International Monetary Fund

Mali and the IMF

Press Release:
IMF Executive Board Completes Second and Third Reviews Under Mali's PRGF Arrangement and Approves US$3.8 Million Disbursement
December 20, 2005

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Mali: Letter of Intent and Technical Memorandum of Understanding

December 7, 2005

The following item is a Letter of Intent of the government of Mali, which describes the policies that Mali intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Mali, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Bamako, December 7, 2005

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

Dear Mr. de Rato:

1. **The Malian economy has experienced exogenous shocks that affected cotton and oil product prices over the past year**, and the 2004/05 production of food crops was far from adequate, resulting in lower growth and higher inflation than envisioned under the program. With the assistance of our external partners, we have put in place decisive policies to adjust to these shocks and ensure macroeconomic stability and food security in the medium term.

2. **The outlook for 2006 and for the medium term is encouraging**. Agricultural production, particularly cereals, should rebound in 2005/06 following adequate rainfall, resulting in a reversal of recent inflation. The terms of trade have begun to improve, notably with respect to gold prices. We remain fully committed to completing the privatization of the Malian textile development company (CMDT) by 2008 and attach high priority to the financial sector reforms, to strengthening fiscal policies and increasing the role of the private sector in the economy.

Macroeconomic Framework

3. **Recent macroeconomic developments remain broadly consistent with projections in the previous program review, although inflation has increased in 2005 because of the food supply reduction**. We expect a recovery of GDP growth from 2 percent in 2004 to about 5.5 percent in 2005 on the basis of a normal 2005/06 harvest, rising gold production, and modestly increased cotton production levels. Owing to good rainfall the risks to growth are on the upside. Reduced cereal supply substantially increased food prices in 2005, leading to average consumer price inflation of 5 percent and projected year-end inflation of zero percent. In addition to the effects of the food shock, the upsurge in petroleum product prices has reduced the current account balance. The fiscal position, before grants, weakened temporarily, as we increased public spending to address losses in the cotton sector and at the same time cushion the impact of lower international cotton prices.

4. **For 2006, we expect economic growth to remain at 5-6 percent,** underpinned by improvements in the terms of trade, a narrowing of the current account deficit, low inflation, and increased levels of public investment.

5. **Strict fiscal management has led to the maintenance, at end-2004 and end-September 2005, of an overall fiscal balance consistent with program projections**. The overall fiscal deficit, before grants, in 2004 stood at 6.6 percent of GDP, or 1 percent of GDP less than estimated in the program, and is expected to rise to 8.8 percent GDP in 2005, financed by increases in concessional loans and budgetary grants. Revenue objectives were generally met, except shortfalls in nontax revenue (dividends and property taxes) and fuel excises. Expenditure increased in 2005, reflecting higher investment, wages including HIPC-financed wages, and lending to CMDT.

Mali: Economic Developments, 2003-06

	2003	2004	2005		2006
	Estimate	Estimate	1st Review	Revised Projection	Program
Real GDP (percent change)	7.2	2.3	5.8	5.4	5.4
Nominal GDP (in billions of CFA francs)	2,568	2,610	2,753	2,761	2,905
Average inflation rate	-1.3	-2.8	2.5	5.0	-1.5
(In percent of GDP)					
Total revenue and grants	20.9	21.4	23.5	22.2	24.0
Total expenditure and net lending	22.2	24.0	27.0	26.3	27.5
Overall fiscal balance (before grants)	-5.7	-6.6	-8.8	-8.7	-9.1
Overall fiscal balance (including grants)	-1.3	-2.6	-3.5	-4.1	-3.5
Current account balance 1/	-6.1	-7.7	-5.9	-9.1	-8.1

Sources: Malian authorities and IMF estimates and projections.
1/ Includes upwards revision of current account deficit in 2003 and 2004 on the basis of BCEAO data.

6. **Monetary growth has slowed as a result of the less favorable external environment**. Following two years of rapid growth, the level of reserves declined in 2004, reflecting current account weakness. Meanwhile, growth of credit to the economy declined in 2004. This tendency could continue in 2005, partly reflecting efforts to strengthen the credit portfolio. Based on data available through the third quarter of 2005, broad money is expected to increase by about 6.5 percent in 2005 and 6.2 percent in 2006.

7. **In the banking sector, system-wide liquidity remains high, even though there is only partial compliance with the prudential ratios**. Credit is still concentrated in the cotton sector. Moreover, the quality of loan portfolios should be improved, particularly in the area of real-estate loans. Steps are under way to restructure the housing bank to protect its depositors, and the audit of the loan portfolios of other commercial banks is nearing completion.

8. **To sustain GDP growth at an average of approximately 6 percent per annum over the medium term**, we will focus our policies and reforms mainly on improving efficiency and competitiveness, particularly through structural reforms in the cotton and banking sectors and the strengthening of public finances and public institutions. The successful implementation of these reforms will rest on broad consultation with the

stakeholders and on technical and financial support from our development partners. We expect the current account deficit to narrow after 2005 as the terms of trade gradually improve and gold exports increase as a result of the opening of new mines. With the recovery of exports and growth, our external debt sustainability indicators will continue to improve.

9. **The second progress report on implementation of the Poverty Reduction Strategy Paper (PRSP)**, approved in August 2005 and drafted in consultation with external partners and other stakeholders, emphasizes the need to ensure coherence between the annual budget and the medium-term expenditure framework for poverty reduction spending under the PRSP. Preparation of our second PRSP, covering 2007–11, is under way, and will be submitted to the National Assembly. The PRSP will focus on matching identified budgetary space with the costs of those interventions that will enable us to make concrete progress toward achievement of the Millennium Development Goals (MDGs). Account will be taken in the 2007 Budget Law of the PRSP objectives.

PERFORMANCE UNDER THE PROGRAM

10. **Financial program performance at end- September 2005**. Program implementation at end-September was satisfactory. We met the quantitative performance criteria regarding net domestic financing, nonaccumulation of external payment arrears, and external borrowing terms and maturities at end-September. We also met the performance indicators with respect to the floor on tax revenues and the ceiling on the wage bill, and exceeded the basic balance, excluding HIPC-financed expenditure (Annex I).

11. **Our structural reform program experienced a number of delays** (Annex II), as follows:

- We conducted an actuarial study of the civil service pension fund (CRM) in July 2005, with a six-month delay owing to bidding procedure issues. The draft study is now complete, and we will start a consultative process as soon as possible on the parametric reforms, with a view to placing the pertinent draft law before the National Assembly along with the 2007 Budget Law.

- On May 2, 2005 we announced a base seed cotton purchaser price for 2005/06 of CFAF 160/kg, pursuant to the government-CMDT-producers memorandum of understanding on the cotton pricing mechanism, to minimize budgetary risks and taking into account world price projections. We maintained the base cotton price in August 2005 in accordance with the memorandum of understanding. In addition, steps are being taken to bring CMDT accounts into balance.

- The plan to complete the sale of the government's shares in the Banque Internationale du Mali (BIM) was delayed by circumstances beyond our control, in particular a court case contesting the validity of the government's shareholding in the Bank. The privatization process will resume immediately after the Supreme

Court ruling on the case, expected in November 2005. Our PRGF-supported structural reform program for 2006 is also attached to this letter.

12. On the basis of the policies described in this supplementary letter of intent and its annexes, we request the completion of the second and third reviews of the PRGF-supported program. The following prior actions were undertaken in anticipation of the review: (i) the revision of aspects of the taxation on petroleum products, in order to reduce the differentiation of excise taxes by route of importation, in accordance with regional policies (adopted by decree on July 11); (ii) submission of a fully financed draft 2006 Budget Law to the National Assembly, in accordance with the macroeconomic framework of the PRGF (submitted September 18); and (iii) elimination of the temporary VAT exemptions for rice and maize.

13. We request a waiver for nonobservance of the structural performance criterion related to beginning an actuarial study of the civil service pension fund (CRM), for the announcement of a base cotton producer price for 2005/06, and for the acceptance of financial bids for the sale of the government's shares in the BIM. The fifth and sixth disbursements under PRGF will be subject to reviews expected to be completed on or after April 15, 2006 and October 15, 2006 respectively. We will continue to consult the Fund in advance of any change to our policies that could affect the implementation of our economic and financial program.

Program Policies for 2005–06

2005 Budget

14. We remain committed to fiscal discipline and to not seeking financing through the use of domestic credit and treasury bills, except where necessary to meet within-year requirements and unforeseen shortfalls in budgetary grants or loans.

15. **The risks to the 2005 revenue outlook include weak nontax revenue mobilization, lower hydrocarbon taxes, delays in payment West African Economic and Monetary Union duty compensation, and delays in the implementation of fiscal measures**. To cover budgeted spending, particularly for poverty reduction, we have:

- Reduced the differentiation across petroleum product excise taxes with a view to improving revenue efficiency, in accordance with the regional legislation (prior action);

- Strengthened administrative measures. The Tax Department's action plan will be given high priority, and the on-site audit system was strengthened in the last quarter. We have requested but not yet identified technical assistance to strengthen the Land and Property Department (DNDC). The Customs Department has increased import inspection and fraud detection;

- Eliminated the temporary VAT exemptions for rice and maize imports as products from the latest harvest arrive on the market; and

- Made every effort to ensure the collection of dividends in respect of profitable state enterprises, notably the telecommunications company (SOTELMA).

16. **On the expenditure side, we will submit to the National Assembly revisions to the 2005 budget that take account of net lending to the CMDT**. The pertinent amount budgeted will be increased from CFAF 13.8 billion to CFAF 28.5 billion. This increase is less than estimated in the program, partly because the operating deficit for the 2004/05 season was narrower than anticipated. We also expect to realize savings of CFAF 8 billion relative to the estimates for a number of items (in particular, elections and electricity subsidies) in the 2005 budget.

17. To cover shortfalls in nontax revenues, hydrocarbon taxes, and higher spending needs, we have identified additional budgetary assistance of CFAF 9 billion for 2005, thereby closing the expected financing gap.

2006 Budget

18. **We submitted a fully financed 2006 Budget to the National Assembly in September 2005**. The principal measures underpinning the 2006 budget revenues are: (i) computerization of the Tax Department, leading to improved domestic VAT collections; (ii) full-year effects of measures implemented in late 2005, notably elimination of the VAT exemption on new vehicles effective November 1, 2005, introduction of a simplified tax regime for small and medium-sized businesses, and elimination of the agricultural bank tax exemptions; (iii) taxation of imports from WAEMU countries produced under economic or conditional relief arrangements; (iv) the introduction of regulations for prudent implementation of the revised investment code to limit tax losses. We will study, with technical assistance, different options to reform the petroleum product pricing mechanism and palliative measures to protect vulnerable groups of the population. On this basis, we will introduce a price mechanism before end-March 2006 linking pump prices to international prices, compatible with fuel excise estimates in the 2006 Budget (new structural benchmark). In the meantime, the fuel excise will be broadly compatible with 2006 budget projections.

19. **Our spending is aimed at increasing investment financed by higher aid inflows**. Nominal wage spending increases by 6.2 percent on account of HIPC-financed wages and wage adjustments, while spending on goods and services increased by 7.4 percent. The capital budget is intended to cover increased appropriations for [health, education, roads, and institutional capacity building. The budget also includes provisions totaling CFAF 8.2 billion that could be spent in the event realized fiscal revenue were to exceed the estimates. These provisions would be used to deal with unexpected exogenous shocks. Pursuant to the provisions of the Budget Law, the government will reduce spending if the rate of revenue realization is unsatisfactory.

20. **Projected gross financing from external grants and loans will increase substantially in 2006**. Largely on account of a shift toward sectoral budget support (1.6 percent of GDP), which will help increase assistance execution rates. Total aid support is projected to reach 11.1 percent of GDP, including the equivalent of 2.8 percent of GDP (CFAF 80 billion) in general budget support linked to implementation of the economic reform program, particularly in the cotton sector, and the maintenance of macroeconomic stability.

21. **We welcome the proposals for multilateral debt cancellation from the IMF, the World Bank and the African Development Fund**. Such cancellation and the potential increase in external assistance would help create additional budgetary space and progress toward the achievement of the MDGs. Cancellation would also reduce debt service by about 0.6 percent of GDP per year over the medium term. Should cancellation occur in 2006, we will either submit supplementary spending programs to the National Assembly or increase the unallocated provisions in the budget. Debt cancellation could also serve to cover possible external assistance shortfalls.

Fiscal structural measures

22. **As we work with international partners to move from project support to sectoral and general budget support, we are reforming public finance management.** The government has adopted an action plan for improving and modernizing public finance management. We will focus on strengthening the revenue collection agencies (taxes, customs), the audit function, procurement, extending the Treasury's computer network, broadening the scope of the budget accounts to local governments and autonomous public agencies, and increasing accountability.

23. **Concerning expenditure management**, we began a study of the system of salary allowances and bonuses in October 2005 to assess incentives for the deconcentration of government services; we expect the study to be completed by year-end. With a slight delay, we completed a report in October 2005 on the review of the criteria used for allocating resources for the principal social safety net.

24. **The provisional actuarial study of the civil service pension scheme** (CRM) shows that without reform the operating deficit will rise to unsustainable levels from the 2005 budget level of 0.6 percent of GDP. We have begun consultations with the stakeholders on a range of parametric reform options that will restore the CRM to equilibrium. We have asked the consultant to provide a wide range of options, including simulations for reaching operational balance after 10 years, 15 years, and 20 years. In view of the importance of the parametric reforms to the CRM for the medium-term budgetary outlook, the government will identify a package of parametric reforms that will gradually reduce the projected deficit of the CRM from the present level over the medium term (**new performance criteria for end-March 2006**). In addition, the government will submit to the National Assembly, in the context of the 2007 Budget Law and by end-September 2006, a

draft law authorizing the above mentioned package of parametric reforms (new structural benchmark).

Strengthening the financial system

We remain committed to our program of strengthening the financial system by increasing the role of the private sector in the banking system and improving presentation of the balance sheets of banks and nonbank institutions.

25. **Preparations for the sale of government shares in the commercial banks have taken longer than expected:**

- **Banque Internationale du Mali (BIM).** We have received expressions of interest for the acquisition of the government's 61.5 percent stake in this bank. The tender offer for a majority shareholding in this bank (end-April 2005 benchmark) has been delayed by a Supreme Court case contesting the validity of the government shareholding. Once the Court has ruled on the matter (expected in November 2005), and providing no legal impediments remain, we expect to launch a tender by end-March 2006 (reset structural benchmark).

- **Banque de Développement du Mali (BDM)**. Pending agreement on the parallel sale of the shares held by the Central Bank of West African States (BCEAO), the divestiture of the government's 20 percent share in Mali's largest bank is on hold. The BDM remains profitable and plays a pivotal role in the banking consortium for cotton export financing.

26. **We are implementing, with World Bank support, a plan to restructure the housing bank, Banque de l'Habitat du Mali (BHM)**. The audit of the BHM portfolio by a firm of external auditors has been used as the basis for the measures in the restructuring plan. The plan centers on a recapitalization operation led by the government, to be completed by end-June 2006, with the objective of ensuring significant private sector involvement (new structural benchmark). To succeed, the above-mentioned recapitalization is preceded by measures aimed at strengthening the financial position of the bank. The recapitalization will take the form, in the short term, of a conversion of the government deposits into equity. The government will sell equity as new shareholders are identified and the financial position of the bank improves.

27. **An audit of the nonperforming loan portfolio of commercial banks has begun to yield results**. The proposals for the settlement of these claims, recommended in the final report, will be examined by the parties (government-banks-World Bank) during the first quarter of 2006, in a consultative framework.

28. **As regards microfinance, the task of supervising microfinance institutions has been transferred to the Ministry of Economy and Finance** in conformity with the WAEMU law governing microfinance institutions. In addition, the high level of

nonperforming loans in the microfinance sector indicates there is a need to strengthen the supervisory capacity of the Ministry of Economy and Finance.

COTTON SECTOR REFORMS AND PRIVATIZATION

29. **A revised timetable for the cotton sector reform process, postponing privatization of the CMDT to 2008, was approved by the Council of Ministers in February 2005.** This timetable announces the signing of a memorandum of understanding by the government-CMDT-producers on the producer price mechanism. It provides for a series of measures aimed at completing privatization of the CMDT in 2008.

30. **A base price for cottonseed purchases from producers for the 2005/06 season has been set at CFAF 160/kg**, in accordance with the memorandum of understanding on the pricing mechanism signed in January 2005, with a view to keeping to a minimum the risks related to budget support to the cotton sector for the 2005/06 season. This price is at the floor of the range for the base price and was reaffirmed in August 2005. In light of the program estimates regarding international cotton prices and exchange rates, we expect the CMDT operating balance to move from a loss of 1.8 percent of GDP (CFAF 50.3 billion) in 2004/05 to a gross profit equivalent to 0.6 percent of GDP (CFAF 16 billion) in 2005/06 (subject to a considerable margin of forecasting error).

31. **The short-term financial situation of the CMDT remains difficult and poses a fiscal risk**. These difficulties result from the partial recapitalization for 2004/05 losses (incurred in 2004) and receivables for cottonseed sales. Arrears with respect to external payments on medium- and long-term loans have been accumulating since April 2005. The finalization of the 2005 accounts by end-June 2006 will be key in resolving the financial problems. In the interim, the government, as the major shareholder, will set up a committee for the regular surveillance of cash flow operations (structural benchmark for end-December 2005) with a view to progressively reducing payment arrears. Such monitoring will be based on an audit and a payment plan for receivables, cost savings, and disposal of noncore assets, efforts to increase shareholder capital, and refinancing. In the interests of financial transparency, a plan will be submitted to the relevant stakeholders.

32. **We continue to reflect on the best approach to privatization of the CMDT**. The discussions center on whether to sell assets by zoning or equity in new subsidiary companies, creating a regulatory framework, and strengthening the role of cotton producers in downstream activities. In light of these discussions and delays in implementing the reforms planned in the revised privatization timetable, we recognize that a new political impetus is needed to move forward on the reforms, with the support of external partners. Accordingly, by end-December 2005 a definitive strategy for privatization will be adopted by CMDT shareholders (new structural benchmark). The strategy will be based on the agreed positions of shareholders concerning the management of the privatization procedure, notably the number of private companies to be created, shareholder interests, as well as the proposed management of privatization receipts and the clearance of CMDT liabilities. By

end-September 2006, a detailed technical operational plan for privatization will be adopted by the Council of Ministers (new structural benchmark).

33. **The privatization of other nonfinancial sector companies is proceeding, albeit with some technical delays:** In June 2005, the sale of the bulk of the government's shares in the cottonseed mill (HUICOMA) to a private operator was finalized against a payment equivalent to CFAF 9 billion or 0.3 percent of GDP. Preparations are continuing for the sale of 80 percent of the government's shares in the national telecommunications company (SOTELMA), and we expect to conclude this transaction in the fourth quarter of 2006. A medium-term privatization plan for the period through 2008 will be devised by end-2006.

34. **In the electricity sector, we agreed in October 2005 with the strategic partner to restructure ownership, with the government taking a controlling stake of 66 percent**. By January 1, 2006 we will recruit specialized international experts to support the new management team. By end-May 2006, we will conduct a management audit, an assessment of the financial situation, and a review of the pricing mechanism, with a view to resolving the cash flow operating problems (new structural benchmark). We remain committed to private management of the company, based on the above-mentioned studies and reports.

Very truly yours,

/s/

Abou-Bakar Traoré
Minister of Economy and Finance

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

(In billions of CFA francs)

	2004		2005							
	December		March		June		September		December	
	Indicative targets EBS/04/64	Actual	Performance criteria EBS/04/64	Actual	Indicative targets EBS/05/20	Actual	Performance criteria EBS/05/20	Actual	Indicative targets	Actual
Quantitative performance criteria and indicative targets										
Net domestic financing of the government, program ceiling 2/	-23.9		19.9		-14.9		-4.5		-2.0	
Net domestic financing, adjusted ceiling and actual 2/	0.4	-14.6	12.1	6.4	10.4	-1.2	15.3	-3.3	..	..
Cumulative change in government external payments arrears 2/ 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
New external borrowing at terms of one year or more contracted or guaranteed by the government on nonconcessional terms 2/ 3/	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 2/ 3/ 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Financial performance indicators										
Cumulative tax revenue 5/	383.7	393.3	94.4	100.3	198.1	206.9	318.4	322.0	430.0	..
Cumulative wage bill 2/	122.0	121.7	33.9	31.9	70.1	64.7	105.2	96.9	140.2	..
Overall basic fiscal balance 5/	-2.6	10.4	5.9	20.0	-8.4	23.1	-18.0	14.1	-28.6	..
Memorandum items:										
External budgetary assistance during the year 6/	75.0	40.0	0.0	10.5	60.5	23.3	70.5	43.6	80.2	..
HIPC Initiative debt relief	29.6	28.7	6.6	7.0	15.6	14.6	23.4	21.9	31.2	..
Expenditure financed with HIPC Initiative resources	29.6	28.8	6.3	4.0	14.8	13.9	22.2	15.4	26.8	..
Balance of HIPC Initiative resources	0.0	-0.1	0.2	2.9	0.8	0.6	1.2	6.4	4.3	..

1/ For definitions and explanations, please see Technical Memorandum of Understanding. All numbers are cumulative, starting at the beginning of each year.
2/ Maximum.
3/ These performance criteria will be monitored on a continuous basis.
4/ Excluding debt relief obtained in the form of rescheduling or refinancing.
5/ Minimum.
6/ Excluding use of Fund resources.

Mali: Quantitative Performance Criteria and Indicative Targets for 2006 1/

(In billions of CFA francs)

	2006							
	March		June		September		December	
	Performance criteria	Actual	Indicative targets	Actual	Performance criteria	Actual	Indicative targets	Actual
Quantitative performance criteria and indicative targets								
Net domestic financing of the government, program ceiling 2/	-23.0		-29.7		-47.5		-37.5	
Net domestic financing, adjusted ceiling and actual 2/	..	..	..	..	..	..	..	..
Cumulative change in government external payments arrears 2/ 3/	0.0	..	0.0	..	0.0	..	0.0	..
Domestic	0.0	..	0.0	..	0.0	..	0.0	..
External	0.0	..	0.0	..	0.0	..	0.0	..
New external borrowing at terms of one year or more contracted or guaranteed by the government on nonconcessional terms 2/ 3/	0.0	..	0.0	..	0.0	..	0.0	..
New short-term external debt (less than one year) contracted or guaranteed by the government 2/ 3/ 4/	0.0	..	0.0	..	0.0	..	0.0	..
Financial performance indicators								
Cumulative tax revenue 5/	109.3	..	218.7	..	350.0	..	469.9	..
Cumulative wage bill 2/	29.8	..	67.1	..	104.3	..	149.0	..
Overall basic fiscal balance 5/	36.0	..	33.4	..	43.1	..	8.5	..
Memorandum items:								
External budgetary assistance during the year 6/	18.4	..	43.1	..	63.4	..	84.3	..
HIPC Initiative debt relief	4.9	..	11.1	..	17.2	..	24.6	..
Expenditure financed with HIPC Initiative resources	7.2	..	15.8	..	24.3	..	34.2	..
Balance of HIPC Initiative resources	-2.3	..	-4.7	..	-7.1	..	-9.6	..

1/ For definitions and explanations, please see Technical Memorandum of Understanding. All numbers are cumulative, starting at the beginning of each year.
2/ Maximum.
3/ These performance criteria will be monitored on a continuous basis.
4/ Excluding debt relief obtained in the form of rescheduling or refinancing.
5/ Minimum.
6/ Excluding use of Fund resources.

Mali: Structural Measures, 2004-06

Measures	Date	Status
Prior Actions for Second and Third Reviews		
Revision of the structure of petroleum product prices with a view to reducing the differences in excise taxes levied on imports		Adopted by decree on July 11, 2005. Met.
Submission of a fully financed 2006 Budget to the National Assembly		Draft submitted to the National Assembly September 18 for approval. Met.
Elimination of temporary VAT exemption for imported rice and maize		Elimination put into place October 10. Met.
Performance Criteria for Second and Third Reviews		
1. Beginning of actuarial studies on the CRM and audit of the files on INPS contributions and beneficiaries	End-December 2004	Completed, with delay, in July 2005. Not met.
2. Announcement of a base cotton producer price for 2005/06 that reduces to a minimum the risks for the budget within the framework of the memorandum of understanding on the pricing mechanism	End-April 2005	Completed with a slight delay, May 2, 2005. Not met.
3. Closing date for acceptance of final bids for sale of the government's shares in the BIM	End-June 2005	Delayed by court case contesting the validity of government shareholding. Not met.
4. Lowering of the cotton producer price in the event that projected payments to producers are less than the base producer price as envisaged in the memorandum of understanding on the pricing mechanism (3rd Review Condition)	End-August 2005	The price was maintained. The CMDT is expected to make a modest profit on the basis of ICAC cotton price projections. Met.
Structural Benchmarks for 2005		
1. Publication of a call for bids for the sale of the government's shares in the BIM	End-April 2005	Delayed by court case contesting the validity of the government shareholding. Postponed to March 2006. Not met.
2. Review of the criteria for the allocation of resources for the principal social safety net	End-June 2005	Report completed in October 2005. Not met.
3. Completion of a study on electricity rates with a view to describing appropriate rate structures and proposing a mechanism targeted to support the most vulnerable segments of the population	End-September 2005	Scope broadened. Postponed to May 2006. Not met.

Measures	Date	Status
4. Completion of a study to strengthen Ministry of Property and Land Affairs collection of nontax revenues with a view to improving overall efficiency and raising the yield of property taxes	End-September 2005	Required technical assistance from donors not available. Not met.
5. Assessment of the impact of parametric reforms on the financial position of the CRM over the medium term	End-December 2005	Work began October 2005 following completion of the draft actuarial study on the CRM.
6. Creation of a committee for regular surveillance of the cash flow operations of the CMDT	End-December 2005	
7. Approval by CMDT shareholders of a strategy for privatization of the CMDT in 2008 as defined in paragraph 32 of the letter of intent	End-December 2005	
Structural Performance Criterion for 2006		
1. Identification by the government of a specific package of parametric reforms that will gradually reduce the projected deficit of the CRM from the present level over the medium term as described in paragraph 24 of the letter of intent	End-March 2006	
Structural Benchmarks for 2006		
1. Introduction by decree of a petroleum product pricing mechanism linked to world prices, in accordance with the hydrocarbon excise tax estimates in the 2006 Budget	End-March 2006	
2. Publication of a call for bids related to the sale of the government's shares in the BIM, providing no legal impediments remain	End-March 2006	
3. Completion of a management audit of the power company, Energie du Mali, as well as an assessment of the financial situation and a review of the mechanism for setting the rates, with a view to resolving the cash management problems	End-May 2006	
4. Completion of the recapitalization of the housing bank (BHM), with a view to ensuring significant private sector involvement	End-June 2006	
5. Approval by the Council of Ministers of an operational plan for privatization of the CMDT in 2008	End-September 2006	
6. Presentation to the National Assembly, with the 2007 Budget, of a draft law authorizing the parametric reforms and a draft decree that will gradually reduce the projected CRM deficit over the medium term.	End-September 2006	Reset from December 2005, so as to take account of the delays related to the preparatory activities.

INTERNATIONAL MONETARY FUND

MALI

Technical Memorandum of Understanding (TMU) [1]

December 7, 2005

This technical memorandum of understanding defines the performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement. It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program-monitoring purposes. This memorandum consolidates the TMU in Country Report No. 04/184 and its addendum in Country Report No. 05/129, from 2005 onwards. It also adds a data requirement relating to the CMDT treasury operations in the data provision summary table.

DEFINITIONS

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

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

(a) Debt is defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (see Decision of the Executive Directors of the IMF No. 12274-00/85, August 24, 2000).

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

[1] This memorandum consolidates the TMU in Country Report No. 04/184 and its addendum in Country Report No. 05/129. It adds a data requirement relating to the CMDT treasury operations in the data provision summary table.

I. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government

37. The key quantitative performance criterion is net domestic financing of the government, defined as the sum of (i) net bank credit to government, as defined below, (ii) other government claims and debts vis-à-vis national banking institutions, and (iii) nonbank financing of the government.

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

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

40. Nonbank financing of the government include, in particular, government bills and bonds held outside national banking institutions and proceeds from the sale of government assets. The receipts from sale of government assets are defined as the proceeds from the sale, effectively received by the government during the fiscal year, of all or part of the shares held by the government in privatized enterprises. In the event that payments in respect of these sale transactions are expected to extend beyond the fiscal year, the residual will be included in the calculation of nonbank financing of the government in each of the subsequent years, in accordance with the annual scheduling of the expected payments.

Adjustment factor

41. 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 program amount. Budgetary assistance is defined as grants, loans, and debt relief (excluding project loans and grants, IMF resources, and debt relief under the Initiative for Heavily Indebted Poor Countries). The adjustment factor is capped at CFAF 25 billion. These ceilings and program budgetary assistance are set in Annex I to the December Letter.

42. The ceiling on the change in net bank credit to government and net domestic financing will be adjusted by the difference between the amount of HIPC Initiative resources in the program and the amount actually spent. If the amount actually spent exceeds (or falls short of) the program amount, the ceiling will be reduced (increased) by the difference between the actual amount and the program amount.

B. Nonaccumulation of External Public Payments Arrears

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

44. 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

45. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00)), but also to commitments contracted or guaranteed for which no value has yet been received.

46. The concept of government for the purposes of this performance criterion includes government as defined in paragraph 2, administrative public institutions (EPAs), scientific and/or technical public institutions, professional public institutions, industrial and/or commercial public institutions (EPICs), and local governments.

47. 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.

48. The government undertakes not to contract or guarantee external debt with a maturity of one year or more and a grant element of less than 35 percent (calculated using the reference interest rates corresponding to the borrowing currencies provided by the IMF). This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing, adopted by the Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which no value has yet been received. However, it does not apply to financing granted by the IMF and treasury bills and bonds issued in CFA francs on the West African Economic and Monetary Union (WAEMU) regional market.

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

49. The definition in paragraph 12 applies to this performance criterion.

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

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

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

II. QUANTITATIVE PERFORMANCE INDICATORS

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

A. Floor for Tax Revenues

54. Government tax revenues are defined as those that figure in the Table on government financial operations (TOFE). The government shall report tax revenues to IMF staff each month in the context of the TOFE. Quantitative performance indicators for tax revenues are set in Annex I to the December Letter.

B. Ceiling on the Wage Bill

55. The wage bill includes all public expenditure on wages, bonuses, and other benefits or allowances granted civil servants employed by the government, the military, and other security forces, and includes expenditure with respect to special contracts and other permanent or temporary employment with the government. The government shall report the wage bill to IMF staff each month in the context of the TOFE. The quantitative performance indicators for the wage bill are set in Annex I to the December Letter.

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

56. The basic fiscal balance is defined as the difference between total revenues, excluding grants and privatization receipts, and total expenditure plus net lending, excluding capital expenditure financed by foreign donors and lenders and HIPC Initiative-related expenditures. The floors for the performance indicators for the basic fiscal balance, excluding HIPC Initiative-related expenditure, are set in Annex I to the December Letter.

III. Structural Measures

57. Annex II of the supplementary letter of intent describes the structural measures identified as prior actions, performance criteria, and structural benchmarks for 2004–06. This table provides information regarding the implementation dates for the structural reforms envisaged.

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

IV. Additional Information for Program Monitoring

59. The government will provide IMF staff with information as set out in the following summary table in order to assist in the monitoring of the program.

SUMMARY OF DATA TO BE REPORTED

Data Type	Tables	Frequency	Time Frame
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of the national accounts	Variable	8 weeks following the revision
	Disaggregated consumer price indexes	Monthly	End of month + 2 weeks
Government finances	Net government position (including the list of accounts of other public entities with the banking system) and breakdown of nonbank financing	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	TOFE of the central government and consolidated TOFE	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Breakdown of fiscal revenue and expenditure in the context of the TOFE	Monthly	End of month + 6 weeks (TOFE)
	Separate report on outlays financed with HIPC resources	Monthly	End of month + 6 weeks
	Execution of capital budget	Quarterly	End of quarter + 8 weeks
	Tax revenues in the context of the TOFE	Monthly	End of month + 6 weeks
	Wage bill in the context of the TOFE	Monthly	End of month + 6 weeks
	Basic fiscal balance in the context of the TOFE	Monthly	End of month + 6 weeks
	Formula for setting prices of petroleum products, tax revenues from petroleum products, and subsidies paid	Monthly	End of month + 4 weeks
	Treasury operations of the CMDT	Monthly	End of month + 4 weeks
Monetary and financial data	Summary accounts of the BCEAO, summary accounts of banks, and accounts of the banking system	Monthly	End of month + 4 weeks (provisional); end of month + 8 weeks (final)
	Foreign assets and liabilities of the BCEAO	Monthly	End of month + 8 weeks
	Lending and deposit interest rates, BCEAO intervention rates, and BCEAO reserve requirements	Monthly	End of month + 4 weeks
	Bank prudential ratios	Monthly	End of month + 6 weeks
Balance of payments	Balance of payments	Annual	End of year + 12 months
	Revisions of balance of payments	Variable	8 weeks following each revision
External debt	Breakdown of all new external borrowing terms	Monthly	End of month + 4 weeks
	Debt service, indicating amortization, interest payments, and relief obtained under the HIPC Initiative	Monthly	End of month + 4 weeks
PRSP	Share of poverty-reducing expenditure	Quarterly	End of quarter + 4 weeks
	Share of primary education in total outlays of the education sector	Quarterly	End of quarter + 4 weeks
	Gross enrollment ratio in the primary education, with its breakdown between girls and boys	annual	Beginning of the next academic year +1 month (final)
	Percentage of the population having access to health care facilities within a radius of 15 kilometers	annual	End of year + 2 months
	Rate of assisted births	annual	End of year + 2 months
	Data on immunization rate DTCP3 of child below 1 year	Annual	End of year + 2 months