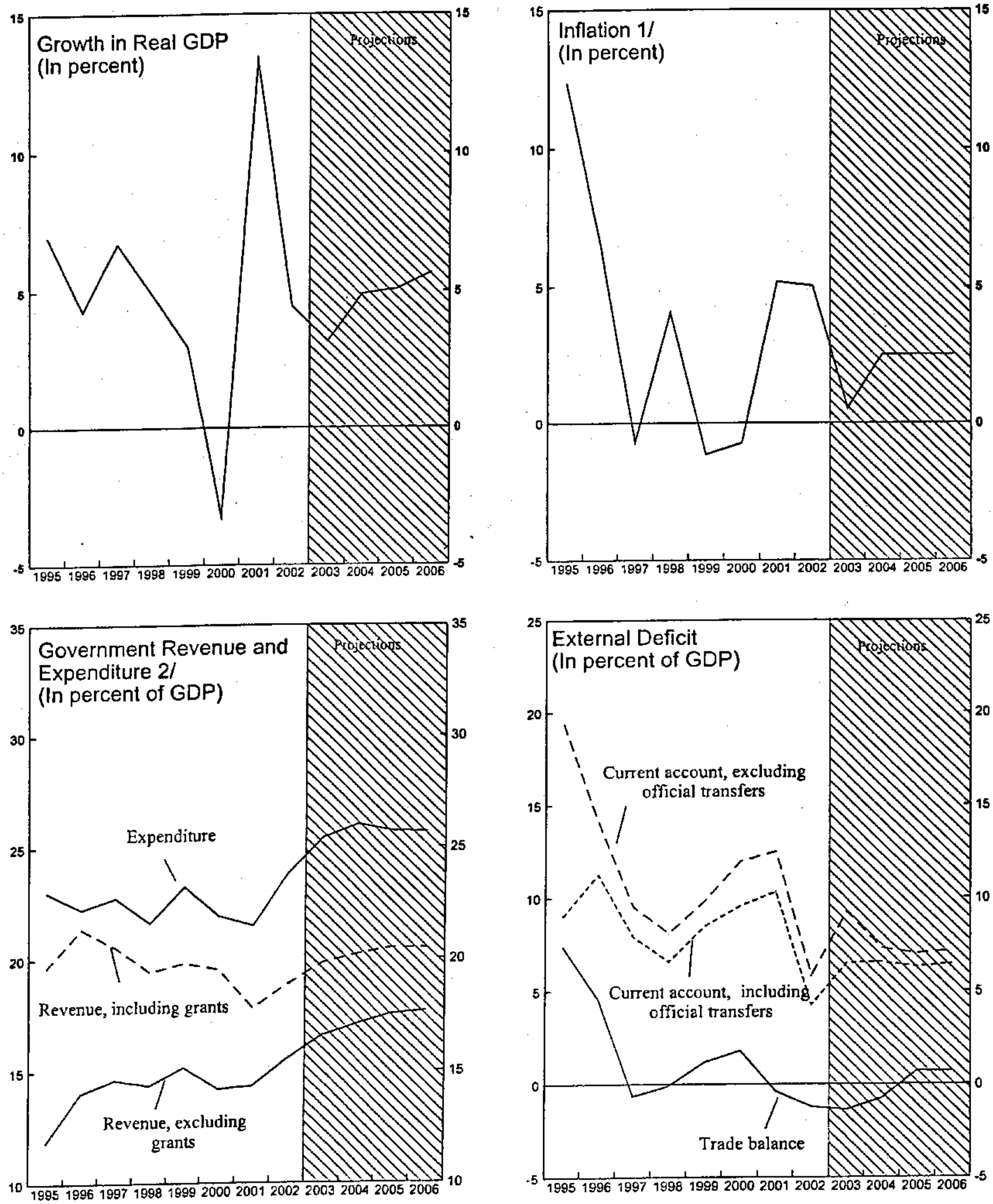
expenditure data from the 2001 household survey, which will be available shortly, clarify social policy objectives and government spending priorities, and strengthen mechanisms for monitoring and evaluating strategy implementation.

45. **The ex post assessment of performance under the last three Enhanced Structural Adjustment Facility (ESAF)/PRGF arrangements shows that Fund-supported programs have helped Mali stabilize the macroeconomic situation and improve the structure of its economy.** The authorities consider that financial support from the Fund has been essential in that process, as it has helped them define objectives and implement a coherent set of policies and measures.

46. **The staff agrees with the authorities that continued financial support from the Fund remains crucial to implement the unfinished reform agenda and support the authorities' efforts to deal with the daunting challenges facing Mali.** It recommends beginning discussions on a new medium-term program that could be supported by the Fund under a low-access PRGF arrangement.

47. The staff recommends that the next Article IV consultation with Mali be held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

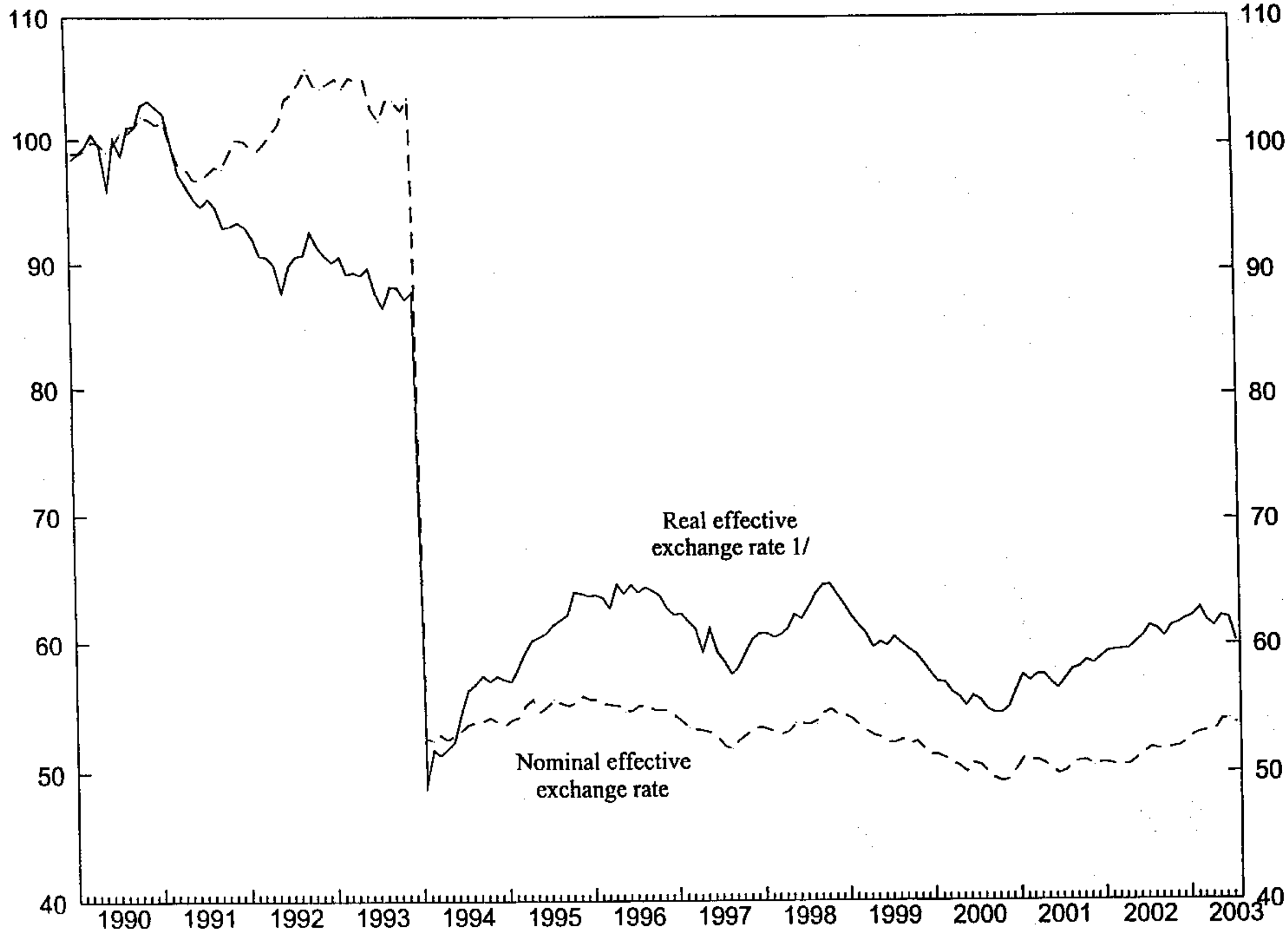
Figure 1. Mali: Main Economic Indicators, 1995-2006



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 - July 2003

(Period average; 1990=100)



Source: IMF, Information Notice System.

1/ Based on relative consumer price indices.

Table 1. Mali: Fund Position, 2002-06

	2002	2003					2004	2005	2006
		Jan.-	Apr.-	Jul.-	Oct.-	Total	Projections		
	Act.	Mar.	June	Sep.	Dec.				
	(In millions of SDRs)								
Net use of Fund credit	-14.26	4.60	-9.14	5.20	-8.63	-7.97	-21.99	-15.86	-12.11
Loans under:									
Structural Adjustment Facility (SAF)	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
Poverty Reduction and Growth Facility (PRGF)	-14.26	4.60	-9.14	5.20	-8.63	-7.97	-21.99	-15.86	-12.11
Disbursements	6.75	6.15	0.00	6.75	0.00	12.90	0.00	0.00	0.00
Repayments	21.01	1.55	9.14	1.55	8.63	20.87	21.99	15.86	12.11
Fund credit at end of period under PRGF	121.75	126.35	117.21	122.41	113.78	113.78	91.79	75.93	63.82
	(In percent of quota)								
Fund credit at end of period under Structural Adjustment Facility (SAF)/PRGF	130.49	135.42	125.63	131.20	121.95	121.95	98.38	81.38	68.40

Source: IMF, Finance Department.

Table 2. Mali: Selected Economic and Financial Indicators, 2000-06

	2000	2001	2002	2003			2004	2005	2006
					Proj.				
				EBS/03/92	Old GDP 1/	Rev. GDP 1/	Projections		
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
Real GDP	-3.2	13.3	4.4	-1.1	-0.4	3.2	4.9	5.0	5.7
Nominal GDP (in billions of CFA francs)	1,899.4	2,210.5	2,344.8	2,252.5	2,239.1	2,487.1	2,660.0	2,859.4	3,085.3
GDP deflator	9.2	2.7	1.6	3.8	2.4	2.8	2.0	2.3	2.1
Consumer price index (annual average)	-0.7	5.2	5.0	3.8	0.5	0.5	2.5	2.5	2.5
External sector									
Exports, f.o.b.	9.2	36.9	18.9	-7.3	-8.0	-8.0	5.7	3.0	4.9
Imports, f.o.b.	13.1	27.7	-7.4	2.2	3.4	3.4	4.2	6.2	6.7
Export volume	-1.1	24.8	29.2	-11.5	-14.0	-14.0	5.5	1.4	3.0
Of which: nonmining	-7.4	-23.1	40.3	-9.7	-16.2	-16.2	25.9	10.3	2.3
Import volume	1.7	29.8	8.5	0.9	1.8	1.8	3.9	6.1	5.8
Terms of trade	-0.7	2.3	3.0	2.9	5.3	5.3	-0.9	0.6	0.4
Nominal effective exchange rate (average)	-4.3	3.2	1.5	...	...	...	...	...	...
Real effective exchange rate (average)	-7.4	3.7	4.9	...	...	...	...	...	...
Central government finance									
Total revenue	-1.0	18.6	21.3	10.2	10.2	10.2	12.3	6.3	10.2
Total expenditure and net lending 2/	-0.5	14.1	17.5	13.3	13.3	13.3	9.4	6.2	7.8
Current expenditure	2.6	39.7	10.3	0.2	4.5	4.5	14.2	6.8	8.2
Capital expenditure and net lending 2/	-2.8	-9.7	27.8	26.8	24.2	24.2	4.4	5.6	7.3
Money and credit									
Credit to the government 3/	-4.2	4.6	-1.8	2.6	2.6	2.6	-3.1	...	...
Credit to the rest of economy	-2.4	19.0	21.6	9.0	10.5	10.5	18.3	...	...
Broad money (M2)	11.9	19.3	28.4	10.9	15.4	15.4	11.9	...	...
Velocity (GDP/M2)	4.7	4.0	3.7	3.2	3.1	3.4	3.3	...	...
Interest rate (in percent; end of period) 4/	6.5	6.5	6.5	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)								
Investment and saving									
Gross domestic investment	22.5	27.2	20.3	20.5	20.3	22.3	22.0	22.0	21.9
Government	8.0	6.4	7.4	9.4	9.3	8.2	8.4	8.6	8.6
Nongovernment	14.5	20.8	12.9	11.1	11.0	14.2	13.6	13.4	13.3
Gross domestic saving	11.6	17.5	19.0	17.1	17.0	17.3	17.5	17.1	16.8
Government	0.8	-0.3	0.6	2.5	2.4	0.7	0.7	0.8	1.3
Nongovernment	10.8	17.8	18.4	14.7	14.6	16.5	16.8	16.3	15.6
Central government finance									
Total revenue	14.2	14.5	16.6	19.0	19.1	17.2	18.1	17.9	18.3
Total expenditure and net lending 2/	21.9	21.5	23.8	28.1	28.2	25.4	26.0	25.7	25.7
Overall balance (payment order basis, including grants)	-2.9	-3.2	-3.6	-5.4	-4.3	-3.9	-5.1	-5.2	-4.7
Overall balance (payment order basis, excluding grants)	-7.7	-7.0	-7.2	-9.1	-9.1	-8.2	-7.9	-7.8	-7.4
Basic fiscal balance 5/	-0.7	-1.7	-1.3	-1.3	-1.3	-1.1	-1.1	-1.2	-0.7
Basic fiscal balance 6/	-0.6	-0.2	0.1	0.3	0.3	0.2	0.1	-0.2	0.2
External sector									
Current external balance, including official transfers	-9.5	-10.3	-4.3	-7.4	-7.2	-6.5	-6.5	-6.3	-6.4
Current external balance, excluding official transfers	-11.9	-12.5	-5.8	-8.2	-10.3	-9.2	-7.3	-7.0	-7.1
Debt-service ratio 7/									
Before debt relief	12.8	9.9	9.9	11.6	12.1	12.1	10.7	10.1	9.6
After debt relief	12.2	6.3	6.2	7.6	7.8	7.8	6.5	6.1	5.7
Overall balance of payments (in millions of US dollar)	39.2	-44.8	138.2	-62.7	52.3	52.3	-116.7	-128.9	-96.4
Gross international reserves (in millions of US dollar)	381.3	348.9	594.5	680.7	811.2	811.2	853.6	896.6	940.3
(In months of next year's imports) 8/	3.8	3.9	6.0	5.9	7.0	7.0	7.0	6.9	6.7
Exports of goods	20.4	24.0	26.9	26.9	26.0	23.4	23.1	22.1	21.5
Imports of goods	22.2	24.4	21.3	22.6	23.0	20.7	20.2	20.0	19.7
U.S. dollar exchange rate (end of period)	705.0	744.3	625.5	...	...	...	...	...	...

Sources: Malian authorities; and staff estimates and projections.

1/ The two columns differ because the authorities revised their GDP methodology to be consistent with the West African Economic and Monetary Union (WAEMU) and System of National Accounts (SNA) 1993 methodology.

2/ Including capital outlays financed through external aid and transfers to the local authorities; data on payment order 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 minus total expenditures and net lending, excluding foreign-financed investment.

6/ Defined as footnote 5 above, but also excluding HIPC Initiative-related expenditure.

7/ In percent of exports of goods and services.

8/ Of goods and services.

Table 3. Mali: Selected National Accounts Indicators, 2000-06

	Composition of GDP in 2002 (In percent)	2000 Act.	2001 Act.	2002 Est.	2003	2004	2005	2006
					Projections			
	(Annual percentage change in constant prices)							
Primary sector	31.6	-10.4	11.7	-4.4	9.0	4.3	5.0	4.2
Agriculture	17.0	-19.8	19.6	-9.2	10.9	4.7	5.4	4.5
Food crops, excluding rice	10.5	-19.7	3.2	2.9	8.0	5.0	5.0	3.8
Rice	3.4	-7.2	26.1	-26.2	5.0	4.8	7.0	7.0
Industrial agriculture, excluding cotton	0.9	5.0	-3.4	3.6	5.0	4.8	6.0	6.0
Cotton	2.4	-47.2	135.2	-26.5	34.3	3.8	5.0	3.8
Livestock	9.6	3.6	2.8	1.6	7.4	3.8	5.0	3.8
Fishing and Forestry	5.0	2.5	2.5	2.6	5.5	3.8	3.8	3.8
Secondary sector	27.5	4.4	26.1	20.0	-7.5	3.9	2.2	6.3
Mining	13.9	8.8	89.8	23.1	-12.7	-6.7	-5.7	3.7
Industry	7.7	-2.2	-14.1	25.6	-8.5	16.1	7.7	7.4
Agribusiness	2.4	13.1	-6.4	-1.1	0.6	3.3	5.0	6.0
Textile	0.8	-6.3	4.8	4.1	2.3	8.0	10.0	5.0
Others	4.8	-9.1	-20.6	48.1	-13.5	25.3	9.2	9.0
Of which: cotton ginning	2.9	-11.4	-47.2	135.2	-26.5	34.9	6.3	5.0
Energy	1.7	21.7	9.6	15.1	20.9	16.9	10.0	10.2
Construction and public works	4.1	5.3	6.9	4.4	0.0	8.0	8.0	8.0
Tertiary sector	33.4	4.3	5.7	1.1	4.0	6.0	5.8	5.5
Transportation and telecommunications	4.6	4.9	4.3	-2.1	10.5	12.0	11.9	9.0
Trade	12.8	3.7	10.8	-0.9	3.6	6.1	6.0	6.4
Financial services	0.2	4.8	1.0	0.4	1.0	0.8	5.0	5.0
Other nonfinancial services	6.8	-0.2	0.5	2.9	0.7	4.1	3.6	3.0
Of which: owner-occupied housing	0.0	-2.1	-2.4	-0.6	-0.6	-0.1	0.2	0.4
Public administration	8.5	8.8	3.8	4.5	4.0	4.4	3.6	3.6
GDP (at factor cost)	92.5	-1.8	12.6	3.9	2.3	4.8	4.6	5.2
Indirect taxes	7.5	-20.3	23.5	11.4	13.6	5.4	10.2	10.2
GDP (at market prices)	100.0	-3.2	13.3	4.4	3.2	4.9	5.0	5.7
Nonmining real GDP	86.1	-4.0	7.5	1.9	5.7	6.4	6.3	5.9
	(Net financial balances; in percent of nominal GDP, unless otherwise indicated)							
Total economy	...	-9.5	-10.3	-4.3	-6.5	-6.5	-6.3	-6.4
Gross national saving	...	13.1	17.0	16.2	16.7	15.9	15.9	15.6
Of which : domestic saving	...	11.6	17.5	19.0	17.3	17.5	17.1	16.8
Gross domestic investment	...	22.6	27.3	20.4	23.2	22.4	22.1	22.0
Private sector	...	-3.8	-5.1	1.9	-0.1	1.5	1.7	1.1
Gross national saving	...	10.7	15.8	14.8	14.1	15.1	15.0	14.4
Of which : domestic saving	...	10.8	17.8	18.4	16.5	16.8	16.3	15.6
Gross domestic investment	...	14.5	20.8	12.9	14.2	13.6	13.4	13.3
Of which : change in stock	...	1.0	6.5	1.2	3.2	2.3	2.3	2.3
Government	...	-5.8	-5.2	-6.2	-6.4	-8.1	-8.0	-7.5
Gross national saving	...	2.4	1.2	1.4	2.6	0.8	0.8	1.2
Of which : domestic saving	...	0.8	-0.3	0.6	0.7	0.7	0.8	1.3
Gross domestic investment	...	8.1	6.4	7.5	9.0	8.8	8.8	8.8
Memorandum items:								
External current account balance (in percent of GDP) 1/	...	-9.5	-10.3	-4.3	-6.5	-6.5	-6.3	-6.4
Nominal GDP (in billions of CFA francs)	...	1,899.4	2,210.5	2,344.8	2,487.1	2,660.0	2,859.4	3,085.3

Sources: Malian authorities; and staff estimates and projections.

1/ Including current official transfers.

Table 4. Mali: Central Government Consolidated Financial Operations, 2000-06

	2000	2001	2002	2003		2004	2005	2006
	Actual			Prog. EBS/03/92	Rev. Proj.	Budget 1/	Projections	
				(In billions of CFA francs)				
Revenue and grants	359.9	403.8	474.2	510.1	536.4	555.1	587.2	646.3
Total revenue	269.9	320.1	388.4	428.2	428.2	480.8	511.3	563.3
Budgetary revenue	245.5	292.6	354.7	389.1	389.1	441.8	470.6	521.7
Tax revenue	233.3	281.6	323.5	352.7	352.7	406.1	437.0	486.9
Direct taxes	40.1	46.3	51.9	62.9	62.9	68.9	74.1	82.6
Indirect taxes	193.2	235.3	271.6	289.9	289.9	337.2	362.9	404.4
Of which : value-added tax	61.3	90.0	108.2	112.3	112.3	127.2	136.9	152.5
Nontax revenue	12.2	11.0	31.2	36.4	36.4	35.7	33.6	34.8
Special funds and annexed budgets	24.4	27.5	33.7	39.0	39.0	39.0	40.7	41.6
Grants	90.0	83.6	85.8	82.0	108.3	74.3	75.9	83.0
Projects	57.8	56.1	69.2	69.8	69.8	74.3	75.9	83.0
Budgetary	32.2	27.5	16.6	12.2	38.5	0.0	0.0	0.0
Total expenditure and net lending 2/	415.4	474.9	558.0	632.3	632.3	691.7	734.8	792.0
Budgetary expenditure	393.5	458.0	529.2	602.5	602.5	662.2	707.5	763.9
Current expenditure	200.2	279.8	308.7	322.6	322.6	368.4	393.4	425.6
Wages and salaries	73.1	85.8	93.5	110.8	110.8	128.3	142.4	151.8
Goods and services	75.2	91.8	109.0	108.3	108.3	128.9	131.7	146.2
Transfers and subsidies	35.9	87.6	87.8	80.5	80.5	92.7	99.1	104.7
Interest	16.0	14.6	18.4	23.0	23.0	18.5	20.2	22.8
Domestic	1.6	0.8	2.1	3.2	3.2	1.1	1.5	1.4
External	14.4	13.8	16.3	19.7	19.7	17.4	18.7	21.4
Capital expenditure	193.3	178.2	220.5	279.8	279.8	293.8	314.1	338.3
Externally financed	133.3	116.3	140.3	175.6	175.6	182.6	188.2	206.5
Domestically financed	60.0	61.9	80.2	104.2	104.2	111.2	125.9	131.8
Special funds and annexed budgets	24.4	27.5	33.7	33.8	33.8	32.7	33.3	34.2
Net lending	-2.5	-10.6	-4.9	-3.9	-3.9	-3.3	-6.0	-6.0
Overall fiscal balance, payment order basis								
Excluding grants	-145.5	-154.8	-169.7	-204.1	-204.2	-210.9	-223.5	-228.7
Including grants	-55.5	-71.1	-83.9	-122.2	-95.9	-136.6	-147.5	-145.7
Overall fiscal balance, cash basis								
Excluding grants	-143.9	-154.8	-171.0	-204.1	-204.2	-210.9	-223.5	-228.7
Including grants	-53.9	-71.1	-85.2	-122.2	-95.9	-136.6	-147.5	-145.7
Financing	53.9	71.1	85.2	86.6	95.9	70.9	74.8	92.5
External financing (net)	51.8	65.0	88.5	124.7	125.9	97.7	99.8	110.7
Loans	82.4	78.4	102.6	139.7	141.0	108.3	112.3	123.4
Project loans	75.5	60.2	71.1	105.8	105.8	108.3	112.3	123.4
Budgetary loans	6.9	18.2	31.5	33.9	35.2	0.0	0.0	0.0
Amortization	-33.2	-36.4	-41.6	-44.2	-44.2	-40.3	-42.3	-42.4
Debt relief, HIPC Initiative	2.6	23.1	27.5	29.2	29.2	29.6	29.7	29.7
Domestic financing (net)	2.1	6.1	-3.4	-38.1	-30.1	-26.8	-25.0	-18.1
Banking system	-17.9	17.3	-9.9	13.4	15.1	-23.1	-17.6	-12.1
Of which : IMF (net)	-3.3	4.1	-10.0	-8.4	-6.6	-18.2	-13.1	-10.0
Privatization receipts	20.3	0.0	29.4	2.0	2.0	7.1	0.0	0.0
Other financing	-0.3	-11.2	-22.9	-44.5	-38.2	-10.8	-7.4	-6.0
Financing gap	0.0	0.0	0.0	35.6	0.0	65.7	72.7	53.2
				(In percent of GDP)				
Revenue and grants	18.9	18.3	20.2	20.5	21.6	20.9	20.5	20.9
Of which : total revenue	14.2	14.5	16.6	17.2	17.2	18.1	17.9	18.3
Of which : tax revenue	12.3	12.7	13.8	14.2	14.2	15.3	15.3	15.8
Total expenditure and net lending	21.9	21.5	23.8	25.4	25.4	26.0	25.7	25.7
Of which : health and education	4.3	3.6	3.7	...	5.9	5.7	5.7	5.7
Current expenditure	10.5	12.7	13.2	13.0	13.0	13.9	13.8	13.8
Overall fiscal balance								
Payment order basis, including grants	-2.9	-3.2	-3.6	-4.9	-3.9	-5.1	-5.2	-4.7
Payment order basis, excluding grants	-7.7	-7.0	-7.2	-8.2	-8.2	-7.9	-7.8	-7.4
Basic fiscal balance 3/	-0.6	-1.7	-1.3	-1.1	-1.1	-1.1	-1.2	-0.7
				(In billions of CFA francs)				
Memorandum items:								
Nominal GDP, revised methodology	1,899.4	2,210.5	2,344.8	2,487.1	2,487.1	2,660.0	2,859.4	3,085.3
Basic fiscal balance 3/	-12.2	-38.5	-29.3	-28.5	-28.6	-28.3	-35.2	-22.3
HIPC Initiative expenditures	0.9	16.8	30.9	34.7	34.7	29.6	29.7	29.7

Sources: Ministry of Finance; and staff estimates and projections.

1/ Revenue and expenditure are from the budget. The staff took 80 percent of capital expenditure, in line with the past execution levels.

2/ Outlays financed by enhanced HIPC Initiative resources are recorded according to their economic classification. Starting in 2003, salaries included in annexed budgets are recorded under wages and salaries.

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

Table 5. Mali: Compliance with WAEMU Convergence Criteria, 2000-06
(Ratios in percent, unless otherwise indicated)

	Ratio	2000	2001	2002	2003		2004	2005	2006
		Actual			EBS/03/92	Rev. Proj.	Projections		
Primary criteria									
Basic fiscal balance / GDP	>=0	-0.6	-0.2	0.1	0.3	0.2	0.1	-0.2	0.2
Inflation (annual average percentage change)	<=3	-0.7	5.2	5.0	3.8	0.5	2.5	2.5	2.5
Total nominal debt / GDP	<=70	99.2	90.9	89.7	78.8	71.3	69.7	67.2	64.1
Domestic arrears accumulation (in billions of CFA francs)	<=0	0.0	0.0	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	0.0	0.0
Secondary criteria									
Wages / fiscal revenue	<=35	31.3	30.5	28.9	28.3	31.4	31.6	32.6	31.2
Domestically financed investment / fiscal revenue	>=20	25.7	22.0	24.8	23.5	29.5	27.4	28.8	21.0
Current account deficit, excluding current official transfers / GDP	<=5	11.9	12.5	5.8	8.2	9.2	7.3	7.0	7.1
Fiscal revenue / GDP	>=17	12.3	12.7	13.8	15.7	14.2	15.3	15.3	15.8

Sources: Malian authorities; and staff estimates and projections.

Table 6. Mali : Monetary Survey, 2001-04

	2001	2002				2003					2004
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.		Sep.	Dec.	Dec.
							Prog. EBS/03/16	Est.	Est.	Proj.	Proj.
	(In billions of CFA francs)										
Net foreign assets	198.1	242.5	243.8	243.5	284.9	339.9	246.3	383.1	372.8	345.6	370.6
Central Bank of West African States (BCEAO)	115.4	177.3	201.8	196.4	239.3	293.5	184.9	315.8	315.2	300.0	325.0
Commercial banks	82.7	65.2	42.0	47.1	45.6	46.3	61.4	67.2	57.6	45.6	45.6
Net domestic assets	289.5	306.7	310.4	291.3	341.4	335.8	350.5	292.1	308.0	377.4	438.3
Credit to the government (net)	-18.7	-19.0	-0.5	-14.3	-27.5	-37.0	-2.4	-32.1	-7.3	-11.5	-33.8
BCEAO	109.1	111.5	115.6	101.2	107.4	98.9	...	87.8	...	...	...
Commercial banks	-126.5	-128.9	-114.7	-114.5	-134.9	-133.8	...	-119.1	...	...	...
Other	-1.3	-1.6	-1.4	-1.0	0.0	-2.1	...	-0.8	...	...	...
Credit to the economy	338.5	365.0	356.3	356.5	411.5	415.0	397.4	391.6	381.0	454.6	537.7
Other items (net)	-30.2	-39.3	-45.4	-50.9	-42.6	-42.2	-44.4	-67.4	-65.6	-65.6	-65.6
Money supply (M2)	487.6	549.1	554.2	534.8	626.3	675.7	596.8	675.1	680.8	723.0	808.8
Currency outside banks	179.0	212.6	235.9	218.6	247.4	274.3	...	285.9	...	...	...
Bank deposits	308.5	336.5	318.3	316.2	378.9	401.4	...	389.2	...	...	...
	(In percent of beginning-of-period broad money)										
Contribution to the growth of broad money											
Net foreign assets	7.4	9.1	9.4	9.3	17.8	8.8	...	15.7	14.0	9.7	3.5
Net domestic assets	11.8	3.5	4.3	0.4	10.6	-0.9	...	-7.9	-5.3	5.8	8.4
Of which : credit to the central government	4.6	-0.1	3.7	0.9	-1.8	-1.5	...	-0.7	3.2	2.6	-3.1
Money supply (M2)	19.2	12.6	13.7	9.7	28.4	7.9	...	7.8	8.7	15.4	11.9
	(Annual percentage change, unless otherwise indicated)										
Memorandum items:											
Money supply	19.2	24.8	22.1	18.5	28.4	23.1	7.2	21.8	27.3	15.4	11.9
Credit to the economy	19.0	19.2	26.3	22.5	21.6	13.7	11.5	9.9	6.9	10.5	18.3
Velocity (GDP/M2)	4.5	...	...	...	3.7	...	...	...	...	3.4	3.3
Currency outside banks / M2 (in percent)	36.7	38.7	42.6	40.9	39.5	40.6	...	42.3	...	...	...

Sources: BCEAO; and staff estimates and projections.

Table 7. Mali: Balance of Payments, 2001-06 1/

	2001	2002	2003		2004	2005	2006
	Act.	Rev. Est.	Prog. EBS/03/92	Proj.	Projections		
	(In billions of CFA francs)						
Exports, f.o.b.	531.2	631.4	605.9	581.2	614.1	632.8	663.7
Cotton fiber	81.2	138.2	119.6	111.3	169.0	197.2	200.1
Gold	353.8	411.6	387.8	377.7	336.1	316.2	327.2
Other	96.1	81.5	98.4	92.2	109.0	119.4	136.4
Imports, f.o.b.	-538.4	-498.3	-509.4	-515.5	-537.3	-570.8	-609.2
Trade balance	-7.2	133.1	96.5	65.7	76.8	62.0	54.5
Services (net)	-198.1	-167.2	-191.5	-212.4	-206.6	-206.4	-214.6
Credit	110.8	123.6	110.1	94.8	98.3	103.1	112.0
Debit	-308.9	-290.8	-301.6	-307.2	-305.0	-309.5	-326.6
Of which: freight and insurance	-177.3	-148.8	-152.2	-154.0	-160.5	-162.0	-172.9
Income (net)	-121.7	-160.9	-139.2	-133.2	-114.7	-108.4	-115.8
Of which: interest due on public debt	-14.3	-16.8	-20.1	-20.1	-17.7	-19.0	-21.6
Private transfers (net)	51.1	58.5	50.0	50.0	51.1	53.3	55.3
Official transfers (net)	48.4	36.8	18.5	68.6	20.2	20.2	21.8
Of which: budgetary grants	27.5	16.6	12.2	38.5	0.0	0.0	0.0
Current account balance							
Excluding official transfers	-275.9	-136.5	-184.3	-230.0	-193.4	-199.5	-220.5
Including official transfers	-227.5	-99.7	-165.8	-161.3	-173.2	-179.4	-198.8
Capital and financial account	131.1	183.2	128.0	192.9	103.0	101.9	140.8
Capital account (net)	62.1	75.2	71.8	75.8	76.3	77.9	85.0
Of which: projects grants	56.1	69.2	69.8	69.8	74.3	75.9	83.0
Financial account	69.0	108.0	56.2	117.1	26.7	23.9	55.8
Private (net) 2/	27.1	47.0	-39.3	20.3	-41.4	-46.1	-25.3
Direct investment (net)	76.6	88.0	46.0	26.2	22.6	21.2	22.4
Portfolio investment private (net)	7.6	8.2	4.4	6.5	5.5	5.5	5.5
Other private capital flows	-44.1	-49.2	-89.7	-12.4	-69.5	-72.8	-53.2
Official (net)	42.0	61.0	95.5	96.8	68.1	70.1	81.0
Disbursements	78.4	102.6	139.7	141.0	108.3	112.3	123.4
Budgetary	18.2	31.5	33.9	35.2	0.0	0.0	0.0
Project related	60.2	71.1	105.8	105.8	108.3	112.3	123.4
Amortization due on public debt	-36.4	-41.6	-44.2	-44.2	-40.3	-42.3	-42.4
Errors and omissions	63.6	12.9	0.0	0.0	0.0	0.0	0.0
Overall balance	-32.9	96.4	-37.8	31.5	-70.3	-77.5	-58.0
Financing	32.9	-96.4	37.8	-31.5	70.3	77.5	58.0
Foreign assets (net)	9.8	-123.9	-27.0	-60.7	-25.0	-25.0	-25.0
Of which: IMF (net)	4.1	-10.0	-8.4	-6.6	-18.2	-13.1	-10.0
Drawings	17.0	6.0	10.7	10.7	0.0	0.0	0.0
Repurchases	-12.9	-16.0	-19.1	-17.3	-18.2	-13.1	-10.0
HIPC Initiative assistance 3/	23.1	27.5	29.2	29.2	29.6	29.7	29.7
Financing gap	0.0	0.0	35.6	0.0	65.7	72.8	53.3
Memorandum items:	(Annual percentage change)						
Export volume index	24.8	29.2	-11.5	-14.0	5.5	1.4	3.0
Import volume index	29.8	8.5	0.9	1.8	3.9	6.1	5.8
Export unit value	9.7	-8.0	4.7	7.1	0.2	1.6	1.8
Import price	7.2	-10.7	1.7	1.7	1.1	1.0	1.5
Terms of trade	2.3	3.0	2.9	5.3	-0.9	0.6	0.4
	(In percent of GDP, unless otherwise indicated)						
External current account balance							
Excluding official transfers	-12.5	-5.8	-8.2	-9.2	-7.3	-7.0	-7.1
Including official transfers	-10.3	-4.3	-7.4	-6.5	-6.5	-6.3	-6.4
External public debt	89.5	90.0	94.7	71.3	69.7	67.2	64.1
Debt-service ratio 4/							
Before debt relief	9.9	9.5	11.6	12.1	10.7	10.1	9.5
After debt relief (including HIPC Initiative)	6.3	6.2	7.6	7.8	6.5	6.1	5.7

Sources: Malian authorities; and staff estimates and projections.

1/ Presented according to the *IMF Balance of Payments Manual* (5th ed.)

2/ Includes short-term capital inflows.

3/ Sum of the original and enhanced HIPC Initiative assistance.

4/ In percent of exports of goods and services.

Table 8. Mali: External Financing Requirements and Resources, 2000-06
(In billions of CFA francs, unless otherwise indicated)

	2000	2001	2002	2003		2004	2005	2006
			Est.	EBS/03/92	Rev. proj.	Projections		
Requirements	254.0	256.0	295.1	266.2	345.6	258.7	266.9	288.2
Current account deficit,								
excluding official transfers	226.9	275.9	136.5	184.3	230.0	193.4	199.5	220.6
Debt amortization	33.2	36.4	41.6	44.2	44.2	40.3	42.3	42.5
IMF repurchases	12.1	12.9	16.0	19.1	17.3	18.2	13.1	10.0
Change in the net foreign assets (increase +) 1/	-16.9	-5.7	113.9	18.6	54.1	6.8	11.9	15.0
Adjustment 2/	-1.3	-63.6	-12.9	0.0	0.0	0.0	0.0	0.0
i\mli\database-aremos\MLI_SR0302.bnk,type=LAREMOS								
Resources	254.0	256.0	295.1	266.2	345.6	258.7	266.9	288.2
Official transfers 3/	45.7	48.4	36.8	18.5	68.6	20.2	20.2	21.8
Official project grants 3/	57.8	56.1	69.2	69.8	69.8	74.3	75.9	83.0
Long-term public loan disbursement 3/	82.4	78.4	102.6	139.7	141.0	108.3	112.3	123.4
Budgetary	6.9	18.2	31.5	33.9	35.2	0.0	0.0	0.0
Project related	75.5	60.2	71.1	105.8	105.8	108.3	112.3	123.4
Private capital (net) 4/	58.3	33.0	53.0	-37.3	26.3	-39.4	-44.0	-23.0
Debt relief, including HIPC Initiative assistance 5/	2.6	23.1	27.5	29.2	29.2	29.6	29.7	29.7
Debt under negotiation/moratorium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of IMF resources: Enhanced Structural Adjustment								
Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF)	6.3	17.0	6.0	10.7	10.7	0.0	0.0	0.0
Exceptional financing	0.9	0.0	0.0	35.6	0.0	65.7	72.8	53.3
Memorandum item:								
Exchange rate: CFA francs per SDR	936.5	933.2	829.0	....	....	....	....	....

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

1/ Excluding the change in the net position vis-à-vis the Fund.
2/ Errors and omissions.
3/ Includes both existing and expected new commitments.
4/ Includes private capital grants.
5/ Sum of original and enhanced HIPC Initiative framework for the 2000 estimate and 2001 projection; original HIPC Initiative only for the program.

Table 9. Mali: Indicators of Fund Credit and Debt Servicing, 2001-12
(Ratios 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	121.9	98.4	81.4	68.4	56.6	44.6	34.1	27.3	22.5	24.1
Outstanding Fund credit/GDP 1/	6.2	5.2	4.6	3.5	2.7	2.1	1.6	1.1	0.8	0.6	0.4	0.4
Outstanding Fund credit/exports of goods and nonfactor services 1/	21.2	16.1	16.8	12.9	10.3	8.2	6.3	4.8	3.5	2.7	2.1	2.1
Gross Fund financing/financing needs 1/ 2/	8.6	7.5	9.6	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/	3.0	3.0	3.6	3.9	2.7	2.0	2.0	1.8	1.5	1.0	0.7	0.0
Debt service to the Fund/total debt service 3/	33.7	33.5	28.3	33.2	22.4	16.4	17.2	16.6	13.9	8.9	6.0	0.0
Total debt service before rescheduling 3/	7.8	7.4	8.7	8.1	8.3	8.2	7.8	7.5	7.3	7.4	7.7	7.4
Total debt service after debt relief 4/	4.2	3.9	4.7	3.9	4.3	4.4	4.2	4.4	4.5	4.8	5.5	5.4
Memorandum item:												
Exports of goods and services (in millions of SDRs)	601.2	704.5	610.1	591.8	610.0	642.7	698.4	718.9	756.2	783.8	823.4	878.7

Sources: IMF, Finance 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 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 services.

Table 10. Mali: Tracking of Delivery of HIPC Initiative Assistance - Enhanced Framework 1/

	When/How Did Authorities Contact Creditor?	Agreement to Provide HIPC Relief?	Agreement to Provide Interim Assistance?	Begun to Deliver Interim Assistance	Begun to Deliver Completion Point Assistance
Multilateral creditors					
IMF	September 2000	yes	yes	yes	yes
IDA/IBRD	October 2000	yes	yes	yes	yes
African Development Bank (AfDB)	March 2003	yes	yes	yes	yes
European Union (EU)/European Investment Bank (EIB)	March 2003	yes	yes	yes	yes
International Fund for Agricultural Development (IFAD)	March 2003	yes	yes	yes	no
Islamic Development Bank (IsDB)	March 2003	yes	yes	no	no
Fonds de Solidarité Intervention Développement (FSID)	March 2003	no	no	no	no
Economic Commonwealth of West African States (ECOWAS)	March 2003	pending	no	no	no
(Central Bank of West African States (BCEAO)	March 2003	pending	no	no	no
West African Development Bank (BOAD)	March 2003	yes	yes	yes	no
OPEC	March 2003	yes	yes	yes	no
Arab Bank for Economic Development in Africa (BADEA)	March 2003	yes	yes	no	no
Paris Club creditors					
Canada		no	no	no	no
France	March 2003	yes	yes	yes	yes
Italy	March 2003	yes	yes	yes	yes
Japan	March 2003	yes	yes	yes	yes
Netherlands	March 2003	yes	yes	yes	yes
Russia	March 2003	yes	no	no	no
United Kingdom	March 2003	yes	yes	yes	yes
United States	March 2003	yes	no	no	no
Non-Paris Club bilateral creditors					
Algeria	March 2003	no	no	no	no
Côte d'Ivoire	March 2003	no	no	no	no
China, People's Republic of	March 2003	yes	no	no	no
Iraq	March 2003	no	no	no	no
Kuwait	March 2003	yes	yes	yes	no
Libya	March 2003	yes	no	no	no
Saudi Arabia	March 2003	yes	yes	no	no
United Arab Emirates	March 2003	yes	yes	no	no

Source: Malian authorities.

1/ Reflects formal commitments received by the authorities from the creditors.

Table 11. Mali: External Debt Indicators, 2002-21 1/

(In percent, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007-10	2011-21
	Actual	Projections				Averages	
After traditional debt-relief mechanisms							
Net Present Value of debt-to-GDP ratio	45.2	38.7	38.3	37.9	37.1	33.2	27.0
Net Present Value of debt-to-exports ratio 2/	175.0	155.3	149.8	153.2	154.9	149.8	151.3
Net Present Value of debt-to-revenue ratio 3/	272.6	224.5	211.9	211.9	203.4	173.8	134.9
Debt service-to-exports ratio	9.8	9.9	9.6	9.4	9.0	8.1	7.8
Debt service-to-revenue ratio 3/	19.1	15.7	14.2	13.5	12.4	10.0	7.4
After enhanced HIPC assistance							
Net Present Value of debt-to-GDP ratio	41.0	27.5	28.4	29.2	29.7	28.2	25.5
Net Present Value of debt-to-exports ratio 2/	158.8	110.3	111.2	118.3	123.7	127.2	143.1
Net Present Value of debt-to-revenue ratio 3/	247.4	159.5	157.3	163.6	162.5	147.3	127.3
Debt service-to-exports ratio	6.4	5.6	5.3	5.4	5.2	5.1	6.5
Debt service-to-revenue ratio 3/	12.4	8.9	7.8	7.7	7.2	6.3	6.1
After bilateral debt relief beyond HIPC assistance							
Net Present Value of debt-to-GDP ratio	36.9	27.4	28.4	29.2	29.6	28.2	25.5
Net Present Value of debt-to-exports ratio 2/	142.8	110.0	111.0	118.1	123.6	127.2	143.0
Net Present Value of debt-to-revenue ratio 3/	222.6	159.1	157.0	163.4	162.4	147.3	127.3
Debt service-to-exports ratio	6.1	5.2	5.3	5.3	5.2	5.1	6.5
Debt service-to-revenue ratio 3/	11.9	8.3	7.8	7.7	7.2	6.3	6.1
Memorandum items:							
External debt indicators after enhanced HIPC Initiative assistance at the time of the completion point 4/							
Net Present Value of debt-to-GDP ratio	39.9	33.2	33.1	33.0	32.6	31.0	28.7
Net Present Value of debt-to-exports ratio 2/	150.7	118.7	118.2	121.4	120.6	126.9	140.2
Net Present Value of debt-to-revenue ratio 3/	231.6	173.8	172.1	168.9	164.4	160.6	151.5
Debt service-to-exports ratio	6.5	5.8	5.5	5.3	5.1	5.3	6.5
Debt service-to-revenue ratio 3/	12.3	9.0	8.5	8.0	7.4	7.0	7.5

Sources: Malian authorities; and staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated.

2/ Based on a three-year average of exports of goods and services on the previous year (e.g., export average over 2000-02 for NPV of debt-to-exports ratio in 2002).

3/ Revenue is defined as central government revenue, excluding grants.

4/ See Table 11 in EBS/03/15 (2/14/03).

Table 12. Mali: External Debt Service After Full Implementation of Debt-Relief Mechanisms, 2002-21

(In millions of U.S. dollars; unless otherwise indicated)

	2002	2003	2004	2005	2006	2007-10	2011-21
	Actual	Projections				Averages	
Total debt service	106.4	111.6	113.5	115.0	116.7	121.4	186.1
After traditional debt-relief mechanisms	104.7	107.2	105.9	104.0	102.4	96.0	91.8
Multilateral	76.2	78.4	80.4	78.4	75.1	70.3	61.3
IDA	23.7	25.0	27.4	29.6	31.5	34.9	42.3
IMF	27.6	27.5	28.1	23.5	18.2	11.6	0.4
African Development Bank	7.8	8.5	8.8	9.2	9.6	10.6	12.4
Others	17.1	17.3	16.1	16.2	15.9	13.1	6.2
Official bilateral	28.5	28.8	25.5	25.5	27.2	25.7	30.5
Paris Club	14.9	16.0	15.1	15.0	16.6	17.1	24.7
Of which: ODA	3.7	3.6	3.6	4.7	5.9	5.8	4.6
Other official bilateral and commercial	13.6	12.9	10.4	10.5	10.6	8.6	5.9
Of which: ODA	9.6	9.7	9.2	9.4	9.5	8.2	5.6
Total debt service	69.0	63.1	62.2	65.5	67.2	76.9	157.9
After enhanced HIPC assistance	67.3	58.8	54.6	54.5	52.9	51.4	63.6
Multilateral	40.8	37.4	38.2	37.4	35.3	36.4	50.6
IDA	10.4	11.1	12.5	13.7	14.7	16.9	33.1
IMF	15.7	15.4	16.1	13.5	10.3	9.6	0.4
African Development Bank	0.1	2.8	1.8	1.9	2.0	3.1	12.4
Others	14.7	8.0	7.8	8.3	8.2	6.8	4.8
Official bilateral	26.5	21.3	16.4	17.1	17.7	15.0	13.0
Paris Club	17.2	15.5	12.0	12.4	12.5	10.4	10.3
Of which: ODA	4.0	4.0	4.0	5.1	6.3	6.0	4.6
Other official bilateral and commercial	9.3	5.9	4.5	4.8	5.1	4.6	2.7
Of which: ODA	7.5	4.7	3.9	4.2	4.5	4.0	2.1
Memorandum items:							
Debt service of new debt	1.7	4.4	7.6	11.0	14.3	25.4	94.3
Nominal HIPC Initiative relief							
Under the original HIPC Initiative	15.2	13.6	10.2	7.8	8.2	7.5	9.9
Under the enhanced HIPC Initiative	22.2	34.8	41.2	41.6	41.2	37.1	18.3

Sources: Malian authorities; and staff estimates and projections.

Table 13. Mali: Selected Social and Demographic Indicators

	Latest Single Year			Same Region/Income Group	
	1970-75	1980-85	2000-02	Sub-Saharan Africa	Low income
			(In units indicated)		
Population 1/					
Total population, midyear (millions)	5.9	7.4	11.0	627.3	3,536.4
Growth rate (annual percentage change)	2.0	2.3	2.4	2.2	1.4
Urban population (percent of population, 2002)	16.2	21.0	30.0	33.3	30.5
Total fertility rate (births per woman, 2002)	7.1	7.1	6.0	5.4	3.1
Poverty					
(percent of population)					
National head count index (2002)	...	...	64.0	...	...
Income 1/					
GNP per capita (U.S. dollars, 2000)	130	180	240	474	...
Consumer price index (1995=100)	...	...	113	143	...
Income/consumption distribution (1999)					
Gini index	...	...	50.5	...	...
Lowest quintile (percent of income or consumption)	...	...	4.6	...	...
Highest quintile (percent of income or consumption)	...	...	56.2	...	...
			(In percent of GDP)		
Public expenditure					
Health	...	...	1.9 2/	1.5	1.3
Education	...	...	3.2 2/	4.1	3.2
Social security and welfare	...	1.7	...	...	...
			(In percent of age group)		
Net primary school enrollment rate (1999)					
Total	17	19	42	...	86
Male	21	24	49	...	89
Female	12	14	34	...	82
			(In percent of population)		
Access to safe water (2000) 1/					
Total	...	...	65	...	...
Urban	...	...	74	...	...
Rural	...	...	61	...	...
Immunization rate					
Measles	...	...	57	54	80
DPT	...	...	71	54	82
Child malnutrition (percent under 5 years)	...	...	24.5	...	...
			(In years)		
Life expectancy at birth					
Total	40	45	43	50	63
Male	38	45	41	49	62
Female	41	46	44	52	64
			(In units indicated)		
Mortality (2002) 1/					
Infant (per 1,000 live births)	203	180	113	92	68
Under 5 (per 1,000 live births)	391	292	229	151	92
Adult (15-59)					
Male (per 1,000 population)	537	454	550	432	235
Female (per 1,000 population)	416	362	513	383	208
Maternal (per 100,000 live births) 3/	...	...	580	...	...

Sources: World Bank, *World Development Indicators*, 2002.

1/ Year in parantheses indicates year that was used for the 2000-01 period.

2/ Source is Mali's budget program, *Exercice Budgétaire 2002*.

3/ For the year 1999.

MALI

EX POST ASSESSMENT OF PERFORMANCE UNDER ESAF/PRGF-SUPPORTED PROGRAMS

Prepared by a Team from AFR, FAD, MFD, and PDR[1]

August 29, 2003

I. INTRODUCTION

1. This report reviews Mali's performance under the last three Fund-supported programs, covering the period 1992- 2002. It also discusses key challenges ahead that Mali must meet to make progress toward the Millennium Development Goals (MDGs).

2. **Since 1992, the Fund has continuously supported Mali under three successive arrangements under the Enhanced Structural Adjustment Facility (ESAF) and the Poverty Reduction and Growth Facility (PRGF).** The main objectives of the programs have been to reestablish macroeconomic stability and reform the economy, with a view to boosting growth and accelerating poverty reduction. The programs were initially underpinned by successive policy framework papers and then by the interim poverty reduction strategy paper (PRSP); currently, the program is supported by the full PRSP adopted in May 2002.

3. **The political and social situation in Mali greatly improved over the past decade.** Democratic presidential elections have been organized every five years since 1992. Also, ethnic tensions in some regions were peacefully settled. Mr. Touré won the presidential election held in April-May 2002, which marked the first democratic transition from one president to another in Mali. The legislative elections held in July 2002 resulted in a split National Assembly, and the President appointed Mr. Ag Hamani to form a broad coalition government in October 2002. The government is committed to preserving macroeconomic stability, increasing growth, and reducing poverty.

4. Mali's satisfactory record of macroeconomic and structural policy implementation, together with the political transition to a democratically elected government, has earned the country the support of the donor community and debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). Nevertheless, as a landlocked country in the Sahel region with a narrow economic base, Mali's economy is still very vulnerable to

[1] The team was led by Mr. Briançon (AFR) and comprised Mr. Bouley (FAD), Mr. Hardy (MFD), Mr. Nascimento (PDR), and Mr. Wane (AFR).

exogenous shocks, including droughts, fluctuations in terms of trade, as well as political crises in west Africa.

II. Performance Under The ESAF and PRGF Arrangements

A. Macroeconomic Developments

5. Since 1992, Mali has made major progress in macroeconomic stabilization (see Appendix I, Table 1 and Figure 1). This, together with the devaluation of the CFA franc in 1994, contributed to an export-led growth that boosted real GDP growth from 1 percent per year on average over 1991-93 to 4.5 percent during 1994-96, and 5.7 percent over the past five years. As shown in Table 1 and Figure 1, growth was actually slightly higher than projected at the inception of the Fund-supported programs.[2] However, growth was largely concentrated in three primary commodities over 1992-2002, with cotton (a 14.3 percent annual average growth rate), rice (8.5 percent), and gold mining (29.4 percent) accounting for more than 50 percent of total growth.

6. **Inflation remained low over 1992-2002**, except for 1994-96 when changes in relative prices resulting from the devaluation of the CFA franc worked their way through the economy. Excluding these three years, annual inflation averaged less than 2 percent, which is in line with inflation in the euro zone, the currency to which the CFA franc is pegged.

7. **The external current account deficit, excluding official transfers, has sharply narrowed since 1992**, reflecting an impressive export performance, especially for cotton and gold, supported by strong increases in foreign direct investment (Appendix I, Figure 2). The volume of exports increased on average by13 ½ percent a year, or twice as rapidly as imports. Nevertheless, export growth was marked by large swings from year to year, as cotton exports fluctuated sharply, owing to weather conditions and volatility in world market prices. Also, the international community reduced its assistance to Mali over the past decade, with current official transfers and capital transfers dropping significantly. Nevertheless, Mali has recorded surpluses in the overall balance of payments averaging US$17 million per annum since 1996 because of the improvement in the external current account, official loan disbursements, and foreign direct investments in the gold sector. Mali thus increased its contribution to the Central Bank of West Africa States' (BCEAO) foreign reserves to US$595 million at end-2002.

8. **Mali's sound macroeconomic policies helped it reach the completion points under the initial HIPC Initiative in September 2000 and under the enhanced HIPC Initiative in March 2003**. Debt relief under these initiatives, which amounted to

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[2] As the devaluation of the CFA franc in 1994 was not initially included in the ESAF-supported program for 1992-95, Figure 1 includes also the objectives of the program approved in March 1994 ("as the variable ESAF 1a").

US$539 million in net present value (NPV) terms (a reduction of 37.3 percent), was critical in reducing the ratio of NPV of debt to exports to 150 percent.

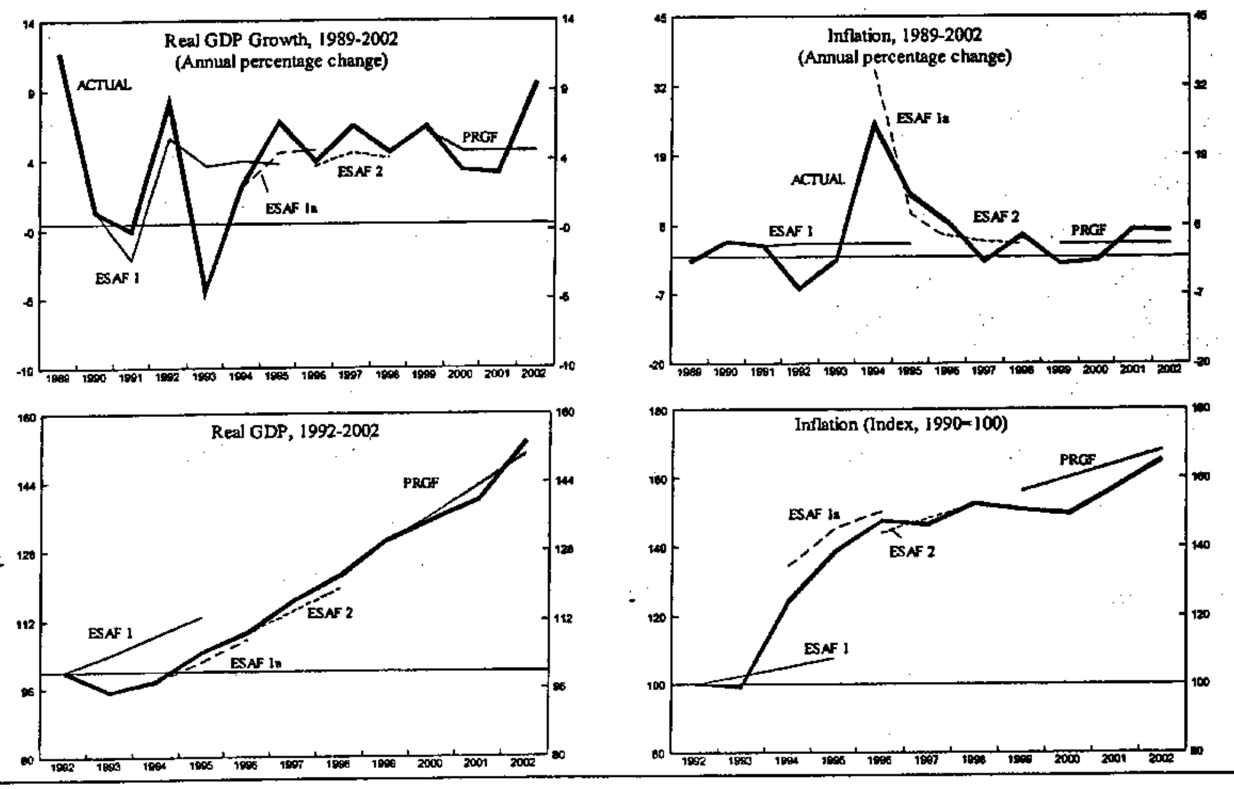
Box. 1 Mali: Key Economic Indicators, 1992-2002 1/

	1992-93 2/		1994-95 2/		1996-99		1999-2002	
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.
	(Annual percentage changes, unless otherwise indicated)							
National income and prices								
Real GDP	5.0	1.9	3.7	4.8	4.5	5.3	5.4	5.9
Consumer price index (annual average)	2.5	-3.2	21.6	18.0	3.2	3.3	2.5	2.1
External sector								
Export volume	3.9	7.6	7.8	4.0	7.1	16.1	5.1	17.5
Import volume	0.4	-1.8	0.7	7.2	4.1	2.1	3.7	12.0
Terms of trade	-2.5	-6.6	-0.6	0.1	-0.1	0.6	0.1	-1.4
	(In percent of GDP, unless otherwise indicated)							
Central government finance								
Total revenue	15.1	14.2	13.6	12.9	14.4	15.9	16.5	16.5
Total expenditure and net lending	23.9	26.8	27.3	25.8	23.6	24.1	22.9	24.7
Overall balance (payment order basis,	-8.9	-10.3	-13.8	-12.9	-9.1	-8.1	-6.4	-8.2
External sector								
Current external balance, excluding official transfers	-13.0	-15.1	-18.0	-18.7	-11.5	-10.9	-7.9	-11.0
Debt-service ratio 3/ (before debt relief)	...	18.3	18.8	19.8	23.6	13.5	13.7	11.4
Exports	12.9	14.1	20.1	18.9	18.7	20.3	19.3	25.2
Imports	23.5	19.4	35.8	25.9	28.2	21.5	19.0	24.3

Sources: Malian authorities; and staff estimates.
1/ The GDP figures are based on the old national accounts methodology.
2/ The medium-term program covering the period 1992-95 was split into two periods because of the devaluation of the CFA franc in January 1994.
3/ In percent of exports of goods and services.

9. Together with other West African Economic and Monetary Union (WAEMU) countries, **Mali has maintained a liberal trade and payments system.** It implemented a regional reform of the trade regime that comprised the setting of a common external tariff with four rates, a lowering of the maximum tariff to 20 percent, and a progressive elimination of tariffs within the WAEMU area. Based on traditional exchange rate indicators, Mali seems to have largely preserved its external competitiveness following the devaluation of the CFA franc in 1994. Nevertheless, the competitiveness of the economy may still be an issue as growth outside the primary sector and gold mining has been elusive.

Figure 1. Mali: Real Sector: Programs' Objectives and Outcomes



10. **Mali's financial sector remains poorly developed, but there have been notable advances over the past decade.** Financial deepening has progressed, as shown by the significant rise in broad money and credit to the private sector relative to GDP. Nevertheless, the spread between lending and deposit rates—more than 10 percentage points on average—has only declined marginally in spite of the entry of three banks (bringing the total to nine) and the divestment of much of the government's shareholdings in commercial banks.[3] To some extent, this situation reflects the cost of carrying a high level of nonperforming loans, the difficulties of collecting on outstanding loans, and the high operating costs. Recently, most financial soundness indicators have improved, and the number of banks that are noncompliant with various prudential requirements has fallen; the main weaknesses now relate to the large stock of nonperforming loans and the high loan concentration. Microfinance institutions (MFIs) have multiplied, and now hold almost 5 percent of deposits and credits. A regional stock exchange has been established, and the government successfully issued treasury bills for the first time in June 2003. The World Bank is assisting the authorities in privatizing their banks; raising technical skills in the commercial banks; and strengthening both the supervision of MFIs and their own capacities.

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[3] The government is soon to sell the majority ownership that it still holds in one bank.

11. **Fiscal performance was strong over the past decade** (Appendix I, Figure 3), although the overall fiscal deficit declined by somewhat less than envisaged, especially under the last PRGF-supported program. **Revenue mobilization improved significantly**, with total government revenue rising by 4 percentage points of GDP to 17.7 percent in 2002. Important strides were made in streamlining the tax system, with the introduction of a value-added tax with a single rate (18 percent), the introduction of a synthetic tax for small businesses, and the implementation of a common external tariff in the WAEMU. Tax administration was also strengthened, with the creation of a large-taxpayer unit and the computerization of the customs department.

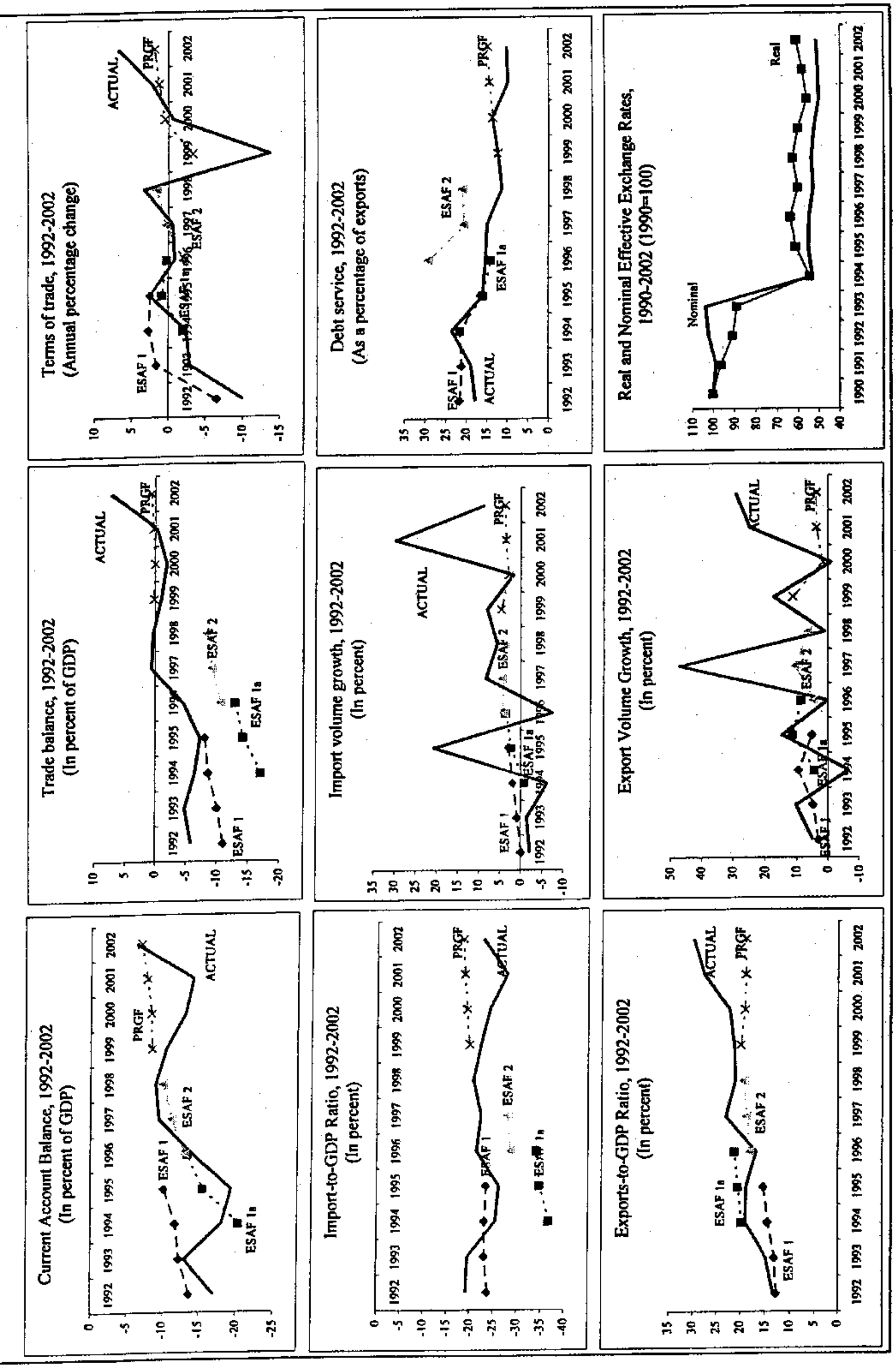
12. **Total government expenditure declined steadily relative to GDP during the 1990s, but started to rise again over the past three years.** This rise reflects to a large extent increases in transfer payments, especially to the cotton sector, the cost of elections, and spending financed with HIPC Initiative resources. Nevertheless, spending for education and health, which was stable relative to GDP until 1999, rose by less than ½ of 1 percentage point of GDP to only 5 percent of GDP in 2002. Hence, the PRSP priorities have yet to be fully reflected in budget appropriations.

13. **Public resource management improved over the past decade.** The treasury settled all arrears on payments; the preparation of the budget and the tracking of its execution has been computerized; the authorities are preparing three-year budget programs for each ministry and a medium-term expenditure framework (MTEF) for education and health with World Bank assistance; the audit of budget execution has been strengthened; and the government has adopted drafts of the audited Budget Law, although the account section of the Supreme Court has yet to finalize them. In addition, the Minister of Finance has launched a project to integrate all phases of the spending procedures in a single information system with a unified database. Despite the progress made, there is still room for improving public resource management.

B. Structural Reforms

14. Earlier Fund-supported programs tackled a broad range of issues, some of them implemented with the support of the World Bank and other development partners. The latest program shows greater selectivity, with a focus on improving public expenditure management and restoring the viability of the cotton sector, measures that are considered essential for Mali to rationalize the use of public resources, maintain a sound macroeconomic environment, achieve high economic growth, and reduce poverty.

Figure 2. Mali: Balance of Payments: Programs' Objectives and Outcomes

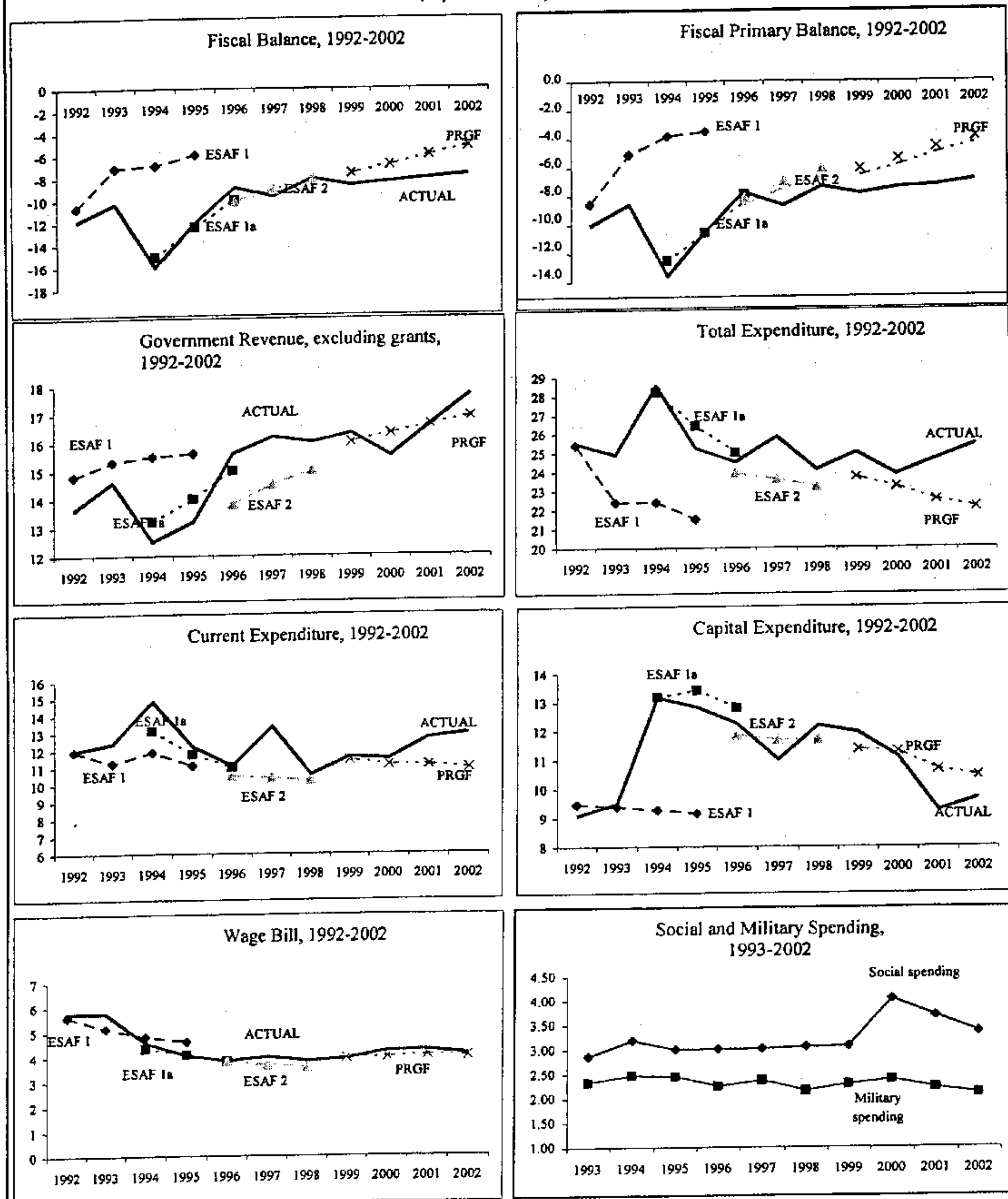


15. **The privatization program is well advanced, and the authorities have improved the legal and regulatory environment.** Plans are under preparation for the privatization of the last two large public enterprises (the telecommunications company (SOTELMA) and the cotton monopsony (CMDT)) and the main bank, in which the government has a majority stake. As regards private sector development, substantial progress has been made toward harmonizing the legislative and regulatory environment under the Organization for the Harmonization of Business Law in Africa (OHADA) Treaty. A ten-year judiciary sector development plan (PRODEJ) was adopted in December 1999, and measures were taken to raise the skills of magistrates and judiciary auxiliaries. In addition to the privatization of public utilities, new legal and regulatory frameworks were implemented. **In spite of the progress made, much remains to be done to improve the investment climate,** especially in the areas of governance and government interference in the economy.

16. **Reforming the cotton sector has been slow and difficult** because some participants were concerned that it would result in the sector's disintegration, even though this reform reflected a large consensus among all stakeholders. Progress was made in improving the CMDT's management, reducing its cost structure, and narrowing its focus on core activities. Nevertheless, these measures have been insufficient to reestablish the company's financial viability, given the large drop in the international price for cotton. Because of the high financial cost for the government, the CMDT's financial difficulties, and the recent failure of selling ginning mills, a broad consensus seems to be emerging on the need for an in-depth reform of the sector. In particular, the President, as well as donors who support the reform, indicated in July that they would support splitting the CMDT into several companies. Hence, the authorities are now preparing with the assistance of the World Bank and bilateral donors a plan to fully liberalize the sector. The plan involves the following: splitting the CMDT into three or four private enterprises over the next 12-18 months; fully liberalizing the sector over three-four years, allowing time for key functions to be transferred to the private sector and farmers; and increasing support to institutional and capacity-building activities, including farmers' organizations.

17. **The authorities have started implementing a reform of the civil service.** Among the measures implemented, an organizational audit of ministries was completed at end-2001, which suggested tasks to be transferred to local governments; pay scales were harmonized in 2003; and a census of the civil service was undertaken to harmonize administrative and payroll files. However, further measures are required to increase efficiency, improve the performance appraisal and monitoring system, and retain and motivate qualified staff.

Figure 3. Mali: Public finances: Programs' Objectives and Outcomes
(In percent of GDP)



C. Poverty Reduction, and Social Policy and Indicators

18. **Poverty has declined over the past ten years,** with real per capita income increasing by about 2 percent a year. Nevertheless, the latest available information (1999) indicates that income distribution remains uneven, with a Gini index of 0.51 and consumption by the lowest quintile of households accounting for 5 percent of total consumption. As indicated in the completion point document for the enhanced HIPC Initiative (IMF Country Report No. 03/61) progress during the ten-year programs for education and health was satisfactory, although initial delays in implementation caused some program targets to be only partially met. Despite improvements, health and education indicators in Mali remain among the lowest in the world, with a large disparity between rural and urban areas. Given the weak capacity for delivering basic services, it will be a major challenge for Mali to achieve the MDGs.

D. Observance of Performance Criteria and Benchmarks Under Fund-Supported Programs

19. **The implementation of recent Fund-supported programs was satisfactory,** enabling Mali to establish a solid track record of policy performance. However, performance was better in the quantitative than in the structural area, and under the ESAF than under the last PRGF arrangements (see Box 2).

20. The following issues in program design and conditionality should be noted. First, **prior actions were extensively and increasingly used** (18 under the PRGF arrangement versus 7 under the ESAF arrangements). Second, **streamlining of structural conditionality was limited**.[4] The number of structural performance criteria attached to the arrangements increased from 6 and 8 under the first and second ESAF arrangements, respectively, to 14 under the PRGF arrangement. The number of structural benchmarks increased from 20 under the first two ESAF arrangements to 26 under the PRGF arrangement. Third, the focus of structural conditionality under the PRGF arrangement continued to be on the reform of the parastatal sector, including the cotton sector, all measures that are in noncore areas of the Fund but essential to maintain macroeconomic stability.

III. Challenges Ahead

21. **The reform agenda to achieve high and sustainable growth and reduce poverty is well advanced, but still unfinished**. A broad political consensus exists on current policy orientation, and the government is strongly committed to implementing the PRSP. Nevertheless, reaching a consensus on some of the reforms may take time, as was the case for the reform in the cotton sector. In addition, expectations have risen with the implementation of the government's ambitious program to accelerate growth, create jobs,

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[4] A clear measure has yet to be developed for a reliably assessing of streamlining of structural conditionality. A proxy used here is the number of conditions.

improve infrastructure, and reduce poverty, through increased participation of the private sector in the economy.

A. The Poverty Reduction Strategy

22. **Future economic policies should be underpinned by the government's strategy laid out in the PRSP**, which was adopted in May 2002 and is to be updated annually. The key objective is to achieve a strong and sustainable growth that reduces poverty, and the strategy is built around three priority areas: institutional development and improved governance and participation; human development and strengthened access to basic social services; and development of infrastructure and support for key productive sectors. The authorities are conducting a review of the PRSP's implementation.

23. Specific actions for improvement include the following: developing the strategy for high and sustainable pro-poor growth; deepening the poverty policy analysis; ensuring that components of all sector strategies are adequately reflected in the PRSP; and strengthening mechanisms to monitor and evaluate strategy implementation and outcomes. In that context, Fund and World Bank staffs are working with the authorities on measures that would help Mali attain the MDGs.

B. Macroeconomic Policies

24. **The main challenge for the future is to accelerate growth in order to reduce poverty, while preserving macroeconomic stability and making the economy less vulnerable to external shocks.** To this end, the diversification of the economy and growth in the tradable goods sector will be key elements, especially since cotton and gold outputs are unlikely to continue to grow rapidly. The potential for growth is especially favorable through the diversification of the agricultural sector, agribusiness, textiles, tourism, and small and medium-sized enterprises (SMEs) in services and communications. Further regional integration should also be a key ingredient in boosting growth, and Mali should strive to meet all of the WAEMU's convergence criteria.

25. **Fiscal consolidation will remain critical to future economic prospects and debt sustainability.** The deficit in the primary fiscal balance, including grants, should be further reduced to avoid a possible increase in the debt burden. The debt sustainability analysis conducted last February when Mali reached the completion point under the HIPC Initiative showed that, after debt relief, the NPV of debt-to-exports ratio would steadily rise from 120 percent in 2003 to 140 percent in 2013. This is mainly because the volume of exports is projected to grow by less than 1 percent a year during 2003-10, given the expected decline in gold exports, while the government would likely continue to borrow on concessional terms to finance its development program. To reduce the risk of an increase in the debt burden would require continued improvement in tax collection, a tightening of government expenditure, an increase in financing in the form of grants, and a strengthening of debt management.

Box 2. Mali: Observance of Performance Criteria and Benchmarks, 1992-2002

	Number of Measures	Observed	Observed with Delay	Partially Observed	Not Observed
Structural Performance Criteria and Benchmarks					
ESAF1					
Performance criteria	6	5	1	0	0
Benchmarks	11	9	2	0	0
Prior actions	0	0	0	0	0
ESAF2					
Performance criteria	8	5	1	1	1
Benchmarks	6	2	1	0	3
Prior actions	3	3	0	0	0
PRGF					
Performance criteria	14	8	0	0	6
Benchmarks	26	11	3	3	9
Prior actions	18	18	0	0	0
Total three programs					
Performance criteria	28	18	2	1	7
Benchmarks	43	22	6	3	12
Prior actions	21	21	0	0	0
Quantitative Performance Criteria and Indicative Targets					
ESAF1					
Performance criteria	12	10.0	n.a.	n.a.	2.0
Indicative targets	16	13.0	n.a.	n.a.	3.0
ESAF2					
Performance criteria	16	15.0	n.a.	n.a.	1.0
Indicative targets	32	31.0	n.a.	n.a.	1.0
PRGF					
Performance criteria	30	29.0	n.a.	n.a.	1.0
Indicative targets	87	72.0	n.a.	n.a.	15.0
Total three programs					
Performance criteria	58	54.0	n.a.	n.a.	4.0
Indicative targets	135	116.0	n.a.	n.a.	19.0

Source: IMF staff reports, 1992-2003

26. **Improvement in tax collection should focus on broadening the tax base** by combating tax evasion and tightening controls over tax exemptions. In particular, the authorities should resist providing tax exemptions other than those included in the investment code as a means to promote private investment. Potential sources of additional revenue include the mining sector, which benefits from broad tax exemptions, and property taxes, which yield little revenue for the central government. While the WAEMU convergence criterion regarding government revenue calls for Mali to raise tax revenue to 17 percent of GDP, this will be difficult to achieve in the short run, given the current level (14.7 percent in 2002) and the impact of the crisis in Côte d'Ivoire.

27. As government revenue will increase relatively slowly in the near term, **accelerating poverty reduction will crucially depend on further efforts to improve expenditure policy and management.** As noted earlier, social spending has remained relatively low, and increasing it to the level indicated in the PRSP will require reallocating resources. Also, the quality of spending needs further improvement, while much work remains to be done also to improve performance indicators, as well as the monitoring and evaluating mechanism. The preparation of MTEFs should be encouraged, first for health and education, and then for the other ministries.

28. **Budget management of local government also requires strengthening** as, under the decentralization policy, local authorities and decentralized entities will have increased spending responsibilities, especially in social areas. In addition, an information system should be set for the central government to monitor and evaluate developments at the local level, while the sharing of resources between the central and local government should be reassessed.

C. Structural Reforms

29. **Structural reforms would aim at ensuring macroeconomic stability, improving competitiveness, and making the economy less vulnerable to external and domestic shocks.** Reforms are already under way in many areas, as indicated above. In addition to strengthening public resource management and pursuing the implementation of the decentralization policy, reforms should be oriented toward the pursuit of the civil service reform, the completion of the privatization program, the liberalization of the cotton sector, a strengthening of governance, especially in the use of public resources, the deepening of financial intermediation, and the creation of an environment conducive to private sector-led growth.

30. **Deepening financial intermediation** is an essential element to promote investment and growth. While the legal and regulatory framework for financial institutions is mostly set at the regional level, the authorities should complete the privatization program, encourage loan syndication to improve diversification of the bank loan portfolio, conduct regular tenders of treasury bills, develop a land registry and a comprehensive registry of movable

property and equipment that will improve loan collaterals, expand the credit registry to facilitate access to financial services by SMEs and households;[5] and strengthen the supervision of, and the regulatory framework for, microfinance institutions with the assistance of development partners and the BCEAO.

D. Technical Assistance Requirements

31. The low level of expertise and the weak institutions will require an increase in the level and intensity of technical assistance from development partners to strengthen economic policy design and implementation.

32. The **authorities have requested technical assistance from FAD** for the improvement of tax collection (see para. 26), as well as for an assessment of the reform of indirect taxes that has been implemented since 1999. **For the financial sector,** technical assistance from within and outside the Fund would concentrate on the identified priority areas (para. 29). For surveillance and program purposes, it may be useful for Mali to request that the World Bank and the Fund undertake a Financial Sector Assessment Program. **As regards macroeconomic statistics,** the staff will follow up on the recommendations recently made by STA for improving the compilation of the national accounts, the balance of payments, and the consumer price index.

[5] Experience in other countries suggests that the tax administration system can be used to establish a credit record, even for those who have little interaction with the formal financial system.

Mali: Relations with the Fund

(As of September 30, 2003)

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	84.43	90.49
Reserve position in Fund	8.87	9.51

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	15.91	100.00
Holdings	0.16	0.99

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	123.61	132.49

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	51.32
ESAF	Apr. 10, 1996	Aug. 05, 1999	62.01	62.01
ESAF	Aug. 28, 1992	Apr. 09, 1996	79.24	74.16

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	8.55	21.68	18.17	14.07	13.57
Charges/interest	0.36	0.76	0.66	0.58	0.50
Total	8.91	22.44	18.83	14.65	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	5.85	13.70	11.34	8.82	9.58
Charges/interest	0.36	0.77	0.66	0.58	0.51
Total	6.21	14.47	12.00	9.40	10.08

VII. Implementation of HIPC Initiative:

	Original Framework	Enhanced Framework	Total
I. Commitment of HIPC assistance			
Decision point date	Sep. 1998	Sep. 2000	
Assistance committed			
by all creditors (US$ million)	121.00	417.00	
Of which: IMF assistance (US$ million)	14.00	45.21	
(SDR equivalent in millions)	10.80	34.74	
Completion point date	Sep. 2000	Mar. 2003	
II. Disbursement of IMF assistance (SDR million)			
Assistance disbursed to the member	10.80	34.74	45.54
Interim assistance	0.0	9.08	9.08
Completion point balance	10.80	25.66	36.46
Additional disbursement of interest income	0.0	3.73	3.73
Total disbursements	10.80	38.47	49.27

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the Central Bank of the West African States (BCEAO), of which Mali is a member, is subject to a full safeguards assessment. An off-site safeguards assessment of the BCEAO was completed on July 25, 2001. The assessment concluded that high risks may exist in the financial reporting framework and recommended an on-site assessment. The on-site assessment was completed on March 04, 2002. The staff's findings and recommendations are reported in the staff report on the fourth review under the PRGF arrangement (IMF Country Report No. 02/157).

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 October 27, 2003, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 803.1. 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's Article IV consultation cycle is governed by the provisions of the July 2002 decision on consultation cycles. The 2001 Article IV consultation was completed by the Executive Board on December 17, 2001 (IMF Country Report No. 02/2).

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 Initiative for Heavily Indebted Poor Countries (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 Transparency in Monetary and Financial Policies 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 (v) 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 (PEM) system to track poverty-reducing public expenditures. The results were very similar to the preliminary assessment prepared jointly by Bank/Fund staff in late 2000. Mali shows particular strengths in budget execution (the internal audit system is effective, there are no expenditure arrears, and government ledger accounts are reconciled with bank accounts). It was proposed that the main weaknesses be addressed in a three-year action plan, covering 11 specific areas of 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 operations (TOFE) from treasury balances;
- improving the timeliness of the preparation of final accounts by the Malian Treasury and, especially, their audit by the Section des Comptes (the external audit agency);
- computerizing further the PEM system.

XII. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
STA	Staff	July 17-29, 1991	Assisting through a 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.
STA	Staff to BCEAO headquarters	July 30-August 11, 1997	Improving the 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 recommendations 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 and Action Plan (AAP), 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.
STA	Expert	May 2002	Assessing government finance statistics under the General Data Dissemination System (GDDS) West Africa project.
STA	Expert	June-July 2002	Providing government finance statistics technical assistance under the GDDS West Africa project.
STA	Expert (regional statistical office (AFRISTAT))	August 2002	Assessing real sector statistics assessment under the GDDS West Africa project.

STA	Expert	September 2002	Providing government finance statistics technical assistance under the GDDS West Africa project.
STA	Expert (AFRISTAT)	September 2002	Providing national accounts statistics technical assistance under the GDDS West Africa project.
STA	Staff and experts	April 2003	Undertaking a multisector statistics mission.

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 November 2003)

Partnership in Mali's development strategy

1. Mali's development objectives place increased emphasis on poverty reduction and growth, as reflected in its Poverty Reduction Strategy Paper (PRSP) approved by the government in May 2002. The joint assessment of the PRSP by the staff of the World Bank and IMF was presented and approved by the respective Boards of Directors in March 2003, along with the Completion Point under the Enhanced HIPC Initiative. The PRSP process builds upon the national poverty strategy formulated in 1998 with UNDP assistance, and places Mali's main poverty reduction challenges explicitly within a sound macro-economic framework.

2. The IMF has typically taken the lead in assisting Mali to maintain macroeconomic and financial sustainability through setting quantitative targets within the framework of the Poverty Reduction Growth Facility (PRGF). The last PRGF, which was in place since August 1999, expired in August 2003. The authorities have requested a new arrangement with the Fund under the PRGF and the Fund is reviewing its futue role in Mali. Structural measures in the program (cotton and public expenditure management) were coordinated with the World Bank, and structural conditionality was limited to areas with significant macroeconomic, typically fiscal, implications. Collaboration with the Fund will continue in these areas.

3. The World Bank leads the policy dialogue on structural, social and institutional reforms in a number of sectors. The Third Structural Adjustment Credit (SAC III) is under implementation and a Fourth SAC is under preparation. A proposed SAC III Supplemental Grant (US15 million equivalent) to help mitigate the impact of the Côte d'Ivoire crisis on the Malian economy, is to be discussed by the World Bank Board on December 11, 2003. Other Bank operations that address 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 (see Table on page 8). Progress is being made in all these operations, albeit slower than anticipated in some sectors where capacity is weak and other implementation challenges are present.

4. The World Bank is also leading the diagnostic trade study under the Integrated Framework for Trade (IF), an initiative supported by the World Bank, IMF, the World Trade Organization, the UN Conference on Trade and Development, UNDP, and the International Trade Commission. The Mali IF, which is being undertaken in collaboration with USAID, aims to enhance Mali's integration into the world economy and international trade policy discussions. The trade diagnostic study will highlight Mali's comparative advantages and formulate an action plan for capacity building and technical assistance to promote export-led growth, centered around selected agro-industries and some traditional knowledge industries

(namely music and handicrafts). The diagnostic report will be discussed during a Mali Round Table for Trade, which is tentatively anticipated to be held in the first quarter of 2004.

Bank Group strategy

5. On July 31, 2003, the Board discussed the Country Assistance Strategy (CAS; IDA/R2003-0160) for Mali. The CAS, which was designed to directly support the PRSP pillars and complement the interventions of other donors, selectively focuses on three main themes: (i) promotion of growth; (ii) human resources development; and (iii) public finance management and governance. The CAS combines a mix of Bank instruments including: (i) programmatic support to the social sectors (through pooled sector-wide assistance programs) as a transition to Poverty Reduction Support Credits (PRSC); (ii) community-driven development operations; (iii) specific lending operations focused on growth and on strengthening critical infrastructure networks; and (iv) non-lending activities focused on strengthening the knowledge base underpinning the three main CAS themes and the framework for a transition to PRSCs. The CAS also envisages the provision of some grant financing as per the guidelines of the IDA 13 replenishment (it is expected that 29 percent of Mali's FY04-06 lending program could be financed by IDA grants). By the end of the CAS period in FY06, programmatic lending is anticipated to comprise about a third of the portfolio.

6. The active portfolio comprises eleven projects: three in rural development, three in infrastructure and energy, three in health and education, one in the financial sector (including components on the judicial reform and micro-finance) and one on structural adjustment. 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. It has also included monitoring of economic developments together with the IMF and other development partners in response to evolving domestic, regional and international economic conditions. This activity has included assessing the impact of the Côte d'Ivoire crisis on Mali's economy, in view of Mali's landlocked status and consequent dependence on neighboring countries (particularly Côte d'Ivoire) for the handling of its trade flows. The Bank is also supporting capacity building on analytical skills for macroeconomic and poverty analysis, as well as on sectoral medium-term expenditure frameworks.

7. As regards promotion of pro-poor growth, the Bank focus is on helping Mali to: (i) develop and diversify sources of growth through improving the financial and business environment for increased private sector development, including for micro, small, and medium enterprises; (ii) build and maintain necessary infrastructure; and (iii) involve decentralized government, de-concentrated public services departments and local populations, while building capacity. Operations under preparation include: a growth project supporting programs in telecommunications, mining and the private sector; an agricultural project supporting diversification and competitiveness; two transport sector projects; and a community-based development program. Advisory support is ongoing on energy/water sector

regulation so as to safeguard the effectiveness of the management concession agreement. A Household Energy and Universal Access project was approved in October 2003, and the on-going Urban Development and Decentralization project is to be extended to allow the necessary time for its full implementation. Ongoing or planned analytical studies include transportation and growth, urban development, and an economic study of growth.

8. As regards human resources development, the core of Mali's programs comprises sector-wide reforms in health and education defined over ten years, each jointly supported by a range of bilateral and multilateral donors, including the World Bank. Both sector reform programs, whose implementations are satisfactory, focus on improvements in quality and access to basic services, with increasing emphasis on the poorest regions. Some progress on social indicators has been made since 1998; however, Mali still faces challenges that contribute to hampering the pace of progress, and that are receiving increasing attention in the respective sector medium-term expenditure frameworks.[1] Challenges include difficulties in attracting staff to positions outside the capital, and the limited supply of qualified staff. The authorities are assessing various options for balancing the incentive structure between the capital and positions in the regions. To address the supply constraint, health and education training is being decentralized to the regions, with the intent of attracting regional residents into the social sector profession.

9. For the implementation of the health and education sector projects, the Bank is focusing on: (i) solidifying the necessary framework for sustainable human development; (ii) increasing participation and local accountability in de-concentrated service delivery; (iii) improving access to quality services; (iv) working more closely with donors to build capacity of the public sector and other development actors; and (v) working with NGOs, the private sector, community groups and civic organizations to reduce the risk of an HIV/AIDS epidemic and improve access to (and quality of) judicial services. For education, in addition to defining the second phase of the sector program, the Bank aims to restructure the ongoing sector project into a fully pooled sector-wide program by all donors supporting the sector, so as to minimize the multiplicity of donor procedures the authorities face which contribute to hampering implementation of the program. For health, the Bank aims to support completion of the first phase of the sector program and preparation of the second phase.

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[1] Social sector resources have increased from CFAF 80 billion in 2002 and CFAF 102 billion in 2003, to CFAF 118.5 billion in the proposed 2004 Budget. As of the 2003 Budget, the authorities prepare multi-year budget allocations for all sectors, with priority accorded first to the social sectors and next to the productive sectors (notably infrastructure, agriculture). With assistance of the World Bank, the authorities have prepared medium-term expenditure frameworks (MTEFs) for health and education, and are commencing the development of MTEFs for public works/transport and for agriculture/livestock/fisheries sectors. The sector MTEFs will facilitate improved intra-sectoral prioritization of expenditures according to poverty reduction and growth objectives.

10. Regarding public finance and governance, continued support will be provided for capacity building in managing public financial accountability, and for encouraging greater openness in the Malian administration. To this end, the Bank will support the next phase of public finance reform measures under a proposed Fourth Structural Adjustment Credit (FY05). This would include development of medium term expenditure frameworks (MTEF) for two additional sectors (rural development and public works/transport), and strengthening the links between the budget formulation and the macroeconomic framework through the global MTEF. The Bank will also support implementation of actions listed in the Country Fiduciary Accountability Assessment (CFAA) which was finalized in August 2003. These initiatives should help position Mali for assistance through a PRSC toward the end of the current CAS period.

11. As a member of the West Africa regional groups WAEMU and ECOWAS,[2] Mali is included under the World Bank's 2001 Regional Integration Assistance Strategy (RIAS), which promotes an "open, unified regional economic space" to support deeper regional integration and a conducive environment for growth of a more efficient and competitive private sector. The RIAS also supports these regional objectives while recognizing that assistance to individual countries – with a heightened focus on cross-border constraints and opportunities facing a country – will remain the primary vehicle for interventions by the Bank. The following regional activities all play a core role in the Bank's overall support to Mali:

- The West African Power Project (WAPP) aims to build and reinforce regional electricity transmission lines through financing a line between Côte d'Ivoire and Mali and to assist in developing the regulatory framework for regional power trade within ECOWAS;
- The harmonization of telecommunications policy and the establishment of a regional regulatory framework is likely to feature as a component of the Sources of Growth Project (FY05);
- The Bank is providing support to regional water management issues through Analytical and Advisory Services (AAA) work and a regional Institutional Development Fund to the Organization for the Development of the Senegal River Basin (OMVS);
- The proposed transport operations are being designed within an overall regional framework for strengthening and diversifying the transport corridors in western Africa;
- The Bank's AAA will focus on fast-tracking integration between Mali, Senegal and Guinea;

[2] WAEMU is the West African Economic and Monetary Union, comprising Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. ECOWAS is the Economic Community of West African States, comprising WAEMU countries plus Cape Verde, Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone.

- A Regional Payments System Credit to the BCEAO is under implementation that seeks to establish payment systems adapted to the market needs of WAEMU and that are internationally acceptable;
- Support to the implementation of the WAEMU Agricultural Policy (adopted in December 2001); and,
- A proposed Institutional and Financial Development Project for the West African Development Bank which would promote the development of integrated financial marketing in western Africa.

Bank-Fund collaboration in specific areas

12. The IMF and World Bank staffs 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

13. The objective of the cotton sector reforms is to safeguard an important source of growth and income generation of the rural population. 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 are being achieved through the comprehensive program to redefine the parastatal company's role in core cotton production activities, increase participation of producers and the private sector, and liberalize cotton and cottonseed oil markets and enterprises. In view of the potential 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 Third Structural Adjustment Credits (SAC). A proposed Fourth SAC and proposed Agriculture Diversification and Competitiveness project will also support the cotton sector reforms.

14. The cotton reform program supported by the SAC III is on track, and the authorities are continuing the efforts toward privatization of the parastatal company and liberalization of the cotton sector over the next three years. The sale of shares in HUICOMA (the cottonseed oil processing company) has been provisionally awarded, and the provisional purchaser invited for final negotiations to start November 10, 2003. At the government's request, the International Finance Corporation (IFC) has prepared a proposal covering advisory services to Mali for steering (together with the authorities) the CMDT privatization process over the coming 2-3 years. The government intends to engage the IFC (which the authorities indicate they prefer over an investment bank advisor) by the end of the first quarter 2004.

Public expenditure management

15. 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.

16. The reform program is supported by the Bank under the SAC III 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 and public works/transport). The program is on track, and progress continues to be made in preparing the new integrated information system (linking the treasury, budget and financial audit departments) for implementation in the first quarter of 2004 as scheduled in the SAC III letter of development policy. In addition to the monthly treasury balance statement, the government now prepares and distributes a quarterly note on the economic and financial conditions of the country. Progress has also been made on other actions in the program for tracking of poverty-reducing public spending. The next phase of reforms is to be supported under a proposed fourth SAC.

17. The Bank and Fund have collaborated in reviewing Mali's public expenditure management (PEM) performance, through the sharing of SAC III 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 SAC III, provided technical assistance on specific areas, notably on the classification of poverty and HIPC expenditures. In 2002-03, 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 have been incorporated in the forthcoming CAS and progress in implementing them will be monitored closely.

Privatization program

18. Mali is engaged in far-reaching reforms in the private sector, supported under various World Bank programs—a telecommunications support program, a transport and railway support program, a financial sector development project, the structural adjustment credits (on the cotton sector), and the Private Sector Assistance Project (including support to judicial reform) 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);[3] and (iii) the continuation of private sector development initiatives, through enhancing competition and improving the business environment in key sectors of the economy. During 2003, the authorities successfully concluded the railway privatization with Bank support, and awarded the concession contract which became effective in September 2003.

19. A key issue of mutual interest to the Bank and the Fund are the privatizations' associated retrenchment programs (particularly for the railway and the cotton sector), their potential impact on the government budget and the implications for future privatizations, notably of the telecommunications company. The Bank is taking the lead in evaluating the retrenchment plans in the course of supervising the various sector programs.

[3] Eighteen nonbank 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).

World Bank Operations in Mali

(As of November 16, 2003, in US$ millions)

Credit Number	Fiscal Year	Sector	IDA	Undisbursed
C26170-ML	1994	Transport Sector	65.0	4.5
CN0040-ML	1997	Urban Devt. & Decentralization	80.0	23.4
C29700-ML	1997	Regional Power	17.1	1.8
CN0370-ML	1998	Grassroots Hunger/Poverty	21.5	9.8
C31550-ML	1999	Integrated Health Sector Investment	40.0	22.9
C33180-ML	2000	Improving Learning in Primary Schools	3.8	1.8
C33940-ML	2000	Finance Sector Development	21.0	18.6
C33930-ML	2000	Rural Infrastructure	115.1	93.9
C34490-ML	2001	Education Sector Expenditure Prog.	45.0	35.8
C35830-ML	2002	Agricultural & Producer Organizations	43.5	40.3
C35820-ML	2002	SAC III	70.0	0.0
C38280-ML	2004	Household Energy & Universal Access	35.6	35.6
Totals (number of credits=12)			557.6	288.8

Source: World Bank.

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Mali: Statistical Issues

(As of October 2003)

1. Mali's statistical database is broadly comprehensive and sufficient for program monitoring. However, weaknesses exist in 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). However, there is a need to update the information on the DSBB, particularly with respect to the status of implementation of the short-term plans for improvement.

Real sector

2. There are important weaknesses in the accuracy, coverage, and timeliness of national accounts data. Technical assistance needs, including the review of data sources and training in collection and compilation methods, were addressed by an STA resident expert in national accounts (May 1995 to August 1996). STA completed two follow-up missions and the regional statistical office (AFRISTAT) in Bamako also provided short-term technical assistance in the area of national accounts. Nonetheless, the April 23-May 6, 2003 multisector statistics mission considered the national accounts data to be unreliable. The main reason is the inadequacy of the real sector databases, owing to the severe underfunding of the National Directorate of Statistics and Data Processing (DSDP).

3. In collaboration with other West African Economic and Monetary Union (WAEMU) member countries, the DSDP 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. The multisector mission recommended that the authorities revise the index weights based on the results of the 2001 household survey. In addition, a national household budget survey should be undertaken to update the national CPI covering Bamako and five other regional capital cities.

Government finance statistics

4. In early 2003, the Ministry of Economy and Finance began compiling monthly statistics covering general government operations on a pilot basis, with inputs from the customs, tax, debt, and treasury directorates. These data are available on request with a one- to two-month lag. As part of the process of economic integration among the member countries of the WAEMU, Mali has made progress in bringing its fiscal data in line with the common framework that has been developed with technical assistance from the Fund (the harmonized table of government financial operations – TOFE). However, efforts need to be made to improve the timeliness of the TOFE.

5. The authorities plan to step up the monitoring of public investment expenditure financed from abroad through increased training of project managers and the preparation of a semiannual report on the implementation (expenditure and corresponding financing) of the special investment budget (BSI). Public debt statistics are prepared and monitored by separate agencies: external debt by the National Public Debt Directorate and domestic debt by the National Directorate of the Treasury and Government Accounting. Improving coordination between these entities was an issue raised by the multisector mission.

6. Mali does not report annual statistics for publication in the *Government Finance Statistics Yearbook,* nor any subannual government finance statistics for publication in *International Finance Statistics (IFS);* data for both publications could be compiled on the basis of the TOFE. More generally, fiscal data dissemination practices could be improved in Mali. The multisector mission recommended that the Ministry of Economy and Finance accept, at least as an interim solution, the proposal of the WAEMU Commission to post the members states' data on its web site (IZF).

Monetary data

7. Preliminary monetary data for Mali are prepared by the national agency of the Bank of Central African States (BCEAO) and released officially by the headquarters of the BCEAO. 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, the collection of monetary data from the BCEAO can be delayed up to eight weeks.

8. A monetary and financial statistics mission visited the BCEAO headquarters 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 on an action plan for the implementation of the *Monetary and Financial Statistics Manual* (*MFSM*) and for the introduction of a page in *IFS* on the WAEMU. The new page was published for the first time in January 2003. Moreover, proposals were discussed with the authorities for the provision of future technical assistance in monetary statistics for the region.

9. Following the recommendations of the May 2001 mission, a regional seminar on monetary and financial statistics was organized by the BCEAO in Dakar during April 22-25, 2003. Participants agreed to set up a working group consisting of representatives from the BCEAO national agencies and headquarters; the working group will follow up on the implementation of the seminar's recommendations to foster implementation of the *MFSM*.

Balance of payments data

10. Since December 1998, the responsibility for compiling and disseminating balance of payments statistics has been formally assigned to the BCEAO by area-wide legislation

adopted by the countries comprising the WAEMU. The national agency of the BCEAO in Bamako is responsible for completing and disseminating the balance of payments statement, and the BCEAO headquarters in Dakar for delineating the methodology and calculating the international reserves managed on behalf of the participating countries. Data consistency has significantly improved over the past few years, with a full transition to the Balance of Payments Manual, fifth edition (BPM5). This was supported by technical assistance provided by STA (statistical advisor posted at the BCEAO headquarters in Dakar from July 1996 through July 1999), which contributed to the improved reporting of yearly balance of payments data in the framework of the *BPM5* for the period 1996-99 with the backward revision of data to 1988, a consistent series was thus created. The BCEAO national agency disseminates balance of payments statistics with seven months lag and annual international investment position data with 18 months lag, fully consistent with the recommendations in the GDDS guidelines.

11. Regarding trade data, the customs computer system (SYDONIA[1]) was upgraded in 1999, which allows for a better monitoring of import data and informal trade, in particular with Senegal and Côte d'Ivoire. However, significant gaps remain in the trade data for mining products, due to the undercoverage of gold exports.

12. Further improvement in the data for services and transfers (especially workers' remittances) depends on the intensification of the contacts with reporting bodies.

13. The foreign assets of the private nonbanking sector are still not well covered in the financial accounts, especially the assets of WAEMU residents, which are obtained through Bank for International Settlements (BIS) data. The organization of an annual survey for the reporting of foreign direct investment transactions in Mali is still in a preliminary stage. The BCEAO has recently implemented a compilation system allowing commercial banks to report data on payments involving nonresidents.

14. External debt data are produced by the General Directorate for Public Debt of the Ministry of Finance (DGDP) with the support of the computer debt-management system software, CS-DRMS (Commonwealth Secretariat - Debt Recording and Management System).

15. The multisector statistics mission that visited Mali during April 22-May 6, 2003 found that the balance of payments compilation system is generally sound and encouraged the authorities to integrate banking settlement sources and disseminate the Mali balance of payments within the recommended timeliness, as set by the GDDS.

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[1] The SYDONIA software, sponsored by the United Nations Conference on Trade and Development (UNCTAD) and by donor countries, has already been implemented in many countries. Freely available to customs administration, it is provided together with appropriate staff training schemes.

Mali: Core Statistical Indicators

(As of October 28, 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	08/03	08/03	08/03	08/03	09/03	09/03	2002	2001	08/03	2002	2002
Date received	Current	10/03	10/03	10/03	10/03	10/03	10/03	09/03	09/03	09/03	09/03	09/03
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/FIN 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, Finance Department.
2/ Central Bank of West African States (BCEAO).
3/ Preliminary data for staff use only; actual data unrestricted.

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

IMF Concludes 2003 Article IV Consultation with Mali

On December 15, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mali.[1]

Background

Since the early 1990s, Mali has been implementing reforms supported by the Fund through successive Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF) arrangements.[2] The last PRGF arrangement with Mali was approved in August 1999 in support of a program covering the period 1999-2002. The arrangement, which

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

[2] On November 22, 1999, the IMF's concessional facility for low-income countries, the Enhanced Structural Adjustment Facility, was renamed the Poverty Reduction and Growth Facility, and its purposes were redefined. It is intended that PRGF-supported programs will be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a poverty reduction strategy paper. This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an interest rate of 0.5 percent a year, and are repayable over 10 years with a 5½ year grace period.

was later extended by one year, expired on August 5, 2003. In early March 2003, the Executive Boards of the IMF and World Bank, respectively, decided that Mali had fulfilled the conditions for reaching the completion point under the enhanced Initiative for Heavily Indebted Poor Countries Initiative (HIPC), and that the poverty reduction strategy paper (PRSP) included an appropriate analysis of poverty in Mali as well as strategies to alleviate it. Paris Club creditors agreed to reduce Mali's debt stock on March 12, 2003. Total debt relief is estimated at US$417 million in net present value (NPV) terms, of which the Fund will provide US$45.2 million (SDR 34.7 million).

Mali's macroeconomic performance has been satisfactory in 2002 and 2003, in spite of the adverse impact of the crisis in Côte d'Ivoire and large fluctuations in agricultural output owing to uneven rainfalls. Real GDP growth slowed to 4.4 percent in 2002 from 13.3 percent in 2001 as declines in food production, trade, and transportation were partly offset by a record output in gold mining. Growth is expected to slow further to 3.2 percent in 2003, even though agricultural production is projected to rise by 10.9 percent on account of the very good rainfall recorded in the second half of the year. This outcome has contributed to reducing inflation to less than 1 percent in 2003 from 5.0 percent in 2002. The external current account, excluding official transfers, narrowed to 5.8 percent in 2002 by 6.7 percentage points of GDP, owing to a sharp increase in gold and cotton exports and a decline in imports (the latter in response to the completion of projects related to the African Soccer Cup). However, in 2003, the current account deficit is expected to widen anew by 3 percentage points largely because of the fall in the volume of gold and cotton exports. Since end-2001, the real effective exchange rate has appreciated by 4 percent, reflecting the depreciation of the U.S. dollar against the euro, to which the CFA franc is pegged.

Fiscal performance has been broadly satisfactory in 2002 and 2003, although revenue collection has weakened since the end of 2002, owing to the impact of the crisis in Côte d'Ivoire. The overall fiscal deficit, excluding grants, is projected to rise by 1 percentage point of GDP to 8.2 percent in 2003, with total government revenue and expenditure rising to 17.2 percent of GDP and 25.4 percent, respectively. The increase in expenditure--equivalent to 1.5 percentage points of GDP--is mostly due to higher capital outlays.

Monetary policy, conducted at the regional level by the Central Bank for West African States (BCEAO), has remained prudent. The BCEAO reduced the discount rate by 150 basis points to 5.0 percent between July and October 2003 as a response to the fall in inflation, the decline in interest rates in the euro area, and the high level of international reserves. However, the measure is unlikely to have a major impact on bank lending in the short run since commercial banks have maintained a high level of free reserves for some time.

There has been further progress in the implementation of structural reforms since 2002. Improvements in public expenditure management make it possible to monitor the budget spending that contributes to poverty reduction. At the same time, the authorities have strengthened medium-term budget programs and prepared medium-term expenditure frameworks for health and education. On the cotton sector, the authorities have streamlined the operations of the public enterprise (CMDT) and reached agreement with the World Bank and other bilateral and multilateral development partners on a timetable for splitting the CMDT into three or four private enterprises. As regards the privatization program, the authorities signed a concession contract with a private enterprise that will manage the railroad company, RFCM; a tender was launched for the management of Mali's airports; and the authorities are discussing the terms of the privatization of the cottonseed oil-producing company HUICOMA with the successful bidder.

The authorities agreed with the thrust of the staff's assessment of performance under past Fund-supported programs. The main conclusion is that important progress was made in restoring macroeconomic stability, laying the foundations for sustainable growth, and reducing poverty. Nevertheless, in spite of this progress, Mali, as a landlocked country in the Sahel region, faces many challenges and remains vulnerable to exogenous shocks, including inclement weather conditions, terms of trade fluctuations, and a difficult regional political environment. The authorities noted that, after more than 20 years of heavy government intervention in the economy, Fund-supported programs had helped to reduce external and internal imbalances and opened the economy to private sector initiatives. As the reform agenda is unfinished, they viewed a new formal agreement with the Fund as an essential element to help them move the process forward and mobilize foreign financial assistance.

Executive Board Assessment

Executive Directors welcomed the opportunity to review Mali's performance under Fund-supported programs since 1992. They agreed that during this period important progress was made by the authorities with respect to macroeconomic management and implementation of structural reforms, which has helped strengthen Mali's economic performance and lay the basis for sustained growth and poverty reduction. However, Directors considered that Mali continues to face serious challenges, including its vulnerability to exogenous shocks and the impact of the crisis in Côte d'Ivoire.

Directors welcomed the work done by the staff to identify key policies to address these challenges, based on its review of Mali's long-term performance under Fund-supported programs. The priorities include consolidating the fiscal position, bolstering competitiveness and diversifying the economy, and enhancing the business climate—including through privatization and improved governance—in order to spur growth and reduce poverty. Looking ahead, Directors noted the favorable prospects for 2004, especially if the regional security situation stabilizes, with stronger domestic demand expected to be underpinned by higher output and prices of agricultural commodities, notably cotton. They urged the authorities to use the opportunity provided by the favorable outlook to press ahead with the implementation of the above-mentioned policies.

Directors commended the authorities for their actions to strengthen fiscal performance, noting that fiscal objectives for 2003 appear likely to be met, despite domestic and external budgetary pressures. They called on the authorities to stay the course of fiscal consolidation and adopt measures to ensure that the 2004 fiscal targets are attained. These measures should center on strengthening revenue performance by reducing tax exemptions, reining in the growth of public sector wages as well as of expenditure not directly related to poverty reduction, and reforming the civil service retirement scheme. Directors expressed concern about the initial medium-term projections, which suggest a possible widening of the fiscal deficit and an increase in debt. To protect against these vulnerabilities, Directors called for continued efforts to reduce the fiscal deficit, monitor the debt burden closely, and increase reliance on external grants.

Directors welcomed the marked decline in inflation in Mali, and the recent lowering of interest rates by the Central Bank for West African States (BCEAO). Directors noted that Mali's financial institutions generally comply with prudential norms. They expressed concern, however, about the high level of nonperforming loans. Directors urged the authorities to continue to strengthen the legal and regulatory framework for the financial system and to promote financial deepening. In this context, they welcomed the authorities' plans to privatize the commercial banks, and urged the further development of microfinance institutions in rural areas. While welcoming Mali's recent efforts in the area of combating the financing of terrorism, some Directors also called for further strengthening of the effectiveness of the AML/CFT regime.

Directors emphasized the need for ongoing implementation of the wide-ranging agenda of structural reforms. In order to meet the objectives of promoting economic diversification and improving the environment for private investment, the authorities will need to give high priority to developing infrastructure, streamlining the regulatory framework, improving governance and the judicial system, and enhancing labor productivity. In this connection, Directors looked forward to the planned Investment Climate Assessment to be undertaken with the assistance of the World Bank.

Directors underlined the importance of reforms in the cotton sector. They welcomed the decision to split the cotton monopsony (CMDT) to help increase competition in the sector over the medium term. Given the importance of the cotton sector, Directors encouraged the authorities to proceed with the implementation of these plans in a careful and orderly manner. A few Directors noted the adverse effects on Mali of subsidies to the cotton sector in some industrialized countries, and cuts in this support were called for.

While Mali's economic data are generally satisfactory for surveillance purposes, Directors encouraged the authorities to continue to improve the quality and timeliness of national accounts data in line with the recommendations of the recent multi-sector mission from the Statistics Department of the Fund.

Looking ahead, Directors concurred that further financial support in the form of a low-access PRGF arrangement offers the best prospect for assisting the authorities to implement the remaining reform agenda and tackle the enormous challenges still facing Mali. However, a few Directors noted that the projected balance of payments surplus over the medium term and increased donor support raised questions about the need for further Fund financial assistance, and urged the consideration of other forms of Fund involvement.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Mali is also available.

Table 2. Mali: Selected Economic and Financial Indicators, 2000-06

	2000	2001	2002	2003			2004	2005	2006
				Proj.					
				EBS/03/92	Old GDP 1/	Rev. GDP 1/	Projections		
				(Annual percentage change, unless otherwise indicated)					
National income and prices									
Real GDP	-3.2	13.3	4.4	-1.1	-0.4	3.2	4.9	5.0	5.7
Nominal GDP (in billions of CFA francs)	1,899.4	2,210.5	2,344.8	2,252.5	2,239.1	2,487.1	2,660.0	2,859.4	3,085.3
GDP deflator	9.2	2.7	1.6	3.8	2.4	2.8	2.0	2.3	2.1
Consumer price index (annual average)	-0.7	5.2	5.0	3.8	0.5	0.5	2.5	2.5	2.5
External sector									
Exports, f.o.b.	9.2	36.9	18.9	-7.3	-8.0	-8.0	5.7	3.0	4.9
Imports, f.o.b .	13.1	27.7	-7.4	2.2	3.4	3.4	4.2	6.2	6.7
Export volume	-1.1	24.8	29.2	-11.5	-14.0	-14.0	5.5	1.4	3.0
Of which: nonmining	-7.4	-23.1	40.3	-9.7	-16.2	-16.2	25.9	10.3	2.3
Import volume	1.7	29.8	8.5	0.9	1.8	1.8	3.9	6.1	5.8
Terms of trade	-0.7	2.3	3.0	2.9	5.3	5.3	-0.9	0.6	0.4
Nominal effective exchange rate (average)	-4.3	3.2	1.5	...	...	...	...	...	...
Real effective exchange rate (average)	-7.4	3.7	4.9	...	...	...	...	...	...
Central government finance									
Total revenue	-1.0	18.6	21.3	10.2	10.2	10.2	12.3	6.3	10.2
Total expenditure and net lending 2/	-0.5	14.1	17.5	13.3	13.3	13.3	9.4	6.2	7.8
Current expenditure	2.6	39.7	10.3	0.2	4.5	4.5	14.2	6.8	8.2
Capital expenditure and net lending 2/	-2.8	-9.7	27.8	26.8	24.2	24.2	4.4	5.6	7.3
Money and credit									
Credit to the government 3/	-4.2	4.6	-1.8	2.6	2.6	2.6	-3.1	...	...
Credit to the rest of economy	-2.4	19.0	21.6	9.0	10.5	10.5	18.3	...	...
Broad money (M2)	11.9	19.3	28.4	10.9	15.4	15.4	11.9	...	...
Velocity (GDP/M2)	4.7	4.0	3.7	3.2	3.1	3.4	3.3	...	...
Interest rate (in percent; end of period) 4/	6.5	6.5	6.5	...	...	...	...	...	...
				(In percent of GDP, unless otherwise indicated)					
Investment and saving									
Gross domestic investment	22.5	27.2	20.3	20.5	20.3	22.3	22.0	22.0	21.9
Government	8.0	6.4	7.4	9.4	9.3	8.2	8.4	8.6	8.6
Nongovernment	14.5	20.8	12.9	11.1	11.0	14.2	13.6	13.4	13.3
Gross domestic saving	11.6	17.5	19.0	17.1	17.0	17.3	17.5	17.1	16.8
Government	0.8	-0.3	0.6	2.5	2.4	0.7	0.7	0.8	1.3
Nongovernment	10.8	17.8	18.4	14.7	14.6	16.5	16.8	16.3	15.6
Central government finance									
Total revenue	14.2	14.5	16.6	19.0	19.1	17.2	18.1	17.9	18.3
Total expenditure and net lending 2/	21.9	21.5	23.8	28.1	28.2	25.4	26.0	25.7	25.7
Overall balance (payment order basis, including grants)	-2.9	-3.2	-3.6	-5.4	-4.3	-3.9	-5.1	-5.2	-4.7
Overall balance (payment order basis, excluding grants)	-7.7	-7.0	-7.2	-9.1	-9.1	-8.2	-7.9	-7.8	-7.4
Basic fiscal balance 5/	-0.7	-1.7	-1.3	-1.3	-1.3	-1.1	-1.1	-1.2	-0.7
Basic fiscal balance 6/	-0.6	-0.2	0.1	0.3	0.3	0.2	0.1	-0.2	0.2
External sector									
Current external balance, including official transfers	-9.5	-10.3	-4.3	-7.4	-7.2	-6.5	-6.5	-6.3	-6.4
Current external balance, excluding official transfers	-11.9	-12.5	-5.8	-8.2	-10.3	-9.2	-7.3	-7.0	-7.1
Debt-service ratio 7/									
Before debt relief	12.8	9.9	9.9	11.6	12.1	12.1	10.7	10.1	9.6
After debt relief	12.2	6.3	6.2	7.6	7.8	7.8	6.5	6.1	5.7
Overall balance of payments (in millions of US dollar)	39.2	-44.8	138.2	-62.7	52.3	52.3	-116.7	-128.9	-96.4
Gross international reserves (in millions of US dollar)	381.3	348.9	594.5	680.7	811.2	811.2	853.6	896.6	940.3
(In months of next year's imports) 8/	3.8	3.9	6.0	5.9	7.0	7.0	7.0	6.9	6.7
Exports of goods	20.4	24.0	26.9	26.9	26.0	23.4	23.1	22.1	21.5
Imports of goods	22.2	24.4	21.3	22.6	23.0	20.7	20.2	20.0	19.7
U.S. dollar exchange rate (end of period)	705.0	744.3	625.5	...	...	...	...	...	...

Table 2. Mali: Selected Economic and Financial Indicators, 2000-06 (continued)

	2000	2001	2002	2003			2004	2005	2006
				Proj.					
				EBS/03/92	Old GDP 1/	Rev. GDP 1/	Projections		

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

1/ The two columns differ because the authorities revised their GDP methodology to be consistent with the West African Economic and Monetary Union (WAEMU) and System of National Accounts (SNA) 1993 methodology.
2/ Including capital outlays financed through external aid and transfers to the local authorities; data on payment order 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 minus total expenditures and net lending, excluding foreign-financed investment.
6/ Defined as footnote 5 above, but also excluding HIPC Initiative-related expenditure.
7/ In percent of exports of goods and services.
8/ Of goods and services.