INTERNATIONAL MONETARY FUND

Staff Country Reports

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INTERNATIONAL MONETARY FUND

MALI

First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria

Prepared by the African Department in consultation with other departments

Approved by Benedicte Vibe Christensen and Martin Fetherston

February 7, 2005

- **PRGF Arrangement**. The Fund supports Mali's economic program for 2004–07 under a PRGF approved by the Executive Board in June 2004. On that occasion Directors welcomed progress made in implementing the PRSP, while pressing the need for a clearer prioritization of policy actions. They also encouraged the authorities to implement decisively the agenda of structural reforms to strengthen the economy's resilience to external shocks. Total access under the arrangement is SDR 9.33 million, or 10 percent of quota, of which SDR 1.33 million has been disbursed so far (Appendix I). A further SDR 1.33 million becomes available on the completion of this review. The World Bank is also supporting Mali's program through both project and adjustment credits (Appendix II).

- **Political Developments**. The domestic political situation remains stable. In the sub-region, an end to a cease fire between government and rebels in neighboring Côte d'Ivoire in November 2004 has heightened tension. However, direct effects on Mali have been limited, with most trade already rerouted through more distant ports.

- **Discussions**. During September 13–20 and November 2–13, 2004, the staff team met with Prime Minister Maiga, Finance Minister Traoré, BCEAO National Director Traoré, and other senior officials. The mission also met with representatives from the banking and business communities and with civil society.

- **The Staff Team's** members were Chris Lane (head), Abdoul Aziz Wane, Jean-Claude Nachega, Charalambos Tsangarides (all AFR), Alejandro Simone (FAD), and Abdelali Tazi (Resident Representative).

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EXECUTIVE SUMMARY

- **Economic performance has weakened, largely on account of unfavorable external developments**. Low rainfall and locust attacks have reduced 2004/05 food production and significantly slowed GDP growth. A drop in cotton prices, coupled with a rise of oil prices, has substantially weakened the terms of trade, thereby reducing potential income growth in 2005. Nonetheless, consumer price inflation has been subdued.

- **Program implementation in 2004 was mixed**. The authorities stuck to their fiscal program, meeting all targets and indicators through end-September, despite some revenue and financing shortfalls. However, progress on structural reforms, particularly privatization, has been disappointing. The authorities request waivers for three structural performance criteria on the basis of corrective actions concerning privatization policies in the cotton, telecommunications and banking sectors.

- **Policy discussions focused on the draft 2005 budget.** To maintain macroeconomic stability in 2005, the authorities have committed to adjust to the terms of trade shock through fiscal and structural measures. The measures include passing on world oil price increases to consumers by reversing fuel excise cuts and reducing budget spending to accommodate the financing needs of the cotton sector.

- **To close a residual financing gap of 0.9 percent of GDP, the authorities have requested increased concessional financing**. Donors offered assurances to cover the financing gap, and the authorities have committed to covering any shortfalls that arise through further fiscal adjustment. The package will be finalized in the context of the second review.

- **Cotton sector privatization has been postponed by the authorities from 2006 to 2008** to give more time to put in place the necessary preparatory steps.

- **The authorities have an appropriately ambitious program of structural reform for 2005**. A new flexible producer price mechanism will send world price signals to the cotton sector and minimize future budgetary risks. Efforts will be made to increase non tax revenues. The authorities will continue their public expenditure management reforms and review their policies in the area of social safety net spending and electricity subsidies. A significant reform of the civil service pension fund is under way.

- **Financial sector reforms**. The authorities are continuing their efforts to dispose of remaining state shareholdings in commercial banks, as well as strengthening private pension provision, microfinance supervision, and insurance sector regulation.

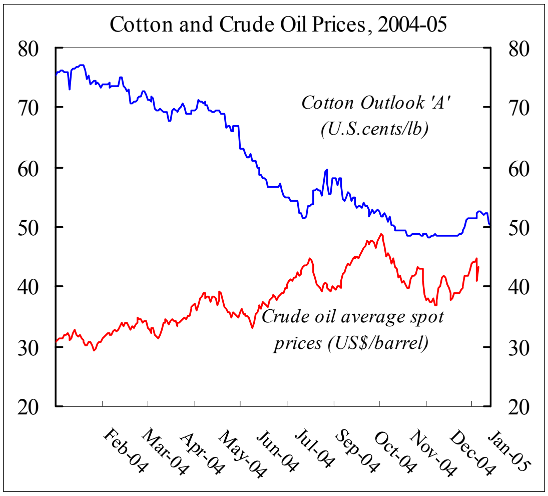
I. Recent Developments

Mali's economic outlook deteriorated significantly since the approval of the PRGF arrangement in midyear, primarily as a result of external shocks (Figure 1, Tables 1-2).

1. **Below average rainfall and locust attacks have lowered projected agricultural production**. Accordingly, the real GDP growth projection for 2004 has been revised downward to 2.2 percent from the original PRGF objective of 4.7 percent. In 2005, real GDP growth is projected to nearly reach the program rate of 6 percent, with a recovery in non-cotton agricultural production and in the gold sector (resulting from investment in the largest mine).

2. **External balances weakened in 2004 and are likely to continue to do so in 2005, rather than improving, as projected under the program** (Figure 2, Tables 3-4). In 2004, the current account deficit excluding grants remained at nearly 7 percent of GDP on account of lower gold exports and higher oil imports. For 2005, the current account deficit is expected to weaken by a further 2½ percent, to 9 percent of GDP, primarily because of low cotton export prices.

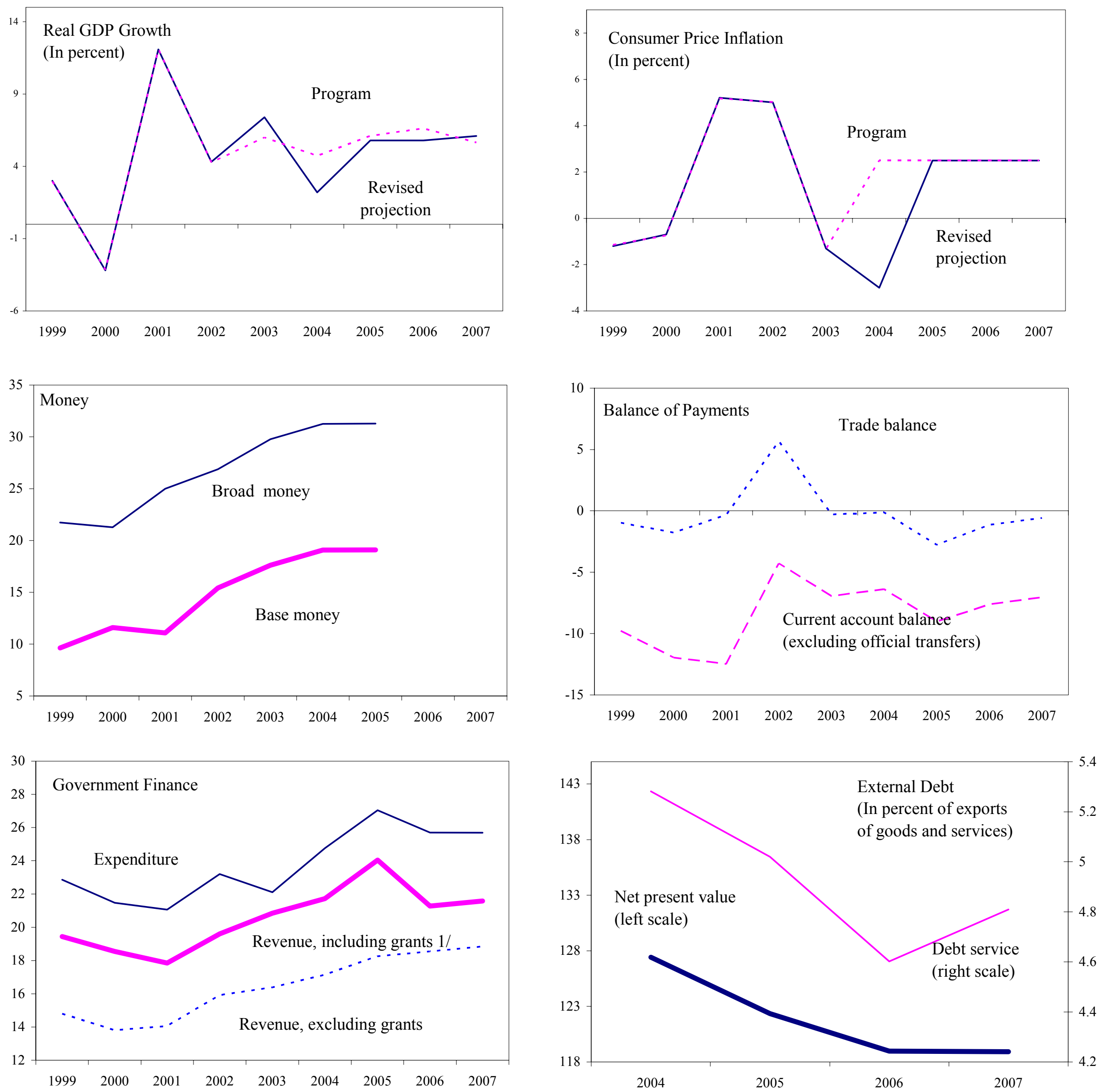
3. **The terms of trade weakened substantially during 2004**. Cotton prices for the 2004/05 season are expected to fall by 30 percent from the six-year high of 2003/04, in large part because world cotton production increased by 20 percent over the same period, reflecting both production subsidies in major cotton producing countries and rising yields from genetically modified cotton. Oil prices rose by 30 percent in 2004. These price developments result in a terms of trade deterioration of 10 percent in 2005 instead of the improvement expected in the 2004 program.



4. **Monetary growth has slowed markedly from midyear, reflecting the weakening economy** (Table 5). Following four years of double-digit broad money expansion, monetary growth is expected to slow to 7 percent in 2004. The principal source of monetary growth is the accumulation of official foreign assets early in the year, while credit to government and to the private sector has increased only marginally.

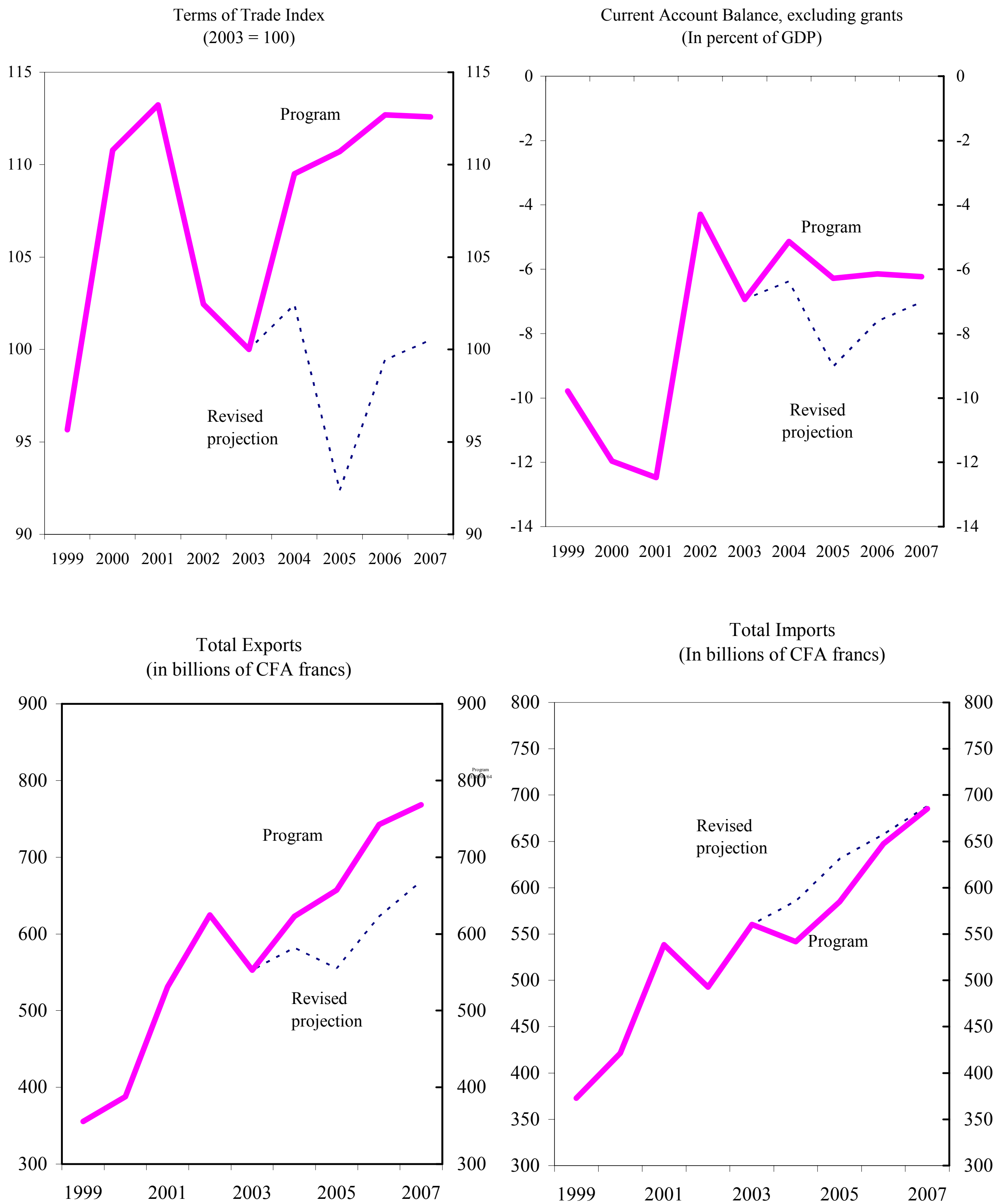
5. **The quality of banks' lending portfolios deteriorated somewhat during the first half of 2004, and excess liquidity increased, though most banks met prudential ratios.** The ratio of nonperforming loans to net credit to the economy rose from 8.4 to 10.5 percent between end-2003 and August 2004. The banking system continued to exhibit high liquidity, as attested by the level of excess reserves of commercial banks, in part reflecting the lack of bankable projects. Adherence to the main prudential ratios improved somewhat in 2004, with the notable exception of the risk-concentration ratio which no bank has yet observed because of exposure to the cotton sector.

Figure 1. Mali: Macroeconomic Indicators, 1999-2007
(In percent of GDP, unless otherwise indicated)



Sources: Malian authorities; and staff estimates and projections.
1/ Central government, projected revenues in 2006-07 exclude grants not yet committed.

Figure 2. Mali: Main External Indicators, 1999-2007



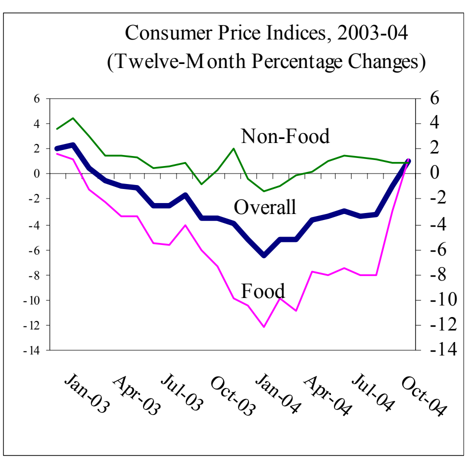
Sources: Malian authorities; and staff estimates and projections.

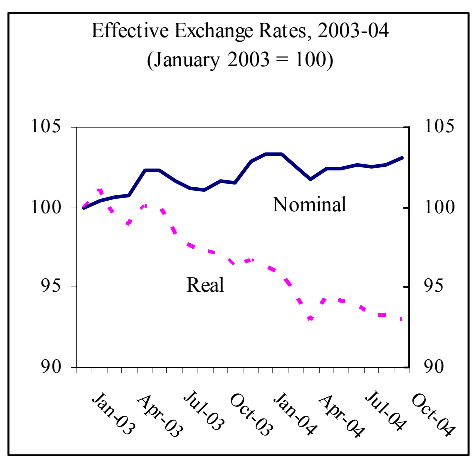
Mali: Banks' Compliance with Selected Prudential Norms, 2003–04

Prudential Ratios	Compliance Limits and Ratios	No. of Banks Complying	
		Dec. 2003	Jun. 2004
Effective capital	> CFAF 1 billion	12/12	13/13
Risk-weighted capital adequacy ratio	> 8 percent	11/12	12/13
Transformation ratio (stable resources to fixed assets & medium & long-term loans.)	> 75 percent	5/12	10/13
Liquidity coefficient ratio (liquid assets to short term liabilities)	> 75 percent	3/9	9/13
Participation in nonbank companies/effective capital	< 15 percent	12/12	13/13
Fixed assets/effective capital	< 100 percent	12/12	13/13
Credit to management /effective capital	< 20 percent	10/12	10/13
Risk-concentration ratio	< 60 percent	0/12	0/13

Source: BCEAO.

6. **Average consumer prices continued to decrease during 2004, and the real exchange rate depreciated slightly.** As a result of the good 2003/04 harvest, food prices declined for most of 2004, although the weaker 2004/05 harvest pushed food prices up again by year-end. Nonfood prices have remained stable. The favorable inflation differential with trading partners has more than offset the nominal appreciation of the CFA franc against the U.S. dollar, with the average real effective exchange rate depreciating by 4.5 percent during January-October 2004.





II. Policy Discussions

A. Macroeconomic Framework

7. **The macroeconomic projections for 2004–05 have been revised to reflect the impact of shocks and unforeseen setbacks (¶7-8):**[1]

- **Downward revisions to 2004 output growth were unavoidable.** Weather conditions reduced agricultural production, while locusts also damaged crops (Box 1);

- **A return to GDP growth of 5-6 percent in 2005 would likely occur with a normal harvest (for 2005–06) and increased gold production projections.** A return of the locust infestation is a risk for food crops while for cotton, whose domestic producer prices will likely fall significantly in 2005/06, production is expected to fall by some 10-15 percent. Staff and authorities agreed that the level of projected GDP would remain below PRGF projections over the medium-term, reflecting the impact of shocks in 2004, while medium-term growth objectives remain realistic, on the assumption of steadfast implementation of the structural reform agenda (¶9);

- **Although consumer price inflation in 2004 is substantially below expectations, a return to program projections of inflation at 2½ percent is likely in 2005**. Temporary food price declines have already begun to reverse, and increasing fuel prices would affect transportation costs directly, leading to an upward tick in inflation by year-end;

- **The current account deficit before official transfers is expected to widen significantly through 2005**. It is expected that cotton prices will languish at end-2004 levels (30 percent below PRGF assumptions), though much will depend on whether major producers maintain record planting levels in 2005 and on the impact on demand for cotton from clothing and textile liberalization in 2005. While oil prices remained volatile, understandings were reached that policies for 2005 should be calibrated for prices of US$40 a barrel. The current account deficit is expected to narrow after 2005, as oil prices moderate and gold exports expand through new mine development;

- **Both the staff and the authorities viewed the level of the exchange rate as broadly adequate, in historical perspective and in relation to regional partners.** However, the authorities noted that external trade costs continued to be elevated as a result of blockages in Côte d'Ivoire, which hampered competitiveness. Further progress in structural reforms remains essential to boost

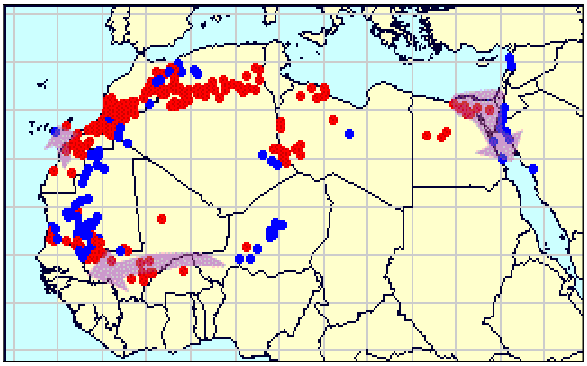
[1] ¶ refers to the relevant paragraph in the attached supplementary letter of intent.

labor productivity, reduce excessive factor costs, and maintain the country's competitiveness in export markets;

- **The improvement in external debt indicators expected under the program in 2005 is expected to be offset by external shocks to exports**, but to resume in the following years (debt sustainability is discussed in Appendix III).

Box 1. Economic Impact of Locust Infestation

Swarms of desert locusts descended on West Africa in the second half of 2004–the most widespread infestation of these pests in more than fifteen years. The worst affected countries are Mauritania, Mali, Senegal, and Niger.



Locust Swarms in West Africa, 11/ 30/04. Source: FAO

Preliminary findings of crop assessment missions to nine countries suggest that despite the large-scale desert locust infestation, regional cereal production in 2004/05 in the Sahel region will remain within the five-year average of around 11.6 million tons (compared to 14 million tons in 2003/04), in part resulting from concerted treatment efforts. FAO recommends investment at a regional level in early surveillance of locust breeding areas and targeted control campaigns to minimize risks to production in 2005.

Treatment and climatic factors prevented locust damage in the areas of intensive agricultural production in Mali, including cotton and rice growing areas. The overall decline of agricultural value added is estimated at 11 percent, against bumper harvests of the previous season, though largely a result of climatic factors as opposed to locust damage.

The locust infestation has significantly affected the north of Mali. Through September 2005, many communities would need food assistance expected to be covered by the authorities' cereal reserves. However, the direct income reduction from crop damage and the number of inhabitants severely affected by the shock remain limited. Staff estimates, based on survey data, suggest that the impact on standard poverty indicators of the locust attack will be minor.

B. Fiscal Policy and Reforms

Fiscal outturns have exceeded program targets and indicators so far. But this over performance is unlikely to persist in coming months owing to oil tax reductions in 2004, and mounting losses in the state-controlled cotton sector (Figure 3). Against this background, the discussions focused on the budgetary implications of oil and cotton price shocks— including the cost of subsidizing fuel consumption and cotton production— and *the impact upon poverty reducing spending. Progress continues to be made in public expenditure management. Fiscal decentralization reforms are proceeding slowly owing to a lack of institutional capacity.*

8. **The fiscal outturn for end-September 2004 was in line with the program,** with revenue on track, and current and capital spending below budget, in part reflecting delayed external assistance. The overall deficit (payment-order basis, excluding grants) represented 5.9 percent of GDP, or 1 percent of GDP less than targeted under the program (¶11). Spending financed through the HIPC initiative, which was directed toward the education and health sectors to pay for the salary of contractual employees and transfers, was on track.

9. **Fiscal objectives for end-2004 are also likely to be met** with the overall deficit expected at 7 percent of GDP, some ½ percent above the program target (Table 6 and ¶12). To compensate for a temporary external financing shortfall, staff recommended to rollover to 2005 a treasury bill issue maturing in December 2004 (0.8 percent of GDP) within the programmed adjustor for shortfalls in external financing (¶13).

10. **The staff cautioned that the fiscal record could not be sustained in 2005 given external price shocks, weaker revenue policies, and slower economic growth**. On current policies, and an improved outlook for oil and cotton prices, the draft 2005 budget submitted to the National Assembly would likely result in a overall deficit before grants of 10 percent of GDP and a financing gap equivalent to 2.2 percent of GDP. The authorities noted that spending in nominal terms excluding cotton sector support was consistent with the PRGF medium-term framework. They concurred, however, that the main contributory factors to the financing shortfall are:

- cotton sector operating losses, estimated to amount 1.4 percent of GDP (CFAF 38 billion);

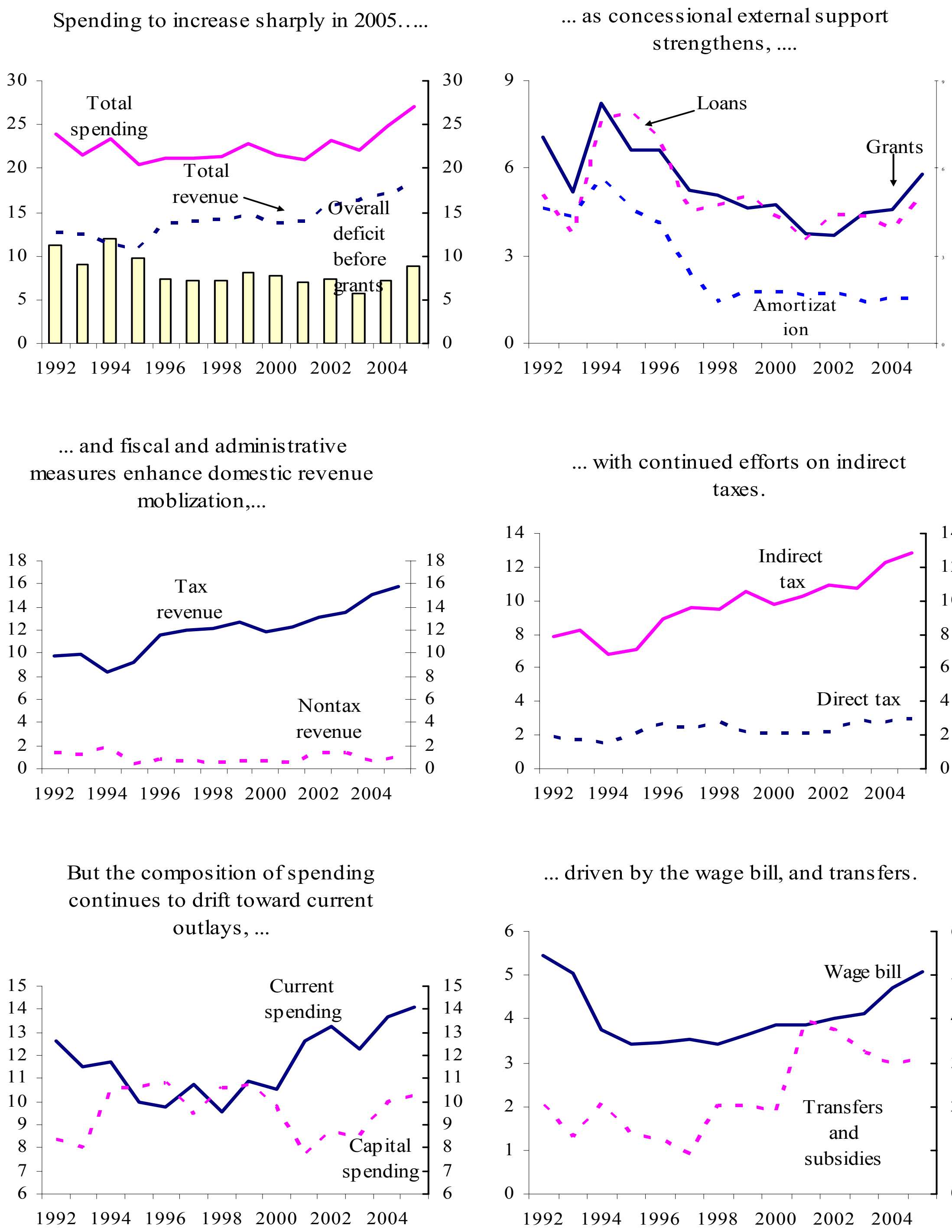
- excise revenues, short of budget estimates by 0.6 percent of GDP (CFAF 16 billion), resulting from a reduction of excises on petroleum products in 2004;

- lower gold sector dividend payments, reflecting lower-than-programmed profits in 2004 (0.2 percent of GDP or CFAF 6 billion).

11. **The staff also discussed with the authorities other risks to implementing the 2005 budget.** The primary concerns were potential unbudgeted water and electricity subsidies, revenue losses through tax exemptions, and delays in implementing tax measures:

- The authorities took the view, on the basis of the independent regulator's opinion, that a reduction of water and electricity tariffs in May 2004, as well as cuts in 2003, would not require compensatory payments in 2005 to the water and electricity concession holder. Nonetheless, the authorities were discussing

Figure 3. Mali: Main Fiscal Indicators, 1992-2005 (in percent of GDP) 1/



Source: Ministry of Economy and Finance, and staff estimates and projections.
1/ Figures for 2004 are estimates, and figures for 2005 are projections.

revisions to the concession holder's contract and have allocated CFAF 4.2 billion for contingencies arising from these discussions. The staff recommended that electricity prices be set to ensure that budget subsidies would not be needed. A tariff study would inform such a policy (¶20) and new structural benchmark).

- The staff expressed concern about existing ad hoc tax exemptions and a new duty and VAT exemption on vehicle imports effective from October 2004. The authorities maintained that ad hoc exemptions had been reduced by 45 percent during Jan.-Sep. 2004 and that the vehicle exemption codified a previous ad hoc procedure. The authorities agreed to reduce ad hoc tax exemptions progressively in 2005 and to eliminate them over the medium-term. They have also submitted legislation in January 2005 to eliminate tax exemptions provided to an agricultural bank.

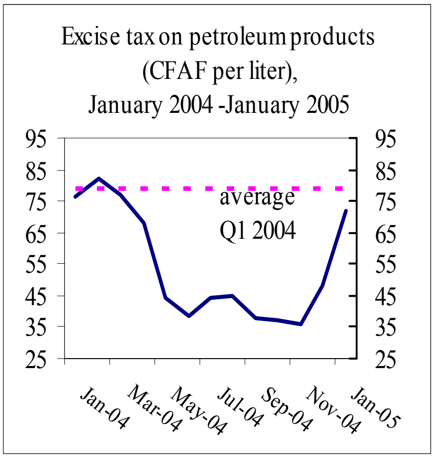
- The staff urged that other tax measures envisaged in the draft budget be put in place prior to the new calendar year. These measures include removing tax exemptions on agricultural inputs and streamlining the presumptive tax regime to improve coverage of the informal sector.

12. **To address the prospective financing gap, the authorities have taken measures amounting to 1.3 percent of GDP**:

- Submitted a budget amendment in December 2004 with spending cuts, mainly on transfers, of 0.6 percent of GDP. Poverty-reducing outlays are safeguarded (¶16).

- Increased petroleum product excises back to Q1 2004 levels to boost revenue by 0.6 percent of GDP in 2005 (Box 2). The increase was largely in place by January 2005 and is expected to be fully implemented by end-March 2005 (¶15).

- Measures to increase the yield and efficiency of nontax revenue collection (0.1 percent of GDP) informed by a study (new structural benchmark for 2005).



13. **The authorities have also requested supplementary external financial assistance to close a residual financing gap after measures of 0.9 percent of GDP or CFAF 24.6 billion (¶17-18)**. The central reason for the financing gap is the projected losses of the cotton sector company CMDT (Compagnie Malienne pour le Développement des Textiles) that the government, as majority shareholder, covers. Total

projected losses of 2.4 percent of GDP[2] are expected to be covered by (i) measures in the cotton sector (0.6 percent of GDP), (ii) foreign shareholder (0.3 percent of GDP), and (iii) budget support (1.4 percent of GDP). The measures in the sector include cost savings, nonpayment of 2003/04 rebates to producers, and retained profits. The authorities will also reform the producer price mechanism to avoid a recurrence of losses.

14. **The response of the international community has been positive, with indications that the financing gap of 0.9 percent of GDP can be covered through supplementary grant assistance**. The European Union indicated that supplementary grants of 0.6 percent of GDP are available in the context of an overall sound budget and continuing progress on structural reforms, especially in the cotton sector. The remaining 0.3 percent of GDP would likely be covered by other bilateral donors—a number of whom are considering supplementary assistance to help offset external shocks—while the authorities have also committed to covering any residual financing gap by further budgetary adjustment in the context of the second review.

Mali: Fiscal Indicators, 2004–05 (in percent of GDP, unless otherwise indicated)

	2004	2005	
	Estimated outturn	Original program	Revised projection
Revenue and grants	21.7	21.8	24.0
Of which: grants	4.6	4.4	5.8
Total expenditure and net lending	24.8	24.6	27.0
Of which: wages	4.7	4.6	5.1
net lending	-0.4	-0.2	1.2
investment	10.0	9.7	10.3
Overall balance, cash basis			
Including grants	-2.8	-.2.9	-3.0
Excluding grants	-7.4	-7.3	-8.8
Financing	2.8	2.9	3.0
Domestic	-0.6	-1.4	-1.6
External	3.5	4.3	4.6

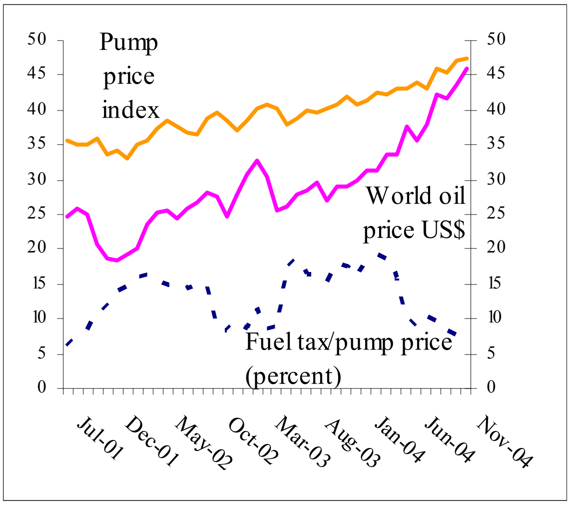
15. **The staff encouraged the authorities to reduce current spending, particularly wages**. Both staff and authorities were concerned that financing substantial increases of education and health sector wages with HIPC Initiative resources might eventually prove unsustainable, because such assistance is front-loaded. In this regard, the staff urged the authorities to consider developing a long-term wage policy consistent with making steady progress toward attaining the Millennium Development Goals while respecting the financing constraints. The authorities observed that the 2005 budget wage has been set with a view to observing the WAEMU convergence criteria ceiling (35 percent of tax revenue), while the staff noted that wages in relation to GDP were rising strongly.

[2] With a cotton price of US$0.48 per pound and an exchange rate of US$/EUR 1.31.

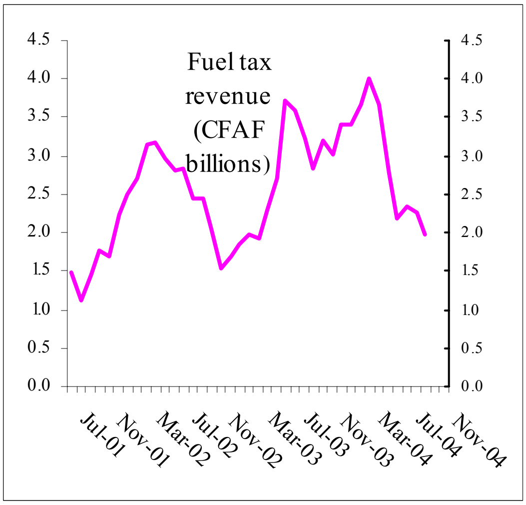
Box 2. Economic Impact of Increases in Excises on Petroleum Products

The Government has adjusted petroleum product taxes to stabilize pump prices. The staff has recommended that average fuel excises in 2005 be increased to back to levels prevailing during Q1 2004. This would increase pump prices by 10 percent, and government revenue by 0.6 percent of GDP. The authorities are concerned that increases in the domestic price of petroleum products will adversely impact on growth, inflation, and poverty reduction.

Taxation as a smoothing device …..



..And its impact on government revenue



Staff's preliminary estimates are that the proposed policy will have a limited impact:

- The **impact on growth is expected to be minimal**, as lower private spending will be largely offset with higher government consumption.
- The **impact on inflation would be small.** The main effect is in the transportation sector (11 percent of consumption), where prices would increase by 4.7 percent. Food and energy prices would remain broadly unaffected, reflecting the importance of supply factors for food prices and tax exemptions for electricity generation.
- **The proposed policy will affect the non poor more than the poor**. The impact on the poor is on average only about 0.4 percent of their expenditures. Overall, about 30 percent of the impact of the increase of excises would be on poor groups that represent about 70 percent of the population, and 40 percent of consumer spending.

Mali: 2005 Budget Wage Increase Composition

	2005 Budget Allocation (CFAF billion)	Estimated Increase on 2004 (percent)
Civil service wage bill (excluding. HIPC-financed wages)	123.4	11.1
Of which:		
New recruitment	4.5	4.1
Wages and salaries of existing employees 1/	118.9	7.0
HIPC-financed wages	16.8	54.1
Public administration wages (incl. universities, hospitals)	7.9	25.4
Total remuneration	148.1	15.4

1/ Including cost of realigning contractual employees' salaries.

16. **The authorities attach high priority to strengthening public expenditure management over the medium term**. They stressed that the implementation of a new budget classification has allowed better monitoring of poverty-reduction spending. At the same time, they strengthened the medium-term budget programs submitted to the National Assembly, and are working with the World Bank on medium-term expenditure frameworks (MTEFs) for public works and transportation having completed health and education. The MTEFs would be extended to all ministries with planning units over the medium term.

17. **Strengthening expenditure policy, including its poverty focus, is also an important medium-term objective under the program (¶19-20)**.[3] To this end, the authorities agreed to:

- complete expeditiously the work of the commission to review salary allowances and bonuses, with a view to simplifying them, containing their cost, and improving their transparency;
- review the composition of spending financed by HIPC Initiative resources with a view to increasing the investment share;
- reduce and improve the targeting of electricity consumption subsidies. This action will be informed by a tariff study (new structural benchmark for end-September 2005);

[3] The authorities are preparing the second annual PRSP progress report that is expected to be completed in April 2005.

- work with donors to improve the execution of foreign-financed spending;
- review the criteria for allocating spending from the social safety net fund that was introduced to protect vulnerable groups from the short-term adverse impact of the 1994 devaluation. The annual budgeted spending amounted to 0.4 percent of GDP. The proposed review would document the extent to which the funds are channeled to vulnerable groups, review existing allocation criteria, and propose actions to improve targeting.

18. **To reduce pressure on budget spending over the medium term, the authorities need to address imbalances in the civil service pension fund** (¶21). Both sides believed that absent prompt action to bring pension contributions into line with pension entitlements, the current annual budget transfer of 2/3 percent of GDP will rise to unsustainable levels. The authorities reported significant progress in this area. First, a census of pensioners resulted in some financial savings. Second, drafts of a new pension regime law and a decree determining pension parameters have been prepared. Third, a preliminary report assessing the impact of different parametric reform options has been completed. The authorities will prepare a detailed actuarial study (beginning the study by end-2004 is a performance criterion for the second review).[4] By end-June 2005, an assessment of the parametric reform options would be completed (structural benchmark). Following consultation with relevant stakeholders, legislation would be submitted to the National Assembly with the objective of reducing budget subsidies to the pension fund over the medium term (end-December 2005 structural benchmark). A key aspect of the reform will be to grant the executive the authority to set pension parameters by decree.

19. **There was broad agreement that fiscal decentralization needed to be approached cautiously to ensure minimum standards of accountability and transparency**. The authorities cited several factors contributing to likely delays in the devolution process to local "communes" beyond 2005. These included (i) a lack of capacity at the local level, (ii) the absence of incentives for central government staff to accept appointments as local civil servants, and (iii) little revenue mobilization potential for poorer local governments. The staff agreed that the transfer of authority to local governments would be conditioned by the pace of institutional development. In that regard, it encouraged the authorities to request assistance from partners, including AFRITAC.

C. Monetary Policy and Financial Sector Reforms

20. **Monetary policy in 2005 continues to be conducted at the regional level and is aimed at maintaining price stability and strengthening the external position.** Broad money is targeted to increase by 6 percent, in line with nominal GDP; net bank credit to the government is projected to decline, permitting the allocation of adequate

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[4] The actuarial study has been delayed because the initial search for a qualified adviser was unsuccessful. An international tender for the adviser was launched in January 2005.

financial resources to the private sector; and net foreign assets are projected to remain broadly unchanged.

21. **The staff and the authorities concurred on the agenda for strengthening the intermediation functions of the financial sector (¶23-26)**, with a view to:

- divesting the government's remaining equity holdings in commercial banks;
- strengthening bank balance sheets through effective supervision;
- monitoring closely developments in the expanding microfinance sector;
- and, improving the financial position of pension funds and developing the insurance sector.

22. **Progress in financial sector reform has been mixed.** While the payments system was modernized effective June 2004, privatization of the two key banks, Banque de Développement du Mali (BDM) and Banque Internationale du Mali (BIM), has been delayed. For BDM, the difficulties center on getting agreement of the regional central bank (BCEAO) to divest its 20 percent holding at the same time that the government divests its share. For BIM, the adoption of a privatization strategy and timetable (performance criterion for end-September 2005) was delayed until November owing to procedural difficulties in recruiting an advisor. Staff argued that none of these constraints posed insuperable barriers and that the program needed some political impetus. The acceptance of financial offers for BIM should be completed by end-June 2005 (performance criterion).

23. **The government is also pursuing the reform of nonbank financial institutions to improve the performance and competitiveness of the financial system**. Files on contributors and beneficiaries of the private social security agency (INPS) have been audited and streamlined, including through physical control. With World Bank assistance, the authorities are taking measures to increase the efficiency of the insurance sector.

D. Cotton Sector and Privatization

24. **Despite setbacks, the authorities remain committed to reforms that will strengthen the performance of the cotton sector.** The authorities have argued that, to increase the chances of a successful privatization of the CMDT, more time is needed to put the necessary steps in place. This would delay the planned sale from 2006 to 2008 according to a revised timetable. The key steps toward privatization in the authorities' revised timetable include (i) opening the capital of CMDT to producer associations in August 2005, (ii) creating a cotton exchange in November 2005, (iii) forming regional cotton cooperatives by May 2006, (iv) decentralizing CMDT management to the production zone level by July 2006 and, (v) adopting the operational master plan for

privatization no later than November 2007.[5] Staff expressed the view that further delays were regrettable but recognized that, without the support of producers and an adequate institutional and regulatory framework, privatization would not improve performance. The staff expressed the importance of no further delays in implementing the plan of actions to bring CMDT to the point of privatization.

25. **The cotton sector strategy in the run-up to privatization in 2008 also strengthens the pricing mechanism to minimize the risk of cotton sector losses to the budget (Box 3) and continues the privatization of selected cotton sector assets (¶27)**. The authorities have introduced a new pricing mechanism (prior action) that will limit budgetary risks ahead from the cotton sector. Specifically, the mechanism envisages setting an initial producer price by end-April 2005 in the range of CFAF 160-175/kg compared with CFAF 210/kg in 2004 (new performance criterion for end-April 2005). In addition, the mechanism has a provision for a downward adjustment to the producer price prior to the cotton harvest if CMDT is projected to be unable to pay the initial producer price, by end-August in light of projected world cotton prices (new performance criterion for end-August 2005). The new producer price mechanism, while controversial, has been signed by major stakeholders and is in the public domain thereby strengthening ownership. In the view of the staff, steadfast implementation of the new producer price mechanism will provide an adequate safeguard against budgetary risks from the cotton sector from 2005/06 onward.

26. **Privatization of cotton sector assets is proceeding**. In September 2004, a call for bids for the purchase of HUICOMA (cottonseed oil producer) was launched. Three qualifying bids were received. Completion of the sale in early 2005 is likely. The authorities are also considering an offer from the foreign minority shareholder in CMDT to buy selected cotton ginneries in 2006. The staff took note of these discussions while observing that a partial sale of ginneries faced many of the same constraints raised by the authorities in the context of complete privatization.

27. In light of the revised timetable for privatization and other cotton sector reforms the authorities requested a waiver for the noncompletion of the operational master plan for privatization of CMDT (end-September 2004 performance criterion).

28. **The privatization of the state telecommunications company, SOTELMA, has faced delays (¶28).** The authorities had envisaged in their 2004 program that a privatization strategy and timetable for its completion would be adopted by end-June 2004 (performance criterion). However, the selection of an advisor to elaborate the strategy has faced lengthy delays. Following discussions with the World Bank, in January 2005 the authorities have adopted a revised framework for the sale which envisages completion by July 2006. In support of the requested waiver the authorities will launch the tender for recruitment of the investment advisor as a prior action for the Review. Staff

[5] Consideration will be given to establishing conditionality on elements of this timetable in future reviews.

indicated that the delay is costly, as SOTELMA faces competition from the private sector in the profitable cellular market.

Box 3. Cotton Sector Reform

Cotton sector reform aims to enhance competition and increase the economy's flexibility to adapt to changes in international prices. The priorities are to lower production costs of farmers and cotton processing while also establishing a market-based price mechanism for the purchase of seed cotton to safeguard the budget. Significant progress has been made to improve the sector's efficiency since 2001. The state controlled cotton company (CMDT) has focused on its core activities (ginning and marketing), transferring to the private sector other non-core activities. This made possible a significant reduction of CMDT's personnel in 2003.

There have been difficulties in linking producer prices to international market prices. Producer prices in Mali have been higher than in neighboring countries, and without explicit anchor to the world prices. Hence, the CMDT has been exposed to losses, requiring the government to provide financial assistance when world prices fall.

Cotton Sector: Budgetary Cost
(in percent of GDP)

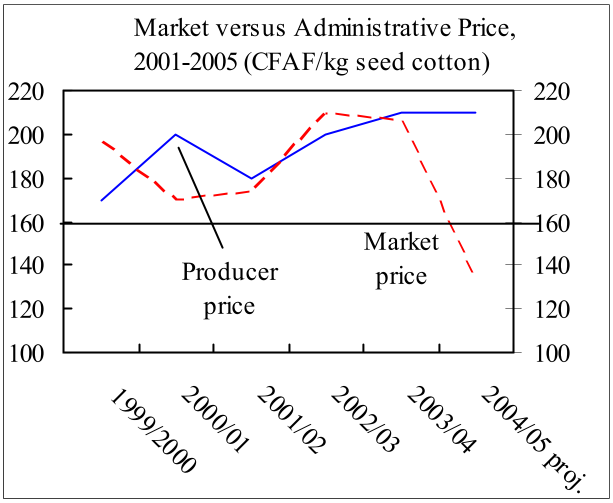
2001	0.6
2002	1.9
2003	0.6
2004	0.0
2005 (projected)	1.4

Producer Price of Cotton Seed in Comparable Countries

	Output 2003/04 ('000 tons)	Producer Price (CFAF/Kg) 2003/04	2004/05
Mali	264	200	210
Burkina Faso	210	185	210
Benin	150	185	...
Togo	75	175	185
Chad	50	160	190

Source: IMF staff.

To address budgetary risks, the Malian authorities intend to adopt a new producer price mechanism. The mechanism focuses the determination of domestic price on international developments, and a gross revenue sharing rule between CMDT and cotton farmers provides incentives to cut costs. The mechanism comprises an initial price set within a pre-determined range (CFAF 160-175/kg), and a final price set with reference to potential losses resulting from the initial price.



III. Program Modalities

29. **The attached Letter of Intent describes progress in implementing the PRGF-supported program and requests completion of the First Review**:

- All applicable quantitative performance criteria have been observed.

- The authorities request waivers for nonobservance of three structural performance criteria (privatization plan for SOTELMA, privatization plan for BIM, and a privatization master plan for CMDT). On the basis of corrective actions in all three policy areas elaborated above, the staff supports the request for waivers.

30. **Two prior actions for completion of the first review have been implemented.** A tender to recruit a privatization advisor for the sale of SOTELMA was launched in January 2005 and a producer price mechanism for the cotton sector that minimizes budgetary risks by periodically channeling market price signals to producers and to the CMDT was adopted on January 13.

31. **The 2005 program has three structural performance criteria**: to announce a cotton producer price for 2005–06 that minimizes risks to the budget by end-April 2005, to adjust the producer price by end-August 2005 if CMDT is not projected to be able to pay the initial price, and to close the acceptance of financial offers for sale of the state shareholding in BIM by end-June 2005. Structural benchmarks for 2005 are summarized in Annex B of the authorities letter of intent.

IV. Staff Appraisal

32. **Adverse developments in agriculture and deteriorating terms of trade for cotton and oil have substantially clouded the economic outlook for Mali**. In agriculture, the impact on output from adverse weather has been magnified by locust infestation, with some risks that the next season may be affected as well. World cotton price declines – linked to both producer subsidies and improving yields in major producers – coupled with domestic producer price rigidities will translate into substantial operating losses for CMDT in 2005. Delays in passing through oil price increases to the consumer have resulted in tax shortfalls during 2004 and, absent of corrective actions, in 2005. Thus, in both the case of cotton and oil, policies to cushion producers and consumers have the effect of transmitting the external price shocks to the budget.

33. **The immediate macroeconomic challenge is to limit the fiscal impact and the deterioration of the external current account while protecting poverty reduction objectives.** Although fiscal performance through 2004 has been generally good, supported by buoyant economic activity in the first half of the year, the situation became more difficult to manage during the latter part of 2004 and would not be sustainable into 2005 without corrective measures and additional external finance due to the magnitude of the external shocks.

34. **Fiscal adjustment and structural reforms remain the main policy instruments available to the authorities**. The authorities agreed on measures to reduce

the projected operating deficit of the cotton sector, including a fundamental reform of the producer price mechanism. They also committed to a substantial increase in the rate of excise tax on petroleum products, including an upfront adjustment. The staff believe that government disengagement from petroleum pricing would be beneficial to revenue stability and would not adversely affect vulnerable groups. The government is to be commended for promptly proposing a significant reduction of 2005 budget spending when the likely fiscal impact of the external shocks became evident. Nonetheless, the staff is concerned at the increase in the wage bill in 2005, on top of increases over the past few years, and urges the authorities to curb future increases. The authorities have also made progress in eliminating and reducing tax exemptions, and simplifying selected taxes, and will address evident weaknesses in the collection of non tax revenues during 2005.

35. **To supplement these efforts the government has requested additional external assistance for 2005**. This assistance will enable budget spending to remain close to levels envisaged in the PRGF medium-term framework, including the expansion of employment in health and education sectors, limit the accumulation of debt, and help sustain growth by removing the need for additional tax increases.

36. **Progress continues in improving public expenditure management and other structural fiscal reforms**. The authorities have begun to tackle the significant imbalances in the civil service pension fund. A review of social spending will also help to identify better ways of targeting budget support for vulnerable groups. Decentralization of government functions and tax collection remains an important objective for the government, but the staff stressed a cautious approach is warranted in view of the many institutional constraints.

37. **Gaining momentum quickly in implementing the privatization program is of paramount importance for growth and macroeconomic stability.** The renewed financial difficulties in the cotton sector serve to highlight the continuing costs of delays to CMDT privatization. Staff would urge the authorities to urgently consider options for CMDT privatization, including in collaboration with the World Bank, with a view to accelerating progress in this area. Setbacks in telecommunications and in banking for largely procedural reasons could have been minimized with stronger government resolve. The staff notes progress in privatizing HUICOMA, and recent steps taken in the process for the sale of BIM and SOTELMA are encouraging. Nonetheless, in order to enhance the macroeconomic gains achieved under the previous PRGF and HIPC debt reduction, there is no longer room for complacency. Timely and full implementation of commitments in structural reforms in this area is called for as a matter of urgency.

38. **In the financial sector, progress in completing privatization of state shareholding in commercial banks will need to be complemented by strengthened supervision and development of the non-bank financial sector**.

39. **Against this background, the staff recommends the completion of the first review and approval of the authorities’ request for waivers**. Mali has maintained macroeconomic stability and taken some significant steps to minimize budget risks ahead

in the face of adverse external developments. The authorities remain committed to an ongoing program of structural reforms that will bolster growth and help alleviate poverty. Mali has a generally good program implementation record and deserves the support of international community.

Table 1. Mali: Selected Economic and Financial Indicators, 2002-07

	2002	2003	2004		2005		2006	2007
			Prog.	Proj.	Prog.	Proj.	Projections	
			(Annual percentage change, unless otherwise indicated)					
National income and prices								
Real GDP	4.3	7.4	4.7	2.2	6.1	5.8	5.8	6.1
Nominal GDP (in billions of CFA francs)	2,330	2,574	2,699	2,602	2,925	2,753	3,049	3,320
GDP deflator	1.0	2.9	1.5	-1.0	2.1	0.0	4.7	2.7
Consumer price index (annual average)	5.0	-1.3	2.5	-3.0	2.5	2.5	2.5	2.5
External sector								
Exports, f.o.b.	17.6	-11.5	10.9	5.3	5.5	-4.7	12.2	7.4
Imports, f.o.b	-8.5	13.7	7.5	4.5	7.9	7.8	4.2	4.6
Export volume	31.7	-11.8	3.6	-2.9	4.6	4.2	5.1	5.1
Of which: nonmining	47.3	-1.0	17.4	14.4	1.4	-3.9	-7.1	6.6
Import volume	-10.4	11.1	8.3	-0.8	7.7	6.3	4.6	3.4
Terms of trade	-9.5	-2.4	9.5	2.4	1.1	-9.8	7.7	1.1
Nominal effective exchange rate (average) 1/	1.5	4.4	…	1.3	…	…	…	…
Real effective exchange rate (average) 1/	4.8	1.1	…	-4.5	…	…	…	…
Central government finance								
Total revenue	19.2	13.7	8.9	5.9	10.4	12.6	12.5	10.7
Total expenditure and net lending 2/	16.0	5.3	19.8	13.3	9.0	15.5	5.2	8.9
Current expenditure	10.3	2.5	15.9	12.5	9.2	9.1	10.8	8.8
Capital expenditure and net lending 2/	24.6	9.0	25.0	14.3	8.8	23.4	-0.8	9.0
Money and credit								
Credit to the government 3/	-1.8	-7.6	0.5	0.6	…	-3.9	…	…
Credit to the rest of economy	21.6	17.3	9.1	1.4	…	14.2	…	…
Broad money (M2)	28.4	21.9	9.6	6.6	…	5.9	…	…
Velocity (GDP/M2)	3.7	3.4	3.2	3.2	…	3.2	…	…
Interest rate (in percent; end of period) 2/ 4/	6.5	5.0	…	5.0	…	…	…	…
			(In percentage of GDP, unless otherwise indicated)					
Investment and saving								
Gross domestic investment 5/	18.5	24.9	20.6	18.8	20.9	21.1	21.5	21.6
Government	7.0	6.8	7.7	8.0	7.8	8.2	8.2	8.3
Nongovernment	11.6	18.8	13.1	10.9	13.3	12.9	13.5	13.4
Gross domestic saving	18.5	20.0	17.1	13.9	17.1	13.1	16.0	16.5
Government	0.0	1.2	0.4	0.6	0.6	-0.4	1.1	1.5
Nongovernment	18.4	18.8	16.7	13.3	16.5	13.5	14.9	15.0
Central government finance								
Total revenue	15.9	16.4	17.0	17.2	17.3	18.3	18.6	18.9
Total expenditure and net lending 2/	23.2	22.1	24.5	24.8	24.6	27.0	25.7	25.7
Overall balance (payment order basis, excluding grants)	-7.3	-5.7	-7.5	-7.1	-7.3	-8.8	-7.1	-6.8
Basic fiscal balance 6/	-1.3	-0.2	-1.2	-1.1	-1.1	-2.1	-0.6	-0.3
Basic fiscal balance 7/	0.1	1.1	-0.1	0.5	-0.1	-0.8	0.4	0.6
External sector								
Current external balance, including official transfers	-3.0	-4.5	-4.3	-4.6	-6.2	-5.9	-7.5	-6.9
Current external balance, excluding official transfers	-4.3	-6.9	-5.1	-6.4	-6.3	-9.0	-7.6	-7.0
Debt-service ratio 8/								
Before debt relief	10.0	10.1	10.5	10.5	10.8	10.4	8.7	9.1
After debt relief	6.3	5.7	6.4	6.3	6.9	6.9	5.5	6.1
			(In millions of US dollars, unless otherwise indicated)					
Overall balance of payments	138.2	159.3	-99.7	64.2	-144.1	-29.3	-180.5	-188.5
Gross international reserves	594.5	908.7	870.0	1018.8	913.0	1041.8	1021.9	1002.3
(in months of next year's imports) 9/	5.4	6.9	7.0	6.7	6.7	6.8	6.7	6.2
Exports (in percent of GDP)	31.9	26.6	26.9	27.7	26.2	25.4	25.6	25.2
Imports (in percent of GDP)	32.0	32.1	31.4	32.6	32.4	33.3	31.3	30.4
U.S. dollar rate (end of period)	625.5	519.4	…	498.4	…	…	…	…

Sources: Malian authorities; and staff estimates and projections.

1/ Data at end-October for 2004.
2/ Data on a payment order basis.
3/ Change in percent of broad money at the beginning of the period.
4/ End-of-period interest rate in the West African Monetary Union money market.
5/ Excluding PESAP; series therefore is slightly different from national accounts series on investment.
6/ Defined as total revenue (excluding grants) minus total expenditures and net lending (excluding foreign-financed investment).
7/ Defined as footnote 5 above, but also excluding HIPC Initiative-related expenditure and exceptional expenditure financed by World Bank credit.
8/ In percent of exports of goods and services.
9/ Goods and services.

Table 2. Mali: Selected National Accounts Indicators, 2002-07

	2002	2003	2004		2005		2006	2007
	Act.	Est.	Prog.	Proj.	Prog.	Proj.	Projections	
	(Annual percentage change at constant prices, in percent)							
Primary sector	-3.6	18.4	-0.7	-4.7	4.6	3.0	4.0	4.9
Agriculture	-7.9	32.8	-4.2	-10.6	5.1	2.5	4.1	5.4
Food crops, excluding rice	3.2	32.0	-9.3	-10.7	5.0	5.0	3.0	5.0
Rice	-24.4	36.1	6.0	-12.9	6.0	6.0	7.3	7.3
Industrial agriculture, excluding cotton	2.8	7.7	6.0	-11.4	6.0	6.0	4.0	6.0
Agricultural cotton	-23.0	40.5	0.0	-6.9	4.0	-13.0	4.0	4.0
Livestock	1.6	1.0	5.0	5.5	3.8	3.8	4.0	4.0
Fishing and Forestry	2.6	2.6	3.8	2.6	3.8	3.8	3.8	4.6
Secondary sector	18.4	-8.6	5.8	2.7	7.6	7.7	8.6	7.1
Mining	22.5	-18.9	-6.9	-16.8	8.3	13.2	16.4	3.9
Industry	22.7	-5.5	18.8	20.9	6.0	2.9	0.8	7.7
Energy	15.1	9.0	15.0	15.0	10.0	7.0	10.0	11.0
Construction and public works	4.4	5.1	7.0	8.0	8.0	8.0	8.0	10.0
Tertiary sector	1.1	7.6	9.1	7.5	5.6	5.9	5.4	6.2
GDP (at factor cost)	3.5	6.9	4.4	1.6	5.7	5.3	5.7	6.0
Indirect taxes	14.4	12.5	8.0	8.0	10.5	10.5	7.1	6.9
GDP (at market prices)	4.3	7.4	4.7	2.2	6.1	5.8	5.8	6.1
Nonmining real GDP	2.3	10.7	5.9	4.0	5.9	5.2	4.9	6.2
	(In percentage of GDP, unless otherwise indicated)							
Total economy	-3.0	-4.5	-4.3	-4.6	-6.2	-5.9	-7.5	-6.9
Gross national saving	15.6	21.1	16.5	14.3	17.6	15.3	14.2	14.9
Of which : domestic saving	18.5	20.0	17.1	14.0	19.9	13.2	16.1	16.6
Gross domestic investment	18.6	25.6	20.8	18.9	23.8	21.2	21.8	21.8
Memorandum items:								
External current account balance 1/	-3.0	-4.5	-4.3	-4.6	-6.2	-5.9	-7.5	-6.9
Nominal GDP (in billions of CFA francs)	2,330	2,574	2,699	2,602	2,925	2,753	3,049	3,320

Sources: Malian authorities; and staff estimates and projections.

1/ Including official transfers.

Table 3. Mali: Balance of payments, 2002-07 1/

(In billions of CFA francs, unless otherwise indicated)

	2002	2003	2004		2005	2006	2007
	Est.	Est.	Prog.	Rev. Proj.	Projections		
Current account balance							
Excluding official transfers	-100.0	-178.6	-138.7	-166.1	-248.3	-232.3	-233.2
Including official transfers	-69.2	-114.8	-117.0	-119.3	-162.1	-229.9	-230.6
Exports, f.o.b.	624.6	552.8	622.8	582.1	555.0	622.7	668.6
Cotton fiber	155.4	151.3	204.1	203.4	123.1	106.2	110.3
Gold	400.0	313.7	321.4	279.6	322.0	389.2	419.7
Other	69.1	87.8	97.3	99.0	109.9	127.3	138.6
Imports, f.o.b.	-492.8	-560.2	-541.8	-585.4	-631.3	-657.6	-687.6
Petroleum products	-86.9	-100.2	-78.1	-116.1	-125.8	-122.0	-124.1
Trade balance	131.8	-7.4	81.0	-3.3	-76.3	-34.9	-19.1
Services (net)	-135.6	-135.0	-182.2	-125.4	-142.2	-139.7	-153.6
Credit	118.1	131.1	104.2	138.2	143.8	156.4	168.7
Debit	-253.7	-266.1	-286.4	-263.6	-286.0	-296.1	-322.3
Income (net)	-167.4	-81.3	-81.5	-81.4	-83.1	-113.0	-118.9
Of which: interest due on public debt	-16.8	-15.7	-17.9	-17.8	-14.8	-15.8	-16.4
Private transfers (net)	71.2	45.1	44.0	44.0	53.3	55.3	58.4
Official transfers (net)	30.8	63.8	21.7	46.8	86.2	2.4	2.6
Of which: budgetary grants	16.6	51.7	19.5	44.6	84.0	0.0	0.0
Capital and financial account	195.7	221.0	56.9	153.2	147.5	140.2	137.0
Capital account (net)	72.7	67.1	76.3	78.3	79.2	87.2	94.7
Of which : projects grants	69.2	63.1	74.3	74.3	75.2	83.2	90.7
Financial account	123.0	153.8	-19.3	74.9	68.3	53.0	42.3
Private (net) 2/	62.0	77.9	-73.8	13.6	-28.4	-23.4	-37.9
Direct investment (net)	168.8	26.7	21.6	26.4	32.3	24.6	27.7
Portfolio investment private (net)	36.7	4.4	5.5	4.3	6.5	6.5	6.5
Other private capital flows	-143.5	46.8	-100.9	-17.1	-67.2	-54.5	-72.1
Official (net)	61.0	76.0	54.5	61.3	96.7	76.3	80.3
Disbursements	102.6	112.7	94.8	101.6	139.6	116.4	127.5
Amortization due on public debt	-41.6	-36.8	-40.3	-40.3	-42.9	-40.1	-47.2
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-30.2	-13.5	0.0	0.0	0.0	0.0	0.0
Overall balance	96.3	92.6	-60.1	33.9	-14.6	-89.7	-93.6
Financing	-96.3	-92.6	60.1	-33.9	14.6	89.7	93.6
Foreign assets (net)	-123.9	-122.6	-25.0	-63.5	-10.0	10.0	10.0
Of which: IMF (net)	-10.0	-6.4	-18.2	-16.1	-12.0	-9.8	-11.5
HIPC Initiative assistance 3/	27.5	30.1	29.6	29.6	24.6	24.6	24.7
Financing gap	0.0	0.0	55.5	0.0	0.0	55.1	58.9
Memorandum items:							
External trade							
Export volume index	31.7	-11.8	3.6	-2.9	4.2	5.1	5.1
Import volume index	-10.4	11.1	8.3	-0.8	6.3	4.6	3.4
Export unit value	-10.7	0.3	9.4	8.5	-8.5	6.8	2.2
Import price	-1.3	2.8	-0.1	5.9	1.4	-0.8	1.1
Terms of trade	-9.5	-2.4	9.5	2.4	-9.8	7.7	1.1
			(In percentage of GDP, unless otherwise indicated)				
External current account balance							
Excluding official transfers	-4.3	-6.9	-5.1	-6.4	-9.0	-7.6	-7.0
Including official transfers	-3.0	-4.5	-4.3	-4.6	-5.9	-7.5	-6.9
External public debt	90.2	72.6	77.9	70.2	61.4	55.5	49.8
Debt-service ratio 4/							
Before debt relief	10.0	10.1	10.5	10.5	10.4	8.7	9.1
After debt relief (including HIPC Initiative)	6.3	5.7	6.4	6.3	6.9	5.5	6.1

Sources: Malian authorities; and staff estimates and projections.

1/ Presented according to the *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 4. Mali: External Financing Requirements and Resources, 2002-07

(In billions of CFA francs, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007
	Est.		Projections			
Requirements	301.7	362.1	270.9	303.4	264.5	271.5
Current account deficit,						
excluding official transfers	100.0	178.6	166.1	248.3	232.3	233.2
Debt amortization	41.6	36.8	40.3	42.9	40.1	47.2
IMF repurchases	16.0	16.2	18.2	14.8	11.9	12.5
Change in the net foreign assets (increase +) 1/	113.9	116.9	46.4	-2.6	-19.8	-21.5
Adjustment 2/	30.2	13.5	0.0	0.0	0.0	0.0
Resources	301.7	362.1	270.9	310.0	264.4	271.4
Official transfers 3/	30.8	63.8	46.8	86.2	2.4	2.6
Official project grants 3/	69.2	63.1	74.3	75.2	83.2	90.7
Long-term public loan disbursement 3/	102.6	112.7	101.6	139.6	116.4	127.5
Budgetary	31.5	34.9	6.8	29.6	0.0	0.0
Project related	71.1	77.8	94.8	110.0	116.4	127.5
Private capital (net) 4/	65.5	81.9	17.6	-24.4	-19.4	-33.9
Debt relief, including HIPC Initiative assistance 5/	27.5	30.1	29.6	31.2	24.6	24.7
Debt under negotiation/moratorium	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)	6.0	10.5	1.1	2.2	2.0	1.0
Exceptional financing	0.0	0.0	0.0	0.0	55.1	58.9
Memorandum item:						
Exchange rate: CFA francs per SDR	781.5	….	….	….	….	….

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.

Table 5. Mali : Monetary Survey, 2002-05

	2002	2003	2004									2005			
	Dec.	Dec.	Mar.		Jun.		Aug.	Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
		Prel.	Prog.	Prel.	Prog.	Prel.	Prel.	Prog.	Prel.	Prog.	Rev. Prog.	Projections			
	(In billions of CFA francs)														
Net foreign assets	271.6	400.4	401.2	422.7	405.4	460.2	458.6	404.9	464.3	412.6	468.0	478.0	471.4	473.0	478.0
Central Bank of West African States (BCEAO)	226.0	361.9	363.8	370.6	368.0	413.5	424.4	367.5	421.7	375.2	425.4	435.4	428.8	430.4	435.4
Commercial banks	45.6	38.5	37.4	52.1	37.4	46.7	34.2	37.4	42.6	37.4	42.6	42.6	42.6	42.6	42.6
Net domestic assets	341.4	371.8	385.3	386.2	379.4	352.0	338.2	398.8	381.8	419.5	345.4	355.4	382.1	400.4	383.3
Credit to the government (net)	-27.5	-74.9	-52.7	-46.9	-58.3	-37.9	-36.9	-61.5	-28.6	-69.5	-70.1	-46.9	-84.3	-93.7	-101.5
BCEAO, net	107.4	91.8	88.7	95.5	81.1	90.8	84.2	78.4	88.9	70.5	88.9	…	…	…	…
Commercial banks	-134.9	-166.1	-140.9	-141.7	-138.9	-128.6	-120.8	-139.4	-117.4	-139.4	-158.9	…	…	…	…
Other	0.0	-0.6	-0.6	-0.6	-0.6	-0.1	-0.2	-0.6	-0.1	-0.6	-0.1	…	…	…	…
Credit to the economy	411.5	482.8	475.9	496.2	475.7	460.3	448.8	498.3	481.0	527.0	489.4	476.1	540.2	567.9	558.7
Other items (net)	-42.6	-44.9	-38.0	-63.1	-38.0	-70.4	-73.8	-38.0	-70.6	-38.0	-73.8	-73.8	-73.8	-73.8	-73.8
Money supply (M2)	626.3	763.4	786.4	809.0	784.8	812.3	796.7	803.6	846.1	832.1	813.5	833.5	853.5	873.5	861.4
Currency outside banks	247.4	318.2	319.3	343.3	330.7	368.7	368.3	338.0	370.1	335.9	339.0	…	…	…	…
Bank deposits	378.9	445.2	467.2	465.6	454.1	443.6	428.5	465.6	476.0	496.2	474.4	…	…	…	…
	(In percent of beginning-of-period broad money)														
Contribution to the growth of broad money															
Net foreign assets	15.1	18.5	1.8	2.9	2.3	7.8	7.6	2.3	8.4	3.3	8.9	1.2	0.4	0.6	1.2
Net domestic assets	10.6	3.4	1.8	3.0	1.0	-1.4	-3.3	3.5	2.5	6.3	-2.3	1.2	4.5	6.8	4.7
Of which : credit to the central government	-1.8	-7.6	2.7	3.7	1.9	4.9	5.0	1.5	6.1	0.5	0.6	2.9	-1.7	-2.9	-3.9
Money supply (M2)	28.4	21.9	3.6	6.0	3.3	6.4	4.4	5.8	10.8	9.6	6.6	2.5	4.9	7.4	5.9
	(Annual percentage change, unless otherwise indicated)														
Memorandum items:															
Money supply (M2)	28.4	21.9	...	19.7	...	20.8	14.5	...	19.6	9.6	6.6	3.1	7.1	3.2	5.9
Credit to the economy	21.6	17.3	...	19.6	...	17.6	11.5	...	13.3	9.1	1.4	3.8	20.3	18.1	14.2
Velocity (GDP/M2)	3.7	3.4	...	…	...	…	…	...	…	3.2	3.2	…	…	…	3.2
Currency outside banks / M2 (in percent)	39.5	41.7	...	42.4	...	45.4	…	...	43.7	40.4	41.7	...	...	...	...

Sources: BCEAO; and Fund staff estimates and projections.

Table 6. Mali: Central Government Consolidated Financial Operations, 2002-2005

	2002	2003	2004				2005	
			September		December			Revised
	Actual		Program	Actual	Program 1/	Estimates	Program 1/	projections
	(In billions of CFA francs, unless otherwise indicated)							
Revenue and grants	**456.7**	**536.5**	**393.7**	**395.3**	**578.4**	**565.4**	**636.6**	**648.3**
Total revenue	370.9	421.8	318.5	331.1	459.2	446.5	507.0	502.7
Budgetary revenue	337.2	384.4	291.2	299.7	420.2	407.5	467.0	462.7
Tax revenue	306.0	349.2	265.7	285.8	383.7	390.9	427.3	434.1
Nontax revenue	31.2	35.2	25.5	13.9	36.4	16.7	39.7	28.5
Special funds and annexed budgets	33.7	37.4	27.3	31.4	39.0	39.0	40.0	40.0
Grants	85.8	114.8	75.2	64.2	119.3	118.9	129.6	145.6
Projects	69.2	63.1	55.7	55.7	74.3	74.3	80.5	75.2
Budgetary	16.6	51.7	19.5	8.5	45.0	44.6	49.2	70.4
Total expenditure and net lending	**540.6**	**569.0**	**458.4**	**445.9**	**660.4**	**644.4**	**720.1**	**744.4**
Budgetary expenditure	511.7	535.5	433.8	421.2	625.7	614.8	684.5	670.9
Current expenditure	308.7	316.3	251.0	246.7	366.7	355.8	400.6	388.2
Wages and salaries 2/	93.5	106.2	91.5	90.9	122.0	122.0	134.7	140.2
Goods and services	109.0	107.6	80.5	87.1	139.2	138.2	159.2	143.3
Transfers and subsidies	87.8	83.8	65.3	55.3	87.0	77.0	87.4	85.1
Interest	18.4	18.8	13.7	13.4	18.6	18.6	19.3	19.6
Capital expenditure	203.1	219.2	182.8	174.6	259.0	259.1	283.9	282.7
Externally financed	140.3	140.9	126.8	120.2	169.0	169.0	181.4	185.2
Loans	71.1	77.8	71.1	64.5	94.8	94.8	100.9	110.0
Grants	69.2	63.1	55.7	55.7	74.3	74.3	80.5	75.2
Domestically financed	62.7	78.3	56.0	54.4	90.0	90.0	102.5	97.5
Special funds and annexed budgets	33.7	37.4	27.3	31.4	39.0	39.0	40.0	40.0
Net lending	-4.9	-3.9	-2.7	-6.7	-4.3	-9.4	-4.4	33.5
of which : CMDT		0.0	0.0	0.0	0.0	0.0	0.0	38.4
Measures					...	**-13.0**	…	**0.0**
Overall fiscal balance, payment order basis								
Excluding grants	-169.7	-147.2	-139.9	-114.8	-201.3	-184.8	-213.1	-241.7
Including grants	-83.9	-32.5	-64.7	-50.6	-82.0	-66.0	-83.5	-96.1
Overall fiscal balance, cash basis								
Excluding grants	-171.0	-136.4	-163.1	-123.3	-209.5	-193.0	-213.1	-241.7
Including grants	-85.2	-21.7	-87.9	-59.1	-90.2	-74.2	-83.5	-96.1
Financing	85.2	21.7	50.3	59.1	90.2	74.2	83.5	96.1
External financing (net)	88.5	106.1	60.6	57.6	114.1	90.9	125.6	141.5
Loans	102.6	112.7	71.1	64.5	124.7	101.6	133.6	153.2
Project loans	71.1	77.8	71.1	64.5	94.8	94.8	100.9	110.0
Budgetary loans	31.5	34.9	0.0	0.0	30.0	6.8	32.8	43.2
Amortization	-41.6	-36.8	-31.3	-28.1	-40.3	-40.3	-37.7	-42.9
Debt relief, HIPC Initiative	27.5	30.1	20.8	21.2	29.6	29.6	29.7	31.2
Domestic financing (net)	-3.4	-84.4	-10.3	1.6	-23.9	-16.7	-42.2	-45.4
Banking system	-9.9	-49.6	10.8	45.6	2.9	4.1	-31.3	-32.0
Privatization receipts	29.4	1.0	1.3	1.2	3.2	9.2	4.5	4.5
Other financing	-22.9	-35.8	-22.4	-45.2	-30.0	-30.0	-15.4	-17.9
Unidentified budgetary assistance	**0.0**	**0.0**	**37.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

1/ Allocates unidentified budgetary assistance using the rule of 60 percent grants and 40 percent loans used in the debt sustainability analysis.

2/ Excluding wages in autonomous public agencies (EPA).

Table 6. Mali: Central Government Consolidated Financial Operations (concluded), 2002-2005

	2002	2003	2004				2005	
			September		December			Revised
	Actual		Program	Actual	Program 1/	Estimates	Program 1/	projections
	(In percent of GDP, unless otherwise indicated)							
Total revenues and grants	19.6	20.8	19.4	20.3	21.4	21.7	21.8	23.5
Total revenues	15.9	16.4	15.7	17.0	17.0	17.2	17.3	18.3
Budgetary revenues	14.5	14.9	14.4	15.4	15.6	15.7	16.0	16.8
Fiscal revenues	13.1	13.6	13.1	14.6	14.2	15.0	14.6	15.8
Grants	3.7	4.5	3.7	3.3	4.4	4.6	4.4	5.3
Total expenditures and net lending	23.2	22.1	22.6	22.8	24.5	24.8	24.6	27.0
Current expenditures	13.2	12.3	12.4	12.6	13.6	13.7	13.7	14.1
Wage bill	4.0	4.1	4.5	4.7	4.5	4.7	4.6	5.1
Wage bill/fiscal revenues	30.6	30.4	34.5	31.8	31.8	31.2	31.5	32.3
Capital expenditures	8.7	8.5	9.0	8.9	9.6	10.0	9.7	10.3
o/w domestically financed	2.7	3.0	2.8	2.8	3.3	3.5	3.5	3.5
Overall fiscal balance (commitment basis)								
incl. grants	-3.6	-1.3	-3.2	-2.6	-3.0	-2.5	-2.9	-3.5
excl. grants	-7.3	-5.7	-6.9	-5.9	-7.5	-7.1	-7.3	-8.8
Overall fiscal balance (cash basis, including grants)	-3.7	-0.8	-4.3	-3.0	-3.3	-2.8	-2.9	-3.5
Budgetary Assistance	3.2	4.5	2.0	1.5	3.9	3.1	3.8	5.3
Public saving	3.6	4.9	4.1	5.3	4.2	4.5	4.4	3.6
	(In billions of CFA francs, unless otherwise indicated)							
Primary balance, excl. grants	-151.3	-128.4	-126.2	-101.4	-183.7	-179.3	-193.8	-222.1
Primary balance, including grants	-65.5	-13.7	-51.0	-37.2	-63.4	-47.4	-113.3	-76.5
Basic fiscal balance (excl. grants and ext. fin. invest.)	-29.4	-6.3	-13.1	5.3	-33.2	-15.8	-31.8	-56.5
Budgetary Assistance	75.7	116.6	40.3	29.7	104.6	81.0	111.6	144.8
Public Saving	83.9	125.2	83.4	103.6	114.5	118.0	128.8	98.8
Nominal GDP	2,330	2,574	2,024	1,952	2,699	2,602	2,925	2,753
Nominal GDP (percentage change)	5.3	10.5	…	…	6.3	1.1	8.4	5.8
	(Annual percentage change)							
Total revenues	19.2	13.7	…	…	8.9	5.9	10.4	12.6
Budgetary revenues	18.9	14.0	…	…	9.3	6.0	11.1	13.5
Total expenditure and net lending	16.0	5.3	…	…	20.0	13.3	9.0	15.5
Current expenditures	10.3	2.5	…	…	15.9	12.5	9.2	9.1
Capital expenditures and net lending	24.9	8.6	…	…	29.4	16.0	9.7	26.7

Sources: Minisry of Finance; and estimations and projections of staff.

Table 7. Mali: Fund Position, 2002-07

	2002	2003	2004	2005	2006	2007
	Actuals			Projections		
	(In millions of SDRs)					
Net use of Fund credit	-14.26	-7.97	-20.66	-15.80	-12.92	-15.14
Loans under:						
Poverty Reduction and Growth Facility (PRGF)	-14.26	-7.97	-20.66	-15.80	-12.92	-15.14
Disbursements	6.75	12.90	1.33	4.00	2.67	1.33
Repayments (excludes HIPC assistance)	21.01	20.87	21.99	19.80	15.58	16.48
Memorandum items:						
Approved HIPC assistance	0.00	0.98	9.23	8.08	5.25	3.99
Fund credit at end of period under PRGF	121.75	113.78	93.12	77.31	64.40	49.25
	(In percent of quota)					
Fund credit at end of period under PRGF	130.5	121.9	99.8	82.9	69.0	52.8

Source: IMF, Finance Department.

Table 8. Mali: Millennium Development Goals, 1990-2002

	1990	1995	2001	2002
1. Eradicate extreme poverty and hunger	2015 target = halve 1990 $1 a day poverty and malnutrition rates			
Population below $1 a day (percent)	..	72.8	..	..
Poverty gap at $1 a day (percent)	..	37.4	..	..
Percentage share of income or consumption held by poorest 20 percent	..	4.6	..	..
Prevalence of child malnutrition (percent of children under 5)	..	26.9	33.2	..
Population below minimum level of dietary energy consumption (percent)	25.0	27.0	21.0	..
2. Achieve universal primary education	2015 target = net enrollment to 100			
Net primary enrollment ratio (percent of relevant age group)	21.3	31.3	..	..
Percentage of cohort reaching grade 5 (percent)	72.2	84.0	84.1	..
Youth literacy rate (percent ages 15-24)	27.6	31.7	24.2	..
3. Promote gender equality	2015 target = education ratio to 100			
Ratio of girls to boys in primary and secondary education (percent)	56.4	61.7	..	..
Ratio of young literate females to males (percent ages 15-24)	44.7	48.7	52.3	..
Share of women employed in the nonagricultural sector (percent)	35.6	..	..	..
4. Reduce child mortality	2015 target = reduce 1990 under 5 mortality by two-thirds			
Under 5 mortality rate (per 1,000)	250	233	224	222
Infant mortality rate (per 1,000 live births)	140	131	124	122
Immunization, measles (percent of children under 12 months)	43	54	37	33
5. Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	1,200	..
Births attended by skilled health staff (percent of total)	..	23.7	40.6	..
6. Combat HIV/AIDS, malaria, and other diseases	2015 target = halt, and begin to reverse, AIDS and other major diseases			
Prevalence of HIV, female (percent ages 15-24)	..	..	2.1	..
Contraceptive prevalence rate (percent of women ages 15-49)	..	6.7	8.1	..
Number of children orphaned by HIV/AIDS (thousands)	..	..	70.0	..
Incidence of tuberculosis (per 100,000 people)	..	..	320.0	333.7
Tuberculosis cases detected under DOTS (in percent) 1/	..	20.0	17.0	15.7
7. Ensure environmental sustainability	2015 target = various			
Forest area (percent of total land area)	11.6	..	10.8	..
Nationally protected areas (percent of total land area)	..	3.7	3.7	3.7
GDP per unit of energy use (PPP dollars per kg oil equivalent)	..	..	..	..
CO2 emissions (metric tons per capita)	0.0	0.0	0.1	..
Access to an improved water source (percent of population)	55	..	65	..
Access to improved sanitation (percent of population)	70	..	69	..
Access to secure tenure (percent of population)	..	..	..	..
8. Develop a Global Partnership for Development	2015 target = various			
Youth unemployment rate (percent of total labor force ages 15-24)	..	..	..	..
Fixed-line and mobile telephones (per 1,000 people)	1.4	1.9	9.3	10.3
Personal computers (per 1,000 people)	..	0.3	1.3	1.4
General indicators				
Population (millions)	8.5	9.6	11.1	11.4
Gross national income (billions of U.S. dollars)	2.3	2.4	2.5	2.7
GNI per capita (U.S. dollars)	270	250	230	240
Adult literacy rate (percent of people ages 15 and over)	18.8	22	19	..
Total fertility rate (births per woman)	6.9	6.7	6.5	6.4
Life expectancy at birth (years)	45	44	42	40.9
Aid (percent of GNI)	20	22.4	14.4	15.1
External debt (percent of GNI)	102.6	122.3	118.2	89.9
Trade (percent of GDP)	50.9	57.3	83.7	72.9

Source: World Bank, World Development Indicators

1/ DOTS is the Directly Observed Therapy Short-course.

Mali: Relations with the Fund
(As of December 31, 2004)

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	84.33	90.39
Reserve Position	8.97	9.61
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	15.91	100.00
Holdings	0.40	2.49

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements	93.24	99.93

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jun 23, 2004	Jun 22, 2007	9.33	1.33
PRGF	Aug 06, 1999	Aug 05, 2003	51.32	51.32
PRGF	Apr 10, 1996	Aug 05, 1999	62.01	62.01

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

		Forthcoming			
	2005	2006	2007	2008	2009
Principal	18.17	14.07	13.57	12.49	11.43
Charges/Interest	0.77	0.69	0.61	0.55	0.49
Total	18.94	14.76	14.18	13.04	11.92

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

		Forthcoming			
	2005	2006	2007	2008	2009
Principal	10.09	8.82	9.58	9.87	11.43
Charges/Interest	0.77	0.69	0.61	0.55	0.49
Total	10.86	9.50	10.19	10.41	11.92

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Sep 1998	Sep 2000	
Assistance committed			
by all creditors (US$ Million) [1/]	121.00	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	--	9.08	9.08
Completion point balance	10.80	25.66	36.46
Additional disbursement of interest income [2/]	--	3.73	3.73
Total disbursements	10.80	38.47	49.27

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.
[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

VIII. Safeguards Assessments:

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

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

Internal controls system. The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed between the BCEAO and Fund staff that, after seeking the opinion of the external auditor (Commissaire Contrôleur), BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby the external auditor will be required to apprise the

Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.

Based on the 2002 financial statements, the staff noted that the BCEAO has improved the explanatory notes to the financial statements and further changes are scheduled for the next fiscal year, with a view toward a graduate alignment with IAS accounting to the extent applicable to central banks by 2005. The external auditor has apprised the Board of Directors of the BCEAO of the quality of internal controls in June 2003, and the financial statements for the year 2002 were published on the bank's website. The staff will continue its follow-up on the progress of the BCEAO in implementing the proposed recommendations as part of the ongoing safeguards monitoring process.

IX. Exchange Rate Arrangements

Mali is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the union, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, was pegged to the French franc at the rate of CFAF 50 = F 1 from 1948 until early 1994. Effective January 12, 1994, the CFA franc was devalued, and the new parity set at CFAF 100 = F 1. Effective January 1, 1999, the CFA franc was pegged to the euro at a rate of CFAF 655.96 = EUR 1. On January 06, 2005, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 757.98. 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 2003 Article IV consultation was completed by the Executive Board on December 15, 2003 (Country Report No. 04/11).

XI. ROSC/AAP

An FAD mission visited Bamako during July 17–31, 2001 to help the authorities undertake a fiscal module of a Report the Observance of Standards and Codes (ROSC) and to prepare an 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.

Regarding the HIPC AAP, the May 2004 mission concluded that progress was achieved, with the number of the more tightly-defined benchmarks observed by Mali increasing from 8 out of 15 in 2001 to 11 out of 16, and that significant advances were made in the areas where the benchmarks are not yet met. The report put forward an action plan to strengthen Mali's budget management capacity, with the view to helping Mali meet all 16 indicators in the medium term. One of the main priorities identified by the mission in many areas is to extend beyond the procedural monitoring of compliance with the rules to give greater emphasis to effectiveness and efficiency based on a sharper focus on risk management. The mission recommended that the main weaknesses be addressed through the following axes:

- Improving the coverage of the state budget and extrabudgetary funds, by introducing in the TOFE at least one line for extrabudgetary operations of the Government Administrative Agencies.
- Improving the investment utilization rate, and reinforcing the reliability of the budget as a guide to execution and integration of external financing, in consultation with the donors.
- Updating the PRSP with a view to prioritize the actions specified, refocus all the sectoral policies, and reduce the number of indicators to make them more relevant.
- Better defining poverty reduction actions and indicators, and ensuring that poverty reduction efforts are consistent with resource budgets (*budgets moyens*).
- Improving the monitoring of arrears by producing regularly a statement of overdue payments by category of expenditure and length of time overdue (1 month, 2 months, 3 months, etc.).
- Improving the effectiveness of internal control systems, by establishing a selective audit strategy, taking into account both the nature and the amount of the expenditure and setting up a control procedures manual, as well as a classification of supporting documents.
- Improving public procurement by completing the creation of the procurement database in the General Directorate for Public Procurement that contains information on the current, planned, and completed procurement activities.

XII. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
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. 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.

AFRITAC	Debt Advisor	November 2003 February 2004	External debt management and assistance in government securities issuance
	MF Advisor	June 2003 September 2004	Assisting the M.O.F to developing a MF supervision strategy
FAD	Staff	Jan 2004	Assisting the authorities in improving revenue mobilization, especially as regards revenue from the mining sector.
AFRITAC	PEM Advisor	April 2004	Participation at the HIPC/AAP assessment mission

XIII. Resident Representative

Mr. Wane, the current Resident Representative, took up this assignment in February 2005. The previous Resident Representative, Mr. Tazi, was stationed in Bamako for the period September 2002 through October 2004.

Mali: IMF-World Bank Relations

(As of January 5, 2005)

A. Partnership in Mali's development strategy

1. Mali's development strategy increasingly emphasizes growth and poverty reduction. It's PRSP (adopted by the Government in May 2002) highlights growth as a precondition for poverty reduction, and outlines programs for (i) institutional development and improved governance, (ii) human development and access to basic social services, and (iii) infrastructure development and support for key productive sectors. Mali's growth strategy aims to be private-sector-led and market oriented toward the West Africa region as well as the global market.

2. The IMF and World Bank staffs maintain a collaborative relationship in supporting the Government's macroeconomic and structural reforms, in line with the guidelines for enhanced Bank-Fund collaboration. This has included regular participation of Bank staff in the meetings with the Government on the Fund's program review missions, and IMF staff have been invited to Bank internal review meetings and meetings with Government. The IMF has taken the lead in macroeconomic stabilization and the World Bank in social and structural areas, with close collaboration on a few structural areas that have a particular impact on macroeconomic stability. The Fund's dialogue and conditionality have been consistent with the structural programs agreed with the Bank, and the Bank's dialogue and conditionality have maintained consistency with the macroeconomic framework endorsed by the Fund.

B. World Bank Group strategy

3. The World Bank Group's Strategy, outlined in the Country Assistance Strategy (CAS) discussed by the Board of Directors on 31 July 2003, emphasizes three broad themes in line with the country's PRSP: (i) promotion of economic growth; (ii) human resources development; and (iii) public finance management and governance. Mali also benefits under the Bank's Regional Integration Assistance Strategy (2001), notably program for connection to the West Africa Power Pool, harmonization of country policies and/or regulatory frameworks (telecommunications, agriculture, financial sectors), water resource development of the Niger and Senegal rivers, strengthening of road transport corridors, and strengthening the regional payments system.

4. Support to Mali during fiscal years 2004–06 amounts to US$ 400 million in the base case, with about 30 percent in grants. Budget support of $25 million annually will be provided through structural adjustment credits (SACs), subject to satisfactory macroeconomic management. This will be complemented by selected investment operations (targeting health, education, growth and infrastructure development) and community-driven development operations. In the high case, subsequent to implementation of measures to reduce the budgetary risk of cotton sector losses, the Bank envisions transition to PRSC-based budget support, most likely in FY2008–09, at an

amount double that currently provided under the SACs. The active portfolio is detailed in Table 1.

5. The CAS also includes non-lending activities. Recently completed activities include a Country Financial Accountability Assessment, Macroeconomic Growth and Water Variability study, first phase Poverty Assessment, Country Procurement Assessment Review, and an Integrated Framework Trade Diagnostic Study. A Poverty and Social Impact Analysis of the cotton sector is nearing completion. The Bank has also assisted with development of medium term expenditure frameworks (MTEF) for health and education, and MTEF support is underway for the transport and agriculture-livestock-fisheries sectors. Planned activities include a Country Economic Memorandum on Growth (FY05) and a Public Expenditure Review (FY06).

Table 1. Mali: Status of World Bank Portfolio (all IDA)
(In millions of U.S. dollars, as of January 5, 2004)

Credit Number	Sector	Fiscal Year	IDA[1/]	Undisbursed[2/]
CN0040-ML	Urban Dev. & Decentralization	1997	80.0	21.1
C31550-ML	Health Sector Dev. Program	1999	40.0	16.1
C33930-ML	Rural Infrastructure	2000	115.1	66.4
C33940-ML	Finance Sect. Dev.	2000	21.0	15.4
C34490-ML	Education Sect. Expenditure Prgm APL	2001	45.0	15.3
C35830-ML	Agricultural & Producer Organizations	2002	43.5	30.0
C32958-ML	GEF Household Energy	2004	3.5	3.5
C38280-ML	Household Energy & Universal Access	2004	35.6	36.8
C38690-ML	Transport Corridors Improvement	2004	48.7	49.5
C40220-ML	Emergency Locust	2004	6.8	6.8
H0900-ML	Development Learning Ct LIL (FY04)	2004	2.5	2.5
H0990-ML	HIV/AIDS MAP SIL (FY04)	2004	25.5	25.9
Totals (number of credits=12)			**467.3**	**289.3**

[1/] Original loan amount at time of negotiations.

[2/] Reflects changes in the $/SDR rate since negotiations, and could be larger than the original amount if the dollar has depreciated.

C. IMF-World Bank IMF collaboration

6. **Areas in which the Fund leads.** The Fund takes the lead in macroeconomic stabilization including macro-fiscal policy, monetary policy, exchange rate policy and financial stability and risk management.

7. **Areas in which the Bank leads.** The Bank takes the lead in structural areas where both institutions have conditionality, including cotton sector reform, privatization and regulatory reform (telecommunications, banking, energy sectors), and pension reform. The Bank also leads in other areas such as: agricultural competitiveness/diversification; rural development (irrigation, roads, support to producer organizations); private sector development (strengthening the investment climate, access to business services, support to small/medium enterprises); financial sector reforms;

urban development (historic rehabilitation/preservation, land/housing market development, water/road infrastructure); transportation policy/infrastructure; energy sector reforms; and social sectors (health, education and social protection, including HIV/AIDS). The Bank's work in structural areas includes analytical work and dialogue on trade and growth policies, which form part of the overall economic policy dialogue. The Bank collaborates with other donors whenever possible (notably in health, education, agriculture and cotton sectors), and is pursuing a harmonized approach for donor support to health and education reforms.

8. **Areas of shared responsibility.** Both Bank and Fund collaborate in assessing performance of HIPC resource use. Both also monitor progress on budgetary and public expenditure management, yet emphasize different aspects of the Government's reform program in the respective support operations. The Bank emphasis in this area is on strengthening all phases of the public expenditure system—budget preparation, budget execution, and budget controls—to support the Government's objectives of progressive shifts toward result-based budgeting and improved effectiveness of expenditures. Bank support is at the national level in the finance ministry (global MTEF, integrated information technology system, audit capabilities, budget reporting) and sector ministries (selected sector MTEFs, inter and intra sectoral allocations), as well as at de-concentrated levels (budget nomenclature, IT system, capacity building). The Fund's emphasis is on fiscal management, expenditure management (including financing of transfers to parastatals), revenue enhancing measures, and audit capabilities. Table 2 summarizes the areas of Bank-Fund collaboration in Mali.

Table 2. Bank Fund Collaboration in Mali (ongoing or planned)

Area	Specialized Advice from Fund	Specialized Advice from Bank	Key Instruments
Economic Framework/Management	Fiscal/monetary policy, Economic statistics	Trade diagnostic study, Global MTEF, Economic growth	*IMF*: PRGF performance criteria and benchmarks on fiscal and monetary targets; Statistics TA through AFRITAC. *Bank*: Analytical studies, Direct technical assistance
Budgetary and Public Expenditure Reforms	Overall budget envelope, Expenditure management, Enhancement of tax and non-tax revenue, Pension reform	Sector MTEFs (Transport and Rural Sectors), Integrated information system, Improved reporting on budget execution, CFAA, CPAR, Public expenditure tracking survey (health/education)	*IMF*: PRGF performance criteria and benchmarks on overall fiscal balance, on pension system viability, and on land revenue policy. *Bank*: SAC 4 policy framework actions (FY05); Direct TA (MTEFs), Financial sector development project.
Agriculture and Rural Development (incl. Cotton)		Rural development strategy, Agricultural export promotion, Irrigation, Rural roads, Community driven development Cotton: pricing policies, privatization strategy, liberalization of critical functions, capacity bldg of producer organizations	*IMF*: PRGF performance criteria on cotton privatization. *Bank*: SAC 4 policy framework actions for cotton and Office de Niger (FY05); Agricultural services and producer organizations project (ag. and rural development); Ag diversification and competitiveness project (Ag dev and export promotion, FY05); National rural infrastructure project (rural roads and irrigation).
Social Sector Reforms/Poverty Monitoring		Reforms in education and health, HIV/AIDS program, Poverty assessment, Cotton PSIA	*Bank*: Integrated health sector investment project; Education sector expenditure program; HIV/AIDS MAP project.
Privatization and Private Sector Development		Privatization strategy (telecommunications, banking, energy), Pricing policy, Revenue management (mining), Business development services (incl. to SMEs),	*IMF:* PRGF conditions on Bank and Telecom privatization strategies. *Bank*: SAC4 policy framework actions on the financial sector; Financial sector development project (policy framework condition on State ownership of banks); Sources of growth project (telecom, mining, investment climate, SMEs; FY05).
Infrastructure and Other Sectors		Strategy and investment program (transport, energy, water), urban land market development, historic cities rehabilitation and preservation.	*Bank*: Transport corridor project, Rural infrastructure project, Household energy and universal access, Urban decentralization and decentralization project.

Prepared by World Bank staff. Questions may be referred to Mr. Craig (Country Director, 473-2589), Ms. Wood (Sr. Economist, 473-5829), or Ms. Cabal

Mali: Assessing External Debt Sustainability

This debt sustainability analysis applies the low income country template to the staff's baseline projections, and considers various standard, as well as country specific robustness checks. The analysis shows that external debt sustainability indicated by falling or stable debt ratios over 2004–23 is achieved under baseline projections, with the net present value (NPV) of external debt below the threshold of 150 percent of exports of goods and services, as in the HIPC completion point document. However, under some various plausible stress tests and alternative scenarios, the combination of adverse external and internal shocks could result to increases in the debt ratios which could rise above the sustainability thresholds even in the medium term.

A. Baseline projections (Tables 1 and 2, Figures 1 and 2)

Under the revised baseline scenario, GDP growth of around 5 percent during 2004–07 is followed by projected 6 percent growth from 2008 to 2023. The key sectoral developments incorporated in this scenario are: (i) an expected decline in gold output after 2008, followed by an assumed leveling off of production at about 50 tons per year from 2014 onward; (ii) an annual growth of 6 percent on average in the agricultural sector for the period 2004–23, limited by capacity and productivity constraints; (iii) a strong growth of 8 to 11 percent a year in agribusiness, energy, construction, and transport and telecommunications—reflecting in part the impact of development projects and structural reforms; and (iv) a steady growth in nonmining exports over the longer term, helping to offset the substantial slowdown in export growth in 2009 and subsequent years as a result of the fall in gold production.

Under the staff's baseline projections, Mali's external debt ratios decline over the period 2004–23. After peaking at 142.4 percent in 2003, the NPV of debt-to-exports ratio (after debt relief) will remain below the 150 percent threshold. As a result of a steady growth of 5 to 6 percent, the NPV of debt-to-GDP ratio will fall from 34.5 percent in 2004 to less than 30 percent after 2009 reaching 23.9 percent in 2023. The debt service-to-export ratio will average about 6 percent for the period 2004–23 on account of the substantial slowdown in export growth after 2009.

B. Alternative scenarios

Standard and bound tests for baseline

The *standard* set of sensitivity checks on the evolution of debt ratios, suggest that Mali continues to be vulnerable to external shocks over the period 2004–23. Under the first set of sensitivity tests which set (i) key parameters to their historical average values,[1] and (ii) public sector loans at less favorable terms[2], Mali's external debt burden becomes unsustainable as indicated by the NPV of debt-to-exports ratio increasing above the threshold in 2005 and 2011, respectively (Table 2).

The *bound* sensitivity tests, assume adverse transitory shocks to key parameters first separately, and in some cases jointly. The main results of these sensitivity tests are:

- Compared to the baseline scenario, a temporary negative shock on real GDP growth in 2004 and 2005 has the smallest effect on the path of the debt ratio out of all the bound tests, with the NPV of debt-to-exports ratio remaining within the threshold for the 2004–23 period.

- The effect of a temporary shock on export growth of two standard deviations[3] is large. The NPV of debt-to-exports ratio reaches 162.8 percent in 2004 and remains above the sustainable levels throughout the period. Although a shock of such magnitude may not be very likely, it emphasizes Mali's vulnerability to adverse external developments. Similarly, this transitory shock has quite a large effect on the other debt ratios, causing the debt service to exports ratio to reach levels above 10 percent.

- Other temporary shocks (such as a shock to the U.S. dollar deflator and a 30 percent nominal depreciation) cause the debt ratios to rise compared to the baseline, but still remain within the sustainable levels.

Country specific stress tests

In addition to the standard stress tests in the framework, debt sustainability was also assessed under four country-specific scenarios depicting stylized economic shocks.

(i) **a lower growth scenario with a permanent cyclical pattern in the growth of agriculture** that may be caused by recurrent droughts and/or poor crop yield (based on past patterns). While the NPV of debt-to-GDP ratio rises over 2004–23 compared to the baseline, the NPV of debt-to-exports ratio still remains under 150 percent of GDP.

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[1] These are real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows, which are set to 4.7, -2.4, -7.0, and 2.0 percent, respectively.

[2] Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

[3] Export growth is set to -5.6 percent for 2004 and 2005.

(ii) **a transitory terms-of-trade shock resulting from lower export prices and higher import prices for 2004 and 2005**. The terms of trade for 2004 and 2005 is set to the historical average less one standard deviation. As a result of lower exports, the NPV of debt-to-exports ratio would increase to an average of 124 percent compared to the baseline of 118 percent in 2004–05. By 2023 the NPV of debt-to-exports ratio exceeds the 150 percent threshold.

(iii) **the discovery and development of new gold reserves does not occur in 2005–07**, which results to weaker growth in GDP and exports than in the baseline. As a result, the NPV of debt-to-exports ratio rises substantially to 140 percent in 2007 (compared to 113 percent in the baseline), with associated deteriorations in the ratios of debt service to exports and debt-to-GDP.

(iv) **cotton production falls during 2005–08 due to lower world prices** passed through to producers. Growth and exports are weakened resulting in a deterioration of the debt ratios, while still at sustainable levels over the medium term. By 2023 the NPV of debt-to-exports ratio exceeds the 150 percent threshold.

Table 1. Mali: External Debt Sustainability Framework, Baseline Scenario, 2000-2023 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Estimate	Projections							
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009-2013 Average	2014-2018 Average	2019-2023 Average
External debt (nominal) 1/	**99.2**	**88.7**	**90.2**	**72.6**	**69.3**	**60.6**	**54.5**	**48.7**	**43.8**	**32.5**	**18.6**	**10.7**
o/w public and publicly guaranteed (PPG)	99.2	88.7	90.2	72.6	69.3	60.6	54.5	48.7	43.8	32.5	18.6	10.7
Change in external debt	0.6	-10.5	1.5	-17.6	-3.3	-8.7	-6.1	-5.8	-4.9	-3.6	-2.2	-1.2
Identified net debt-creating flows	16.2	-4.4	-12.7	-1.4	2.3	1.3	3.7	3.3	3.7	4.8	6.6	8.5
Noninterest current account deficit	**9.2**	**9.7**	**2.5**	**4.0**	**4.3**	**5.6**	**7.3**	**6.7**	**6.5**	**6.9**	**7.9**	**9.2**
Deficit in balance of goods and services	10.6	9.3	0.2	5.5	4.9	7.9	5.7	5.2	5.0	6.4	8.0	9.7
Exports	24.1	29.0	31.9	26.6	27.7	25.4	25.6	25.2	25.3	22.3	19.4	16.8
Imports	34.7	38.3	32.0	32.1	32.6	33.3	31.3	30.4	30.3	28.7	27.4	26.5
Net current transfers (negative = inflow)	-4.7	-4.5	-4.4	-4.2	-3.5	-5.1	-1.9	-1.8	-1.8	-1.7	-1.5	-1.3
Other current account flows (negative = net inflow)	3.3	5.0	6.7	2.7	2.9	2.7	3.4	3.3	3.4	2.1	1.3	0.8
Net FDI (negative = inflow)	**-2.9**	**-3.5**	**-7.2**	**-1.0**	**-1.0**	**-1.2**	**-0.8**	**-0.8**	**-0.8**	**-0.6**	**-0.4**	**-0.3**
Endogenous debt dynamics 2/	**9.9**	**-10.7**	**-8.0**	**-4.4**	**-1.0**	**-3.1**	**-2.7**	**-2.6**	**-2.0**	**-1.5**	**-0.9**	**-0.4**
Contribution from nominal interest rate	0.8	0.6	0.6	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.2
Contribution from real GDP growth	3.4	-10.6	-3.4	-5.0	-1.4	-3.6	-3.2	-3.0	-2.4	-1.8	-1.2	-0.7
Contribution from price and exchange rate changes	5.7	-0.7	-5.2	…	…	…	…	…	…	…	…	…
Residual (3-4) 3/	**-15.6**	**-6.1**	**14.2**	**-16.2**	**-5.6**	**-10.0**	**-9.9**	**-9.0**	**-8.5**	**-8.4**	**-8.8**	**-9.7**
o/w exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPV of external debt 4/	...	...	50.1	37.8	34.5	31.5	29.7	28.5	27.8	26.3	24.7	24.3
In percent of exports	...	...	157.3	142.4	124.5	124.2	116.3	113.2	110.1	118.1	127.9	145.1
NPV of PPG external debt	**...**	**...**	**50.1**	**37.8**	**34.5**	**31.5**	**29.7**	**28.5**	**27.8**	**26.3**	**24.7**	**24.3**
In percent of exports	...	...	157.3	142.4	124.5	124.2	116.3	113.2	110.1	118.1	127.9	145.1
Debt service-to-exports ratio (in percent)	12.2	6.3	6.0	5.9	6.0	5.8	5.3	5.8	5.5	5.5	5.9	6.5
PPG debt service-to-exports ratio (in percent)	12.2	6.3	6.0	5.9	6.0	5.8	5.3	5.8	5.5	5.5	5.9	6.5
Total gross financing need (billions of U.S. dollars)	0.2	0.2	-0.1	0.2	0.2	0.3	0.5	0.5	0.5	0.7	1.2	2.1
Non-interest current account deficit that stabilizes debt ratio	8.6	20.2	1.0	21.6	7.6	14.3	13.4	12.5	11.4	10.5	10.1	10.4
Key macroeconomic assumptions												
Real GDP growth (in percent)	-3.2	12.1	4.3	7.4	2.2	5.8	5.8	6.1	5.4	5.5	6.1	6.1
GDP deflator in US dollar terms (change in percent)	-5.5	0.7	6.2	23.4	8.9	6.2	4.7	2.8	2.0	2.5	2.5	2.6
Effective interest rate (percent) 5/	0.8	0.7	0.8	1.0	0.6	0.7	0.8	0.8	0.9	1.1	1.6	2.1
Growth of exports of G&S (US dollar terms, in percent)	-6.1	35.7	21.7	10.4	15.9	3.0	11.5	7.5	7.8	4.3	5.7	5.3
Growth of imports of G&S (US dollar terms, in percent)	-4.9	24.4	-7.3	32.7	13.1	14.8	4.0	6.0	7.0	6.5	7.9	8.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	61.2	61.0	61.1	61.3	61.4	61.4	61.4	61.4
Memorandum item:												
Nominal GDP (billions of US dollars)	2.7	3.0	3.3	4.4	4.9	5.5	6.1	6.7	7.2	9.1	13.8	21.0

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Mali: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2003-23
(In percent)

	Estimate	Projections							
	2003	2004	2005	2006	2007	2008	2009-2013 Average	2014-2018 Average	2019-2023 Average
Baseline									
NPV of debt-to-GDP ratio	37.8	34.5	31.5	29.7	28.5	27.8	26.3	24.7	24.3
NPV of debt-to-exports ratio	142.4	124.5	124.2	116.3	113.2	110.1	118.1	127.9	145.1
Debt service-to-exports ratio	5.9	6.0	5.8	5.3	5.8	5.5	5.5	5.9	6.5
A. Country Specific Scenarios									
First Alternative Scenario: Cyclical Agriculture Growth									
NPV of debt-to-GDP ratio	37.8	34.6	31.6	30.4	29.1	28.9	27.7	26.7	26.5
NPV of debt-to-exports ratio	142.4	124.5	124.2	116.1	112.9	109.6	117.1	125.3	140.8
Debt service-to-exports ratio	5.9	6.0	5.8	5.3	5.8	5.5	5.5	5.8	6.4
Second Alternative Scenario: Terms of Trade Shock (for 2004 and 2005)									
NPV of debt-to-GDP ratio	37.8	34.5	31.5	29.7	28.5	27.8	26.3	24.7	24.2
NPV of debt-to-exports ratio	142.4	134.2	130.5	122.4	119.2	115.6	122.7	131.9	148.5
Debt service-to-exports ratio	5.9	6.4	6.1	5.5	6.1	5.8	5.8	6.1	6.6
Third Alternative Scenario: Gold Depletion (2005-2007)									
NPV of debt-to-GDP ratio	37.8	34.5	31.8	30.2	29.4	27.8	26.0	24.1	23.4
NPV of debt-to-exports ratio	142.4	124.5	132.8	131.9	140.0	110.2	117.0	124.9	140.4
Debt service-to-exports ratio	5.9	6.0	6.2	6.0	7.2	5.5	5.5	5.9	6.4
Fourth Alternative Scenario: Reduction in Cotton Production due to lower Prices									
NPV of debt-to-GDP ratio	37.8	34.5	31.6	29.8	28.7	28.0	26.4	24.8	24.3
NPV of debt-to-exports ratio	142.4	124.5	124.2	117.5	114.9	112.3	121.0	131.1	148.9
Debt service-to-exports ratio	5.9	6.0	5.8	5.3	5.9	5.6	5.7	6.0	6.6
B. Alternative Standard Scenarios for Baseline									
B1. Key variables at their historical averages in 2004-23 1/									
NPV of debt-to-GDP ratio	37.8	38.0	38.5	38.7	39.4	40.4	44.2	53.7	66.4
NPV of debt-to-exports ratio	142.4	137.5	151.9	151.5	156.4	159.8	199.1	278.6	398.6
Debt service-to-exports ratio	0.0	10.3	11.0	12.0	11.6	11.3	12.3	15.2	16.4
B2. New public sector loans on less favorable terms in 2004-23 2/									
NPV of debt-to-GDP ratio	37.8	35.4	33.4	32.8	32.7	33.0	34.2	36.2	38.0
NPV of debt-to-exports ratio	142.4	128.0	131.7	128.2	129.7	130.5	153.9	187.3	227.8
Debt service-to-exports ratio	0.0	9.5	9.5	9.8	9.3	9.0	9.6	10.6	11.4
C. Bound Tests for Baseline									
C1. Real GDP growth at historical average minus one standard deviation in 2004-05									
NPV of debt-to-GDP ratio	37.8	35.0	33.6	31.7	30.4	29.7	28.0	26.4	25.9
NPV of debt-to-exports ratio	142.4	124.5	124.2	116.3	113.2	110.1	118.1	127.9	145.1
Debt service-to-exports ratio	0.0	9.5	9.2	9.3	8.5	7.8	7.4	6.7	5.6
C2. Export value growth at historical average minus one standard deviation in 2004-05 3/									
NPV of debt-to-GDP ratio	37.8	36.7	36.4	34.3	32.9	32.0	30.1	27.5	26.0
NPV of debt-to-exports ratio	142.4	162.8	192.1	179.8	174.8	169.7	180.9	190.6	207.9
Debt service-to-exports ratio	0.0	11.6	12.5	12.8	11.7	10.8	10.1	9.9	8.4
C3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05									
NPV of debt-to-GDP ratio	37.8	44.6	51.5	48.5	46.6	45.4	42.9	40.4	39.6
NPV of debt-to-exports ratio	142.4	124.5	124.2	116.3	113.2	110.1	118.1	127.9	145.1
Debt service-to-exports ratio	0.0	9.5	9.2	9.3	8.5	7.8	7.4	6.7	5.6
C4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/									
NPV of debt-to-GDP ratio	37.8	35.5	34.3	32.3	31.0	30.2	28.4	26.3	25.2
NPV of debt-to-exports ratio	142.4	128.3	135.0	126.4	122.9	119.4	127.6	136.1	150.8
Debt service-to-exports ratio	0.0	9.5	9.3	9.4	8.6	8.0	7.5	7.1	6.0
C5. Combination of C1-C4 using one-half standard deviation shocks									
NPV of debt-to-GDP ratio	37.8	42.2	49.3	46.4	44.6	43.4	40.8	37.8	36.2
NPV of debt-to-exports ratio	142.4	145.2	154.7	144.8	140.8	136.9	146.2	155.8	172.5
Debt service-to-exports ratio	0.0	10.7	10.6	10.7	9.8	9.1	8.5	8.1	6.9
C6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/									
NPV of debt-to-GDP ratio	37.8	47.6	43.5	41.0	39.4	38.4	36.3	34.1	33.5
NPV of debt-to-exports ratio	142.4	124.5	124.2	116.3	113.2	110.1	118.1	127.9	145.1
Debt service-to-exports ratio	0.0	9.5	9.2	9.3	8.5	7.8	7.4	6.7	5.6

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for B2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 1: NPV of debt to exports

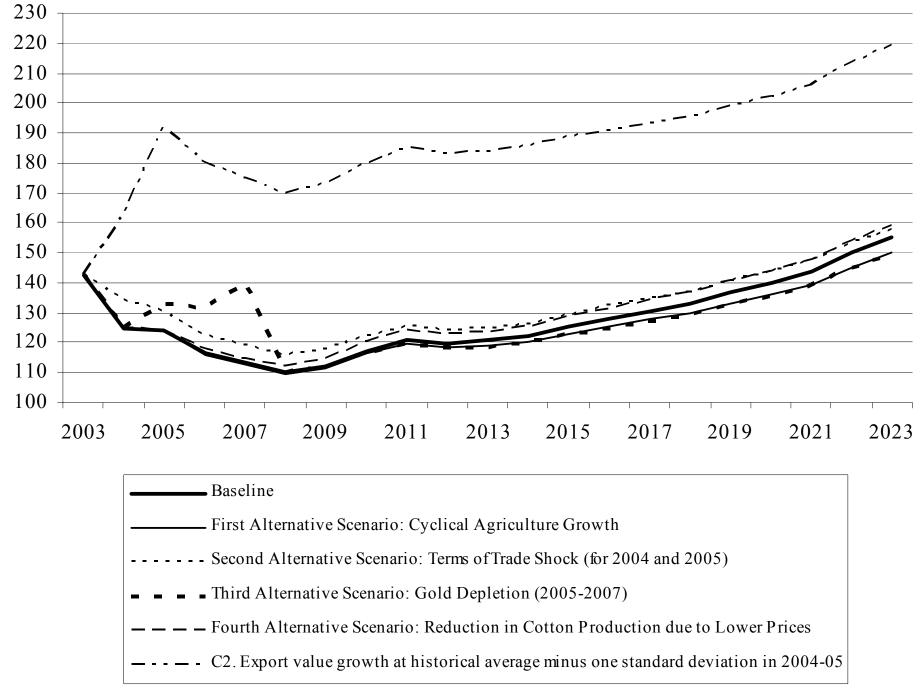
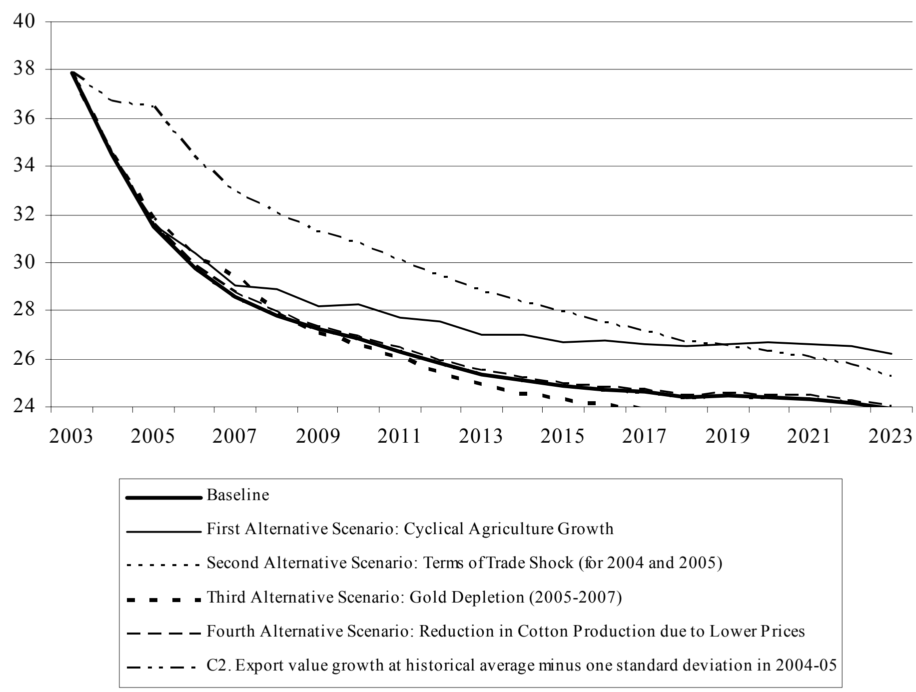


Figure 2: NPV of debt to GDP



Bamako, February 7, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Dear Mr. de Rato:

1. **Our economy has recently been beset by a combination of external shocks to which we are responding vigorously with a view to maintaining macroeconomic stability and protecting vulnerable groups**. The shocks center on a decline in the terms of trade resulting from a fall in cotton export prices together with rising oil import prices. In addition, we have experienced adverse developments in agriculture due to a localized locust upsurge and below average rainfall. Civil unrest in neighboring Côte d'Ivoire also poses risks for economic growth. Despite slower growth, we have kept 2004 budgetary policies on track and have proposed a prudent and realistic budget for 2005. We have maintained a high level of execution of HIPC-financed spending with greater focus on priority areas such as health and education. We believe the gradual improvement in poverty indicators evident since 1996 has been continued.

2. **In order to reduce the risks to growth posed by external shocks we are pressing ahead with structural reforms that will increase the flexibility and efficiency of our economy**. In particular, we have initiated reforms which will strengthen the role of price signals for producers and processors in the cotton sector as a step towards eventual privatization. We are nearing the completion of the sale of government shares in commercial banks to the private sector. We are continuing to develop and implement reforms that will improve the composition and efficiency of public spending.

3. **Our economic policies are built on a broad-based consensus that aims at preserving social and political stability.** This approach is the cornerstone of our efforts to promote growth and attract investment.

PERFORMANCE UNDER THE PROGRAM

4. **Our performance under the PRGF-supported program has been mixed**:

- We met quantitative performance criteria for net domestic financing, non-accumulation of external payment arrears and external borrowing terms and maturity at end-September 2004. We also met performance indicators for the floor on tax revenues, the ceiling on the wage bill and comfortably exceeded the floor on the basic fiscal balance excluding HIPC financed expenditure (Annex A).

- Our structural reform program has faced some delays, although these have not threatened the achievement of our medium-term objectives. The adoption of a master plan for privatization of CMDT has been rescheduled. We now intend to complete full privatization in 2008, while negotiations are already underway for a partial privatization of CMDT through the sale of CMDT assets in the OHVN-KITA zone in 2006. We will adopt a new flexible producer price mechanism in early 2005 that will minimize future budget risks. In addition, measures will be taken to bring CMDT's finances into balance. We adopted a privatization strategy for Banque Internationale du Mali (BIM) with only a minor delay and will adopt in 2005 a strategy for privatization of the state telecommunications company (SOTELMA) (Annex B).

5. **On the basis of the policies outlined in this letter of intent and annexes we request the completion of the first review under the PRGF**. We request waivers for the breaches of structural performance criteria relating to the adoption of a master plan for CMDT privatization, adoption of a strategy for privatizing BIM and SOTELMA. The fourth disbursement under the PRGF will be subject to the third review expected to be completed by end-November 2005. We will continue to consult the Fund in advance of any change to our policies that would affect the implementation of our economic and financial program.

MACROECONOMIC FRAMEWORK

6. **Mali's economic outlook has deteriorated in 2004 due to several exogenous shocks**. Adverse developments in cotton export and oil import prices have weakened our terms of trade markedly. The decline in cotton prices results mainly from producer subsidies in some cotton producing countries, and we are continuing our efforts to eliminate these trade distortions through the WTO. We have partially passed through rising oil prices to the consumer. With our overall revenue objectives in mind, this pass-through will continue in 2005. We have managed to contain the impact of a locust upsurge on cereal production and livestock, but many communities are facing food supply shortfalls to which we are responding, with donor support. Gold and cotton productions are below program projections due to technical delays, and lower rainfall, respectively.

7. **The Government's real GDP growth projections for 2004 have been revised downward to around 2 percent from the original objective of 4¾ percent while inflation remains well below our projections**. We expect consumer prices to fall by 3.0 percent in 2004, that will more than offset trade-weighted CFA franc appreciation. As a result we anticipate a small real effective exchange rate depreciation thus improving our price competitiveness.

8. **For 2005, we expect our adjustment efforts to move us back toward achieving the program's macroeconomic objectives**. On the basis that cereal production for 2005/06 returns to near normal levels and resumed expansion in the gold sector, GDP growth in 2005 is projected to return to programmed levels around 6 percent. The average inflation rate is projected to be below BCEAO inflation target of 3.0 percent, while gross reserves would stabilize above six months of import coverage. However, the current account deficit is expected to increase by 2½ percentage points of GDP to 9.0 percent of GDP, largely on account of the sharp deterioration of the terms of trade. This deficit would be financed by private capital inflows and foreign aid. We remain

committed to budget discipline, maintaining the budget deficit before grants (excluding cotton sector support) within PRGF objectives. Including the temporary cost of cotton sector losses in 2005, largely a result of external factors, our budget deficit increases by 1.5 percent of GDP relative to PRGF objectives. We are also protecting social expenditures.

Mali: Economic Developments, 2003–05

	2003	2004		2005
		Program	Revised Projections	Revised Projections
Real GDP (percent change)	7.4	4.7	2.2	5.8
GDP deflator (percent change)	2.9	1.5	-1.0	0.0
Nominal GDP (in billions of CFA francs)	2,574	2,699	2,602	2,753
Consumer price index (annual average percentage change)	-1.3	2.5	-3.0	2.5
		(In percent of GDP)		
Total revenue and grants	20.8	21.4	21.7	24.0
Total expenditure and net lending	22.1	24.5	24.8	27.0
Overall balance (payment order basis, including grants)	-1.3	-4.0	-2.5	-3.0
Basic fiscal balance 1/	1.1	-0.1	0.5	-0.8
Current account balance, including official transfers	-4.5	-4.3	-4.6	-5.9

Source: Malian authorities; and staff estimates and projections.
1/ Excluding HIPC Initiative-related expenditure.

9. **Over the medium term, our determination to strengthen the role of the private sector and raise efficiency economy-wide will sustain programmed GDP growth of around 6 percent.** Completing our privatization program in the cotton, telecoms and banking sectors will contribute to efficiency gains, as will stronger public expenditure management. We expect our current account deficit to narrow after 2005, as oil prices moderate, and gold exports expand with the opening of new mines. As the shocks unwind, our external debt sustainability indicators will continue on a downward path.

10. **To focus our poverty reduction efforts we will strive to increase institutional capacity at the local level**. To this end, we are taking steps to implement the decentralization of government functions, while ensuring accountability and fiscal transparency. The program has suffered some delays due to staffing constraints. With the assistance of donors, progress in this area will gradually increase resources available for poverty reduction in the regions.

PROGRAM POLICIES FOR 2004–05

Fiscal policy

11. **Firm budgetary control has maintained the overall fiscal outturn for end-September in line with program projections**. Revenue objectives were met. Higher

VAT payments reflecting higher import value compensated for lower than programmed direct tax payments, nontax revenue, and a shortfall in external budgetary grants. To cushion the impact of rising oil prices on consumers we have reduced the rate of excise tax on petroleum products. Overall, spending has been kept below the program ceilings, particularly in the area of transfers and subsidies, while protecting social outlays.

12. **Despite revenue shortfalls in the last quarter we expect to keep the 2004 fiscal program on track to end-year**. We expect a revenue shortfall of ½ percent of GDP from lower than programmed mining company dividends and stamp duties. To address these risks we have restrained non-poverty reducing expenditure below budgeted amounts.

13. **In view of an external loan financing shortfall of 0.9 percent of GDP** we intend to roll over a treasury bill issue maturing in December 2004 to 2005 as provided for by the program adjustor for shortfalls in external financing. Delayed financing flows expected in 2004 but disbursed in 2005 will be allocated to repaying the bridge financing.

14. **The draft budget for 2005 is broadly within the PRGF medium-term framework.** Revenues are projected to rise by 1.1 percent of GDP on the basis of tax measures described below. Spending will rise, owing to the needs called for by the PRSP, especially in the areas of access to basic social services, particularly the programmed recruitment of health and education staff. Transfers and subsidies will increase owing to the creation of public health institutions in regions and to support to basic education.

15. **To reflect the revised macroeconomic framework and take into account shocks unforeseen at the time of the preparation of the draft budget, we will take measures** underpinning the 2005 budget estimates. These measures include:

- Eliminating the tax exemptions granted to the agricultural sector bank (BNDA) and for VAT on agricultural equipment and inputs; and introducing a simplified tax regime for some categories of taxpayers, and a presumptive tax on peri-urban farms;

- Returning petroleum product excises to their levels prior to the recent reductions. This requires raising the average excise tax on petroleum products to the level prevailing in the first quarter of 2004. We have begun this increase in December 2004, and plan a further substantial increase in mid-January 2005 (such that over half of the needed increase is in place). The balance of the increase would be in place by mid-March 2005, assuming world prices remain broadly unchanged. In case world prices increase substantially, corrective actions would be discussed with the IMF in the context of the second review of the PRGF.

- Continuing to reduce the level of ad hoc exemptions, and to eliminate them over the medium term.

- We will complete a study to strengthen the collection of non-tax revenues. To support this effort we are requesting technical assistance from the Fund (*completion of a study is a new structural benchmark*).

16. **On the expenditure side, we have submitted to the National Assembly an amendment to the draft budget 2005 to keep spending in line with available financing**. This amendment, amounting to CFAF 17.9 billion or 0.6 percent of GDP, is focused on: eliminating payments to laid-off employees in the context of delays to the privatization program (CFAF 5.0 billion); other transfers (CFAF 3.6 billion); electricity consumption subsidies (CFAF 3.0 billion); subsidy to CMDT (CFAF 1.2 billion); and other current spending (CFAF 3.1 billion); and a reduction of estimated VAT refunds payable CFAF 2.0 billion.

17. **As a result of a decline in projected 2005 world cotton prices of the order of 36 percent relative to assumptions in our PRGF request we anticipate a significant need for budget resources to cover the operating losses of CMDT.** The projected cash deficit of the cotton sector company CMDT for the 2004/05 campaign amounts to 2.4 percent GDP. We have put in place measures to reduce this loss to 1.8 percent of GDP (CFAF 48.1 billion), through cost reductions in CMDT of CFA 7.1 billion, and not distributing the 2003/04 operating surplus (producers' share: CFA 6.2 billion; CMDT share: CFA4.2 billion). After allowing for a foreign shareholder contribution of CFAF 9.7 billion, the losses that fall to the government as the majority shareholder and guarantor of the support fund amount to an estimated 1.4 percent of GDP (CFAF 38.4 billion). A new more flexible producer price mechanism, as discussed below, will minimize future budgetary risks from CMDT.

18. **We intend to cover CMDT losses by a combination of revenue and expenditure measures and additional external budget support.** Our 2005 budget envisages CFAF 13.8 billion in support for CMDT, made possible by the revenue and expenditure measures mentioned above. We have requested external support to cover the balance of CFAF 24.6 billion attributable to external shocks. In the event that such support is not confirmed, we will make the corresponding budgetary adjustments. In any event, the supplementary financing package for CMDT will be finalized in the context of the discussions for the second review and submitted as an amendment to the budget.

19. **We recognize the need for aligning the composition of spending with PRSP objectives, which emphasize a rising share of investment outlays.** However, the composition of our public spending in 2005 will shift towards recurrent outlays. This reflects increases in the wage bill and transfers payments and also problems in executing our externally financed investment program. The change in composition reflects our needs for increased teaching staff and health workers, and the harmonization of the salary grid of civil servants agreed with the unions. In order to refocus spending on investment in the future, we will:

- expeditiously complete the work of the commission to review salary allowances and bonuses, with a view to simplifying them, containing their cost, and improving their transparency;

- improve the composition of spending financed by HIPC Initiative resources with a view to increasing the share of investment outlays during the elaboration of the 2006 budget;

20. **We will take steps to improve the efficiency and poverty focus of public spending.** To this end we will:

- Seek to target better and reduce significantly budget subsidies to EDM. Since the current non targeted subsidies relating to the consumption of electricity have minimal impact on vulnerable groups at a significant budget cost, this action will be informed by a tariff study to be conducted in 2005, describing appropriate tariff structures and proposing targeted mechanisms to support most vulnerable groups (*new structural benchmark*).

- Review the allocation criteria of social safety net resources to improve the targeting of vulnerable groups (*new structural benchmark*).

- Work with donors to improve the execution of foreign financed projects and to move towards a higher proportion of budget support relative to project. In this regard we have adopted a Procedures Manual to follow up execution of investment projects and we will prepare an action plan to improve the execution rate of foreign financed capital projects by end-June 2005. We will work with the donor community to promote budgetary support rather than project support. In this context, results of studies by the IMF, the World Bank, and the European Union have concluded our national budgetary procedures are broadly satisfactory; nonetheless we remain open to any eventual request to ensure that our procedures are in line with international standards, and hence provide assurances to the donor community on the use of their financial assistance.

21. **To reduce pressure on budget spending over the medium term we intend to steadily reduce imbalances in the civil service pension fund (CRM) through parametric reform and loss reduction.** The budget transfer to the pay-as-you-go system amounts to 2/3 percent of GDP in 2004 and will rise steadily over the medium-term if not addressed. To this end, we have already undertaken a diagnostic study of the financial position of CRM, and launched a tender for a study of the actuarial position.[1] We have also drafted legislation that will create the possibility of parametric reform. Looking ahead we intend to assess the options for parametric reform by end-June 2005 (*new structural benchmark*) and following a period of consultation with stakeholders, submit legislation to the National Assembly by end-year that will enable a sustained reduction of the budget subsidy over the medium term (*new structural benchmark*).

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[1] Commencement of the study together with an audit of contributors and beneficiaries of the private sector pension fund (INPS) is an end-December 2004 performance criterion.

Monetary Policy and Financial System Strengthening

22. **Following a slow down of money growth during the first eight months of the year, BCEAO will continue to implement a prudent monetary policy in 2005**. Broad money will grow by 5.9 percent, in line with nominal GDP, mainly driven by growth of credit to the private sector, while net foreign assets are projected to decline only slightly.

23. **Our efforts to strengthen the viability and performance of the financial system are continuing under the umbrella of the Financial Sector Development Project (PDSF) and the relevant supervisory authorities**. The key objectives remain for the government to divest equity holdings in commercial banks, to strengthen bank balance sheets through effective supervision, to monitor developments in the microfinance sector, to improve the financial position of pension funds, and to develop the insurance sector.

24. **Bank privatization will continue to focus on the two banks with significant government holdings:**

- **Banque Internationale du Mali (BIM).** Following the end of provisional administration and establishment of a new management structure in June 2004, a strategy and a timetable for the privatization of Banque Internationale du Mali was adopted by the Government in November 2004. A contract with a privatization advisor was signed in November 2004. The tender for sale is expected by end-April 2005 (*new structural benchmark*). We expect to have closed the window for financial offers for the government's shares by end-June 2005 (*third review performance criterion*).

- **Banque du Développement du Mali (BdM)**. The government has already advised the BCEAO of its intention to seek a joint sale of the government and BCEAO equity holdings in BdM. The valuation of government shares in BdM will be completed by end-April 2005. If a joint offer proves not possible by April 2005, the government will review its strategy for BdM.

25. **We will also take the following actions to strengthen the banking system**:

- There is a need to restructure the housing bank BHM, as recommended by the PDSF in its mid-term review. These recommendations will be discussed with the newly appointed management.

- An audit of the non-performing loan portfolio of commercial banks has been initiated. The latter should lead to the design and implementation of an action plan to clean up the balance sheets.

26. As regards **strengthening the performance of the non-bank sector** we are focusing our efforts along the following lines:

- For micro-finance, improving supervision and access to financial services is key to maximizing the health of the sector and its contribution to poverty reduction. Audits will be conducted in response to perceived signs of weaknesses in the balance sheets and large non-performing assets, which raise the issue of long-term sustainability of the sector.

- With respect to micro-finance supervision, the quality of supervision CAS/SFD will need to be re-assessed, with the BCEAO taking over the supervision of large institutions, following the approval by the BCEAO Council of Ministers in March 2004. There needs to be an identification of the institutions falling under the primary responsibility of BCEAO and those remaining under the purview of the CAS/SFD.

- With respect to the insurance sector, the Government will make sure that existing regulations (e.g. obligation to insure, localization of policies, restructuring of companies) are properly enforced so as to increase its potential.

Private Sector Development

27. **Our reforms of the cotton sector are aimed at improving efficiency, raising competition in input markets, and boosting rural incomes.** Privatization of ginneries, transportation and agricultural support are intended to cut costs and boost producers' revenues. However, we have decided to postpone the privatization of CMDT from 2006 to 2008 to better prepare the producers and the private sector for the fundamental changes ahead. In the short term, we have adopted a two pronged approach, which aims to:

- Increase the role of price signals in production decisions through adoption of a pricing mechanism that minimizes budgetary risks by periodically channeling market price signals to the producers and CMDT (prior action). In order to minimize risks of budget support for the cotton sector in 2006 we will announce a base producer price in by end-April 2005 reflecting world market price signals within the framework of the price mechanism protocol (*third review performance criterion*) and adjust the producer price by end-August 2005 if the projected payments to producers are less than the base price (*third review performance criterion*).

- We have postponed adoption of a revised master plan for privatization of CMDT, to 2007 at the latest. In the meantime, we are pursuing discussions for a partial privatization of CMDT, in 2006, through the sale of CMDT assets in the OHVN KITA zone to a private sector partner, as a first step toward eventual privatization.

28. We intend to privatize the state telecommunications company SOTELMA no later than July 2006. To this end, we will launch a tender for a privatization advisor (prior action). We aim to launch the tender for privatization in March 2006.

Very truly yours,

/s/

Abou-Bakar Traoré

Minister of Economy and Finance

Mali: Quantitative Performance Criteria and Indicative Targets for March 2004 - December 2005 1/

(In billions of CFA francs)

	2004							2005			
	March		June		September		December	March	June	September	December
	Indicative targets	Est.	Indicative targets	Est.	Performance criteria	Est.	Indicative targets	Performance criteria	Indicative targets	Performance criteria	Indicative targets
Quantitative performance criteria and indicative targets											
Net domestic financing of the government 2/ 3/	20.1	7.7	6.5	13.2	-10.3	1.6	-23.9	19.9	-14.9	-4.5	-45.4
Net domestic financing, adjusted 2/ 3/	20.1		21.5		3.3						
Cumulative change in government external payments arrears 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New external borrowing at terms of one year or more 3/ contracted or guaranteed by the government on nonconcessional terms 4/ 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New short-term external debt (less than one year) contracted or guaranteed by the government 4/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial performance indicators											
Cumulative tax revenue 7/	80.7	92.7	167.1	188.5	265.7	285.8	383.7	94.4	198.1	318.4	434.1
Cumulative wage bill 3/	30.5	26.8	61.1	56.9	91.5	90.9	122.0	33.9	70.1	105.2	140.2
Overall basic fiscal balance 8/	6.6	18.4	1.4	21.0	6.7	23.7	-2.6	5.9	-8.4	-18.0	-25.3
Memorandum items:											
External budgetary assistance during the year 9/	4.9	4.9	34.6	4.9	57.1	8.5	75.0	0.0	60.5	70.5	113.6
HIPC Initiative debt relief	6.2	6.0	15.6	15.4	20.8	21.2	29.6	6.6	15.6	23.4	31.2
Expenditure financed with HIPC Initiative resources	5.3	5.3	14.0	14.0	19.8	18.4	29.6	6.3	14.8	22.2	31.2
Balance of HIPC Initiative resources	0.9	0.7	1.6	1.4	1.0	2.8	0.0	0.3	0.8	1.2	0.0

1/ All numbers are cumulative, starting at the beginning of each year.
2/ The adjustment factors are described in paras. 7 and 8 of the technical memorandum of understanding.
3/ Maximum.
4/ These performance criteria will be monitored on a continuous basis.
5/ See para. 16 of the technical memorandum of understanding for the donors concerned.
6/ Excluding import-related credit and CMDT borrowing from foreign banks secured by the proceeds of cotton exports, and debt relief.
7/ Minimum.
8/ Minimum. See paragraph 29 of the technical memorandum of understanding for definition.
9/ Excluding use of Fund resources.

Mali: Structural Conditions, 2004–05 [1/]

Measures	Date	Status
Prior Actions for PRGF Approval		
1. Creation of a unit in the Ministry of Economy and Finance to monitor the macroeconomic program.		Met
2. End the provisional administration and establish the new management structure for Banque Internationale du Mali.		Met
Performance Criteria for 2004		
1. Adoption by the government of a privatization strategy for the telecommunications company (SOTELMA) and a timetable for its implementation.	End-June 2004	Not met. Expected in 2005.
2. Adoption by the government of an operational master plan for the privatization of the CMDT.	End-September 2004	Not met. Full privatization postponed from 2006 to 2008. Negotiations for partial privatization in 2006 underway.
3. Adoption by the government of a strategy and timetable for the privatization of Banque Internationale du Mali.	End-September 2004	Not met. Completed with brief delay in November 2004.
4. Begin actuarial studies on CRM and audit the files on INPS contributions and beneficiaries.	End-December 2004	Partially completed. CRM study delayed.
Structural Benchmarks for 2004		
1. Completion of an audit of expenditures financed with HIPC resources.	End-May 2004	Met
Prior Actions for First Review		
1. Launch a tender to recruit privatization advisor for sale of SOTELMA closing no later than March-2005		Met. Launched January 10, 2005.

[1/] Prior actions for the first review and conditionality for 2005 were set in the context of the first review.

Measures	Date	Status
2. Adoption of a producer price mechanism for the cotton sector that minimizes budgetary risks by periodically channeling market price signals to the producers and CMDT.		Met. Adopted January 13, 2005
Performance Criteria for 2005		
1. Announcement of a cotton base producer price for 2005–06 that minimizes risks to the budget within the framework of the price mechanism protocol.	End-April 2005	
2. Closing date for acceptance of financial offers for sale of state shareholding in Banque Internationale du Mali	End-June 2005	
3. Downward adjustment of the cotton producer price in the case that projected payments to producers are less than base producer price as envisaged in the price mechanism protocol.	End-August 2005	
Structural Benchmarks for 2005		
1. Publication of tender for sale of government stake in Banque Internationale du Mali	End-April 2005	
2. Assessment of the impact of parametric reforms on the financial position of CRM over the medium term.	End-June 2005	
3. Review the allocation criteria of main social safety net resources.	End-June 2005.	
4. Complete a tariff study with a view to describing appropriate tariff structures and proposing targeted mechanism to support most vulnerable groups.	End-September 2005	
5. Complete a study to strengthen Ministry of Finance Property and Land Department collection of non-tax revenues with a view to improving overall efficiency and raising the yield of property taxes.	End-September 2005	
6. Submission of a draft law to the Assemblée Nationale to enable setting by decree parametric reforms of CRM that will reduce significantly the projected deficit over the medium term.	End-December 2005	

INTERNATIONAL MONETARY FUND

MALI

Addendum to the Technical Memorandum of Understanding

February 7, 2005

1. This updates the technical memorandum of understanding included in Mali's request for a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), (Country Report No. 04/184). Definitions, frequency and deadlines for data reporting to the staff of the International Monetary Fund for program-monitoring purposes remain unchanged.

A. Ceiling on Net Domestic Financing of the Government

2. The key quantitative performance criterion is net domestic financing of the government. The ceiling on the change in net domestic financing of the government will be adjusted if external budgetary assistance exceeds or falls short of the programmed amount. However, the adjustment cannot exceed the following ceilings. These ceilings were already set at CFAF 25 billion at end-December 2004; and CFAF 15 billion at end-March 2005. New ceilings are set for June, September and December 2005 at CFAF 25 billion. In the context of the program, cumulative external budgetary assistance was expected to reach CFAF 57.1 billion for end-September, and CFAF 75.0 billion for end-December 2004. For end-March 2005, no external budgetary assistance was forecast under the program. For the remainder of 2005, external budgetary assistance is expected to reach CFAF 60.5 billion for end-June, CFAF 70.5 billion for end-September, and CFAF 113.6 billion for end-December.

3. The ceiling on the change in net domestic financing will be adjusted by the difference between the amount of HIPC Initiative resources programmed and the amount actually spent, as described in the TMU included in Country Report No. 04/184.

Performance criteria and benchmarks

4. The ceiling on the cumulative change in net domestic financing is established at CFAF -23.9 billion at end-December 2004; and CFAF 19.9 billion at end-March 31, 2005. The ceiling is established at CFAF -14.9 billions for end-June 2005, CFAF -4.5 billions for end-September 2005, and CFAF -45.4 billions for end-December 2005. The ceiling is a performance criterion at end-September 2004, end-March 2005, and end-September 2005, and indicative targets at end-June 2004, end-December 2004, end-June 2005, and end-December 2005.

B. Nonaccumulation of External Public Payments Arrears

Performance criterion

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

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

Performance criterion

6. Starting with the program approval by the Executive Board of the IMF, a ceiling of zero is set for nonconcessional borrowing. This performance criterion is monitored on a continuous basis.

7. The government undertakes not to contract or guarantee external debt with a maturity of one year or more and a grant element of less than 35 percent (calculated using the reference interest rates corresponding to the borrowing currencies provided by the IMF).

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

Performance criterion

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

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

V. Quantitative Indicators

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

A. Floor for Tax Revenues

Performance indicators

11. Quantitative performance indicators for tax revenues are set at CFAF 198.1 billion at June 30, 2005, CFAF 318.4 billion at end-September 2005, and CFAF 434.1 billion at end-December 2005.

B. Ceiling on the Wage Bill

Performance indicators

12. The quantitative performance indicators for the wage bill are set at CFAF 70.1 billion at June 30, 2005; CFAF 105.2 billion at end-September 2005; and CFAF 140.2 billion at end-December 2005.

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

Performance indicators

13. The floors for the performance indicators for the basic fiscal balance, excluding HIPC Initiative-related expenditure, are set at CFAF -8.4 billion at end-June 2005, at CFAF -18.0 at end-September 2005, and at CFAF -25.3 billion at end-December 2005.

Statement by the IMF Staff Representative
March 7, 2005

1. This statement provides additional information that has become available since the circulation of the staff report. The information does not change the thrust of the staff appraisal.

2. **Industrial gold production in 2004 amounted to 41.6 tons, consistent with the revised program projections**.

3. **The rate of consumer price inflation increased to the program projection for 2005.** Consumer prices increased by 2.5 percent over the 12 months to January 2005, largely on account of increases in the prices of food items. Non-food inflation was 0.8 percent.

4. **In 2004, monetary and credit aggregates expanded faster than expected under the program, while still decelerating substantially compared to 2003.** Broad money increased by 11.9 percent (6.6 percent programmed) primarily on account of faster growth of credit to the economy (6.0 percent against 1.4 percent programmed). Net international reserves increased by US$100 million over the year, very slightly below program estimates.

5. **Preliminary data indicate that budget execution in 2004 was in line with the staff report estimates.** Revenues at end-December were broadly as estimated, while modest shortfalls in external grants and loans were covered through a reduction of current spending and additional domestic financing. A short-term treasury bill issue took place on the regional market in January 2005, rolling over bills maturing at end-2004.

6. **Against a background of rising oil prices, the authorities increased pump prices by 1.5 percent in February 2005**. At the same time, fuel excises were lowered by an equivalent of 2.5 percent of the pump price. The authorities have reconfirmed their commitment to raise fuel excises back to levels prevailing in early 2004 by end-March 2005.

7. **Progress in privatization is continuing, consistent with the program.** A contract with a privatization adviser for BIM-SA was signed on January 25, 2005. Discussions for the sale of the cotton-seed processor company are at their final stage. The sale is expected to amount to about CFAF 9 billion.

8. **The U.K. and Canadian authorities announced plans to fund a portion of Mali's debt service to the World Bank and African Development Bank**. The relief totals approximately US$65 million over 2005–15 (1 percent of current GDP and 7 percent of exports of goods and services).

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
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IMF Executive Board Completes First Review Under Mali's PRGF Arrangement and Approves US$2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the first review of Mali's economic performance under an SDR 9.33 million (about US$14.2 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No.04/125).
The completion of the review enables the release of a further SDR 1.33 million (about US$2 million), which will bring the total amount drawn under the arrangement to SDR 2.66 million (about US$4.1 million).

In completing the review, the Executive Board granted a waiver for the nonobservance of three structural performance criteria.

Following the Board discussion of Mali, on March 7, 2005, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

"In mid-2004, Mali embarked on an ambitious macroeconomic program. In recent months, economic performance has been adversely affected by the economy's vulnerability to exogenous shocks—in particular, terms of trade losses and a locust infestation—as well as delays in the implementation of structural reforms. Nevertheless, the authorities remain committed to moving ahead purposefully with the two main pillars of their program—namely, fiscal consolidation and structural reforms aimed at boosting growth and diversifying the economy.

"Overall fiscal performance through 2004 was generally good. A slowdown of economic growth necessitated corrective fiscal measures in 2005 to keep budgetary policies on track. These measures include a scaling back of non-poverty focused spending, and passing global oil price increases through to domestic pump prices. Over the medium term, the authorities' fiscal program will need to focus on increasing government revenue through an improvement in tax administration and policy, and on strengthening public expenditure management.

"Ambitious structural reforms aimed at improving the business climate and enhancing the economy's competitiveness remain crucial for the success of the economic program. Of particular importance are the ongoing reforms in the cotton sector focused on improving the producer price mechanism, and preparatory steps toward privatization of the state-owned cotton company. Careful development and steadfast implementation of plans to privatize other key public enterprises, strengthen the financial system, and reform the pension funds will be essential.

“Notwithstanding the progress made, poverty remains widespread. To assist Mali in progressing toward the Millennium Development Goals, the PRGF-supported program is fully aligned with the authorities’ poverty reduction strategy. To implement its ambitious program, Mali will remain heavily dependent on foreign financial assistance in the future. To ensure continued debt sustainability, the government should encourage donors to increase the grant element of external financing,” Mr. Carstens said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper, or PRSP. 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 annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Statement by Damian Ondo Mañe, Executive Director for Mali
March 7, 2005

Introduction

At the outset, I would like to express my Malian authorities' appreciation to management and staff for their continuous support, which has helped the country to put in place a sound macroeconomic framework and improve the management of the Malian economy. My authorities are also grateful to the international community for the assistance they are receiving in support of their development agenda.

It is worth noting that, thanks to its stability within a difficult regional environment, Mali has successfully implementented since 1996 sound macroeconomic policies along with vigorous reforms and adjustments supported by the PRGF arrangement. The implementation of these policies has resulted in sustained growth and overall reduction in poverty. While my authorities recognize the challenges facing the country, they are confident that the implementation of the current PRGF program will further strengthen the reforms geared towards strong and sustainable growth with an impact on poverty reduction, as well as economic diversification and building a more resilient economy to external shocks.

Recent Macroeconomic Developments

The Malian economy has experienced a significant slowdown growth in 2004, compared with previous years, due largely to unfavorable exogenous factors. Indeed the low rainfall and locust attacks reduced the agricultural production which is one of the most vulnerable in the region, particularly with regard to the cereal crop and cotton production. In addition, it is important to note on one hand the falling of world cotton prices and the strength of the CFA franc against the US Dollar and on the other hand the negative effects of the crisis in neighboring Côte d'Ivoire notably on the trade and services activities.

Against this background, the real GDP growth for 2004 has been revised downward to 2.2 percent from an objective of 4.7 percent. Moreover the current account deficit excluding grants stands at 7 percent of the GDP owing to lower gold exports and the fall in cotton prices as well as increase of oil prices. The slump of cotton exports and the hike of oil prices have lead to a substantial deterioration in the terms of trade. On the fiscal side, achievements in 2004 have been satisfactory as fiscal outturns have exceeded program targets, despite difficulties encountered during the second semester. With regard to inflation, consumer prices continued to decrease in 2004 and the real exchange rate depreciated slightly on account of the favorable inflation differential with main trading partners.

Performance under Program

In spite of the effects of the external shocks stated above, all quantitative criteria pertaining to the first year of the program have been observed, namely on net domestic financing, non accumulation of external arrears, external borrowing terms and maturity at end-September

2004, floor on tax revenue, ceiling on wage bill and floor on the basic fiscal balance excluding HIPC financed expenditure. In addition all prior actions for completion of the first year review have been implemented. These relate to the adoption of a cotton producer price mechanism and the launching of a bid for recruiting a privatization advisor for the sale of the telecommunication public enterprise. Besides that, 2004 budgetary policies were also on track and a high level of HIPC expenditure was maintained and focused on priority areas such as health and education.

On account of their commitment to fully succeed in implementing the privatization program and their desire to put in place all necessary conditions in this regard, my Malian authorities request waivers for non observance of the three structural performance criteria related to the government divestment from *Société des Télécommunications du Mali* (SOTELMA), *Banque Internationale du Mali* (BIM) and *Compagnie Malienne pour le Développement des Textiles* (CMDT). As stated in the letter of intent, the privatization process of BIM will be completed by end-June 2005 and by July 2006 for SOTELMA while the full privatization of CMDT will be met in 2008 with the assistance of the World Bank.

Macroeconomic Policies and Program for 2005

The macroeconomic policies outlined by my authorities are built on a broad-based consensus in order to strengthen the social and political stability as well as promoting growth, attract investment and alleviate poverty. In 2004, the economy experienced several exogenous shocks, but the authorities were able to contain their adverse impact and continue implementing the program. For 2005, the reform and adjustment efforts will be pursued with a view to achieving all macroeconomic objectives set out in the program. To this end GDP growth is projected to return to programmed level, around 6 percent. The inflation rate is slated to be below BCEAO target of 3 percent, and gross foreign reserves should cover more than 6 months of imports. Owing to the deterioration of the terms of trade, the current account deficit is expected to rise to 9.0 percent of GDP. With regard to the fiscal policy, my authorities remain committed to budget discipline within PRGF objectives and social expenditures will be preserved. In the real sector, a new gold mine will be opened in 2005 as well as a new textile factory besides the expansion in sugar production.

Fiscal Policy

The Malian authorities are committed to the fiscal policy which aims at supporting poverty reduction strategy, preserving macroeconomic stability and keeping public debt at a sustainable level. Therefore, the 2005 budget is broadly in line with the PRGF medium-term framework limiting the fiscal deficit to less than 7 percent of GDP. A number of strong measures have been taken in order to underpin the revenue side of the budget for 2005. These measures include eliminating the tax exemptions granted to the agricultural sector bank and for VAT on the agricultural inputs, returning petroleum product excises to their level prior to the recent reductions and reducing the level of ad hoc exemptions with a view to eliminate them over the medium term. Furthermore, the authorities are determined to complete the study on strengthening of the non tax revenues collection. In this regard they are requesting technical assistance from the Fund.

On the expenditure side, efforts will be aimed at keeping the budget in line with available financing. In their efforts to improve public expenditure management, my Malian authorities have begun to tackle imbalances in the civil service pension fund. Towards the decentralization of government functions and tax collection, the authorities concur with staff that a cautious approach is warranted in view of the capacity constraints.

Regarding the petroleum product excises, the authorities have started raising the average excise tax to the level prevailing in the first quarter of 2004. A first step was achieved in December 2004 and a plan of action for 2005 has been set out assuming that the world prices will remain broadly unchanged.

Monetary Policy and Financial Sector Reforms

The prudent monetary policy implemented by the BCEAO, the regional central bank, will be pursued with the objectives of strengthening the WAEMU's external reserves and controlling inflation. In this regard broad money is projected to grow in line with nominal GDP and will be mainly driven by the credit to the private sector. As regards the financial sector, the authorities will pursue their efforts to strengthen the banking system as well as the execution of the Financial Sector Development Project.

In the context of a liberalized financial sector, the authorities are determined to finalize according to the new timetable the privatization of the BIM and the BDM, to improve the financial position of pension fund and to develop the insurance sector. All the measures intended by the authorities for the financial sector will be conducted within the framework set out by the BCEAO. Regarding the two banks, it is important to underscore that the contract for a privatization advisor has been signed and the sale of the government's shares will be completed by end-June 2005. Moreover, an audit of the non-performing loans with banks has also been initiated with a view to draw up an action plan for cleaning up the balance sheets.

Structural Reforms

In the structural area, the authorities' objective is to further liberalize the economy and increase the role of the private sector in order to foster economic growth, create more jobs and alleviate poverty. To this end their efforts will focus on improving public resources management as well as implementing the privatization program in the cotton, banking and telecommunications sectors.

As regards the cotton sector, the authorities are determined to liberalize and restructure the sector through the adoption of a market-based pricing mechanism and the strengthening of the producers'organisations. With the new mechanism it is envisaged to set up initial producer prices by end-April 2005. Regarding the full privatization of CMDT a new schedule has been adopted which postpones to 2008 the completion of the process. This postponement stems from the need to build a broad consensus which is of critical importance in the sector as it touches the livelihood of a very large proportion of the population. In this regard the assets of the company located in the OHVN Kita zone will be sold to a private partner in

2006. This move defined as the first step will pave the way for a full and complete privatization of the CMDT.

The government's divestiture in the SOTELMA, the telecommunication public enterprise, is intended to be completed by July 2006, after launching in March 2005 a tender for the recruitment of an Advisor.

In addition, it is worth noting that the authorities will speed up their reforms in the public expenditure management and beef up their policies of social safety net spending. Concerning the increase in wages, the 2005 budget is in line with the WAEMU convergence criteria and the harmonization of the salary grid for civil servants. The authorities are determined to ensure the sustainability of the salaries. To this end, the review undertaken on salary allowances and bonuses will be expeditiously completed. Furthermore, they agree to develop a long-term wage policy consistent with making steady progress towards the attainment of the Millennium Development Goals while taking into account the financing constraints.

With regard to the debt sustainability, the Malian authorities are committed to a prudent debt management as the economy is highly exposed to external shocks. With a view to avoid falling in debt trap after successfully reaching the completion point under the HIPC Initiative, efforts on structural reforms will be pursued besides the assistance from the international community to cover the financing needs of the country. My Malian authorities appreciate the plans by United Kingdom and Canada to fund a portion of the country' debt service to World Bank and African Development Bank

In the external trade area, my Malian authorities are concerned that the protracted crisis in neighboring Côte d'Ivoire has resulted in elevated costs which have deteriorated their economy's competitiveness. As far as they are concerned, the authorities will strengthen the structural reforms as they are crucial through boosting labor productivity and reducing factor costs in order to maintain the country's competitiveness.

Regarding some member's strong support for IMF gold sales in the context of assisting low income countries, my Malian authorities are not opposed to the sales out of concern for solidarity. However they would request that the Fund and other international institutions dealing with this issue give full consideration to the impact it can have on gold prices in general and on the economy of Mali in particular.

Conclusion

My Malian authorities have demonstrated over the recent years their strong commitment to the reforms and adjustment in order to foster economic growth and fight poverty. In spite of progress made in macroeconomic stabilization and economic growth over the past years the Malian economy remains fragile as evidenced by the shocks experienced in 2004 namely the collapse of cotton prices, locust invasions, surge in oil price and protracted crisis in Côte d'Ivoire. Against this difficult economic environment, the authorities reiterate their strong commitment to implementing the PRGF reform program and are hopeful that their efforts will continue to be supported by the international community. In view of the satisfactory track record of my Malian authorities in program implementing, I would like to request the Board's support for the completion of this review as well as the waiver of non observance of performance criteria.