

## International Monetary Fund

[Mali](#) and the IMF

**Mali:** Letter of Intent and Technical Memorandum of Understanding

**Press Release:**

[IMF Executive Board](#)

[Completes Fourth](#)

[Review](#)

[Under Mali's PRGF](#)

[Arrangement and](#)

[Approves US\\$2.0](#)

[Million Disbursement](#)

July 19, 2006

June 28, 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.

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Bamako, June 28, 2006

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

Dear Mr. de Rato:

1. **The outlook for the Malian economy has improved as a result of** a good cereal harvest and rising prices and production of gold. We anticipate implementation of the 2006 program in the months to come focused on preparation of the cotton sector for privatization, banking and budgetary reforms. These actions, buttressed by debt relief, underpin our efforts to significantly reduce poverty over the medium term.

2. **The elaboration of Mali's second generation Poverty Reduction Strategy Paper (PRSP) covering 2007–11 is on track for completion by end-2006.** Our growth strategy, critical for tackling poverty, is based on improving the business climate in Mali, strengthening core infrastructure provision, particularly transport corridors for trade, and effective utilization of higher aid flows. We also seek to ensure food security and to develop our regional comparative advantage in rice production, cotton processing, mining, livestock and tourism.

#### I. MACROECONOMIC FRAMEWORK

3. **Estimates for 2005 suggest GDP growth has been stronger than anticipated:** cereal production for 2005/06, and production in gold, telecommunications and power sectors have performed well. However, cotton production fell 5 percent, as yields dropped. The balance of payments posted better than expected outturns for the current account and overall balance, largely reflecting a strengthening terms of trade at end year. Average inflation in 2005 rose to a ten-year high of 6.4 percent as a result of high food prices in mid-year (resulting from the previous year's weak harvest). For 2006, we expect GDP growth to return to trend of around 5 percent, while consumer price inflation is expected to moderate to 2 percent on account of lowered food prices. The overall fiscal balance (including grants) should improve in 2006, reflecting debt relief from multilateral creditors.

4. **On the basis of the policies described in this supplementary letter of intent and its annexes, we request the completion of the fourth review of the PRGF-supported program.** We request a waiver for nonobservance of the end-March 2006 structural performance criterion concerning the identification by the government of a package of parametric reforms that will gradually reduce the projected deficit of the civil service pension scheme over the medium term on the basis of corrective actions described below (paragraph 9). We request: (i) a modification of the end-September 2006 performance criterion for net domestic financing to accommodate multilateral debt relief into the program

Mali: Economic Developments, 2004-06					
	2004	2005		2006	
	Estimate	Program	Estimate	Program	Revised Projection
Real GDP (percent change)	2.2	5.4	6.1	5.4	5.1
Nominal GDP (in billions of CFA francs)	2,611	2,761	2,831	2,905	3,137
Average inflation rate (percent)	-3.1	5.0	6.4	-1.5	1.9
		(In percent of GDP)			
Total revenue and grants	21.4	22.2	22.0	24.0	56.8
<i>Of which: MDRI</i>	...	...	...	...	34.6
Total expenditure & net lending	24.0	26.3	25.2	27.5	25.7
Overall fiscal balance (before grants)	-6.6	-8.7	-7.3	-9.1	-8.6
Overall fiscal balance (before grants)	-2.6	-4.1	-3.2	-3.5	31.1
Current account balance (incl. grants)	-8.3	-9.6	-7.0	-7.9	-5.9

Sources: Malian authorities and IMF estimates and projections.

## II. PERFORMANCE UNDER THE PROGRAM

and (ii) to set quantitative performance criteria for end-March 2007 (see Annex I). The seventh disbursement under the PRGF will be subject to a review expected to be completed on or after April 15, 2007. The Government believes that the policies set forth in the Letter of Intent (LOI) are adequate to achieve the objectives of the program, but it will take any further measures that may become appropriate for this purpose. Mali will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in the LOI, in accordance with the Fund's policies on such consultation.

### A. Budget Implementation

5. **Implementation of the 2005 budget has been consistent with the objectives of the Fund supported program.** The budget tax revenue financial performance indicator has been met, albeit through a significant recovery of tax payments at end-year. Due to administrative delays we have a stock of unpaid reimbursements of tax exemptions and VAT refunds in the amount of CFAF 18 billion at end-2005. Current spending and the domestically financed capital budget were executed with only minor exceptions, and wage bill spending was in line with the program. The foreign-financed capital budget has been implemented at a rate of 78 percent, resulting from delays in external project disbursements, while domestic financing (counterpart spending) was slightly below program targets. An amount equivalent to 1 percent of GDP was advanced to the cotton company, CMDT, to cover operating losses for the 2004/05 season authorized by government decree in December 2005.

6. **Implementation of the 2006 budget started with difficulties.** We experienced insufficient tax collections in the first quarter of 2006, notably in respect of import VAT and duties, and curtailed spending accordingly. We commit to recover the revenue shortfall in

coming months, as a result of the implementation of the following measures: (i) strengthened application of rules of origin for imports from UEMOA, (ii) broadening the tax base for the special product tax in conformity with an UEMOA directive, (iii) improving customs valuation of mixed container cargoes, and (iv) strengthened control of exemptions. In April 2006, we received IMF technical assistance on the design of a non-discretionary mechanism for fuel pricing and taxation, that will result in a slight delay in the introduction of the mechanism (structural benchmark for end-March 2006). We envisage a shortfall of privatization receipts (see ¶17) that will be covered by a reduction of enterprise restructuring spending and other domestic financing.

7. **We are committed to addressing tax administration issues concerning tax exemptions and VAT rebates.** In 2006, we will track total exemptions granted and total amounts due to be reimbursed (VAT refunds and tax exemptions) on a quarterly basis. In respect of outstanding reimbursements, we have established a payment schedule consistent with the 2006 budget. Going forward, we will endeavor to clear the stock of unpaid reimbursements and VAT rebates in the 2007 budget and to limit the tax exemptions to those in existing legal codes starting January 2007.

### **B. Debt Relief and Financing Strategy**

8. **The approval of the multilateral debt relief initiative (MDRI) delivers substantial debt service savings over the medium term that we intend to dedicate to accelerating implementation of our poverty reduction strategy priorities.** We will propose amendments to the 2006 budget, in consultation with Bank and Fund staff, to reallocate 2006 debt service savings from approved Bank and Fund debt relief in the amount of CFAF 13 billion (0.4 percent of GDP). Use of debt relief from the African Development Fund will be considered when its delivery modalities are finalized, in the context of the budgetary situation at that time. Our budget financing strategy remains based on the principle of securing only grants and highly concessional external loans to safeguard debt sustainability.

### **C. Structural Fiscal Reforms**

9. **A specific package of parametric reforms to the civil service pensions system (CRM) has been identified** (meeting with a delay a structural performance criterion for end-March 2006). On June 21, 2006, the Council of Ministers approved a package of reforms that will gradually reduce the CRM financial deficit over the medium term. This reduction will be achieved through changes to key parameters, including the contribution rate, the retirement age and benefits. In March 2006 an actuarial study of the state-managed social security provider for non-civil service employees (INPS) was completed. While the system is currently in surplus (taking pensions and social security provisions together) it is projected to begin registering deficits in the period from 2009. Accordingly, we are working with partners to identify parametric reforms that will bring the system to a durable equilibrium.

10. **Our action plan to improve and modernize public finance management over the medium term will contribute to the effective use of resources from aid and debt relief.**

To this end, the Ministry of Finance computerization project will be completed by end-December 2006 by integrating databases in the spending chain (e.g. commitment, payment order, etc.). We will also computerize all Tax Department centers in Bamako and connect electronically revenue collection departments by end-December 2006 (new structural benchmark). We will strengthen ex ante and ex post controls on spending, notably the verification of the delivery of goods and services to spending ministries.

**11. Aid harmonization is advancing along the principles of the Paris Declaration.**

We signed a framework agreement with external partners in March 2006 that aims to put budget support in a predictable multi-year framework and to evaluate progress through government-partner efforts. We will conduct the Public Expenditure and Financial Accountability (PEFA) exercise jointly with our foreign partners with a view to reflecting its main recommendations in the 2007 budget.

#### **D. Strengthening the Financial System**

**12. We remain committed to increasing the role of the private sector in the banking system** to improve competition, raise financial intermediation and to reduce budgetary risks. To this end we intend to: (i) launch a tender for sale of a majority stake of shares in Banque Internationale du Mali by December 2006, following the April 2006 Supreme Court decision affirming the validity of the state shareholding; and (ii) relaunch discussions with the BCEAO before end-June 2006, with a view to defining a strategy for the parallel sale of the shareholdings held by the two parties in the Banque de Développement du Mali.

**13. The deterioration of the quality of the portfolio of bank credit to the economy during 2005 is a concern for the Malian authorities.** A successful restructuring of the Banque de l'Habitat du Mali (BHM) is a key element in strengthening the banking system credit portfolio. In November 2005, a recapitalization of BHM in the amount of CFAF 22 billion was led by the government through the conversion of deposits to equity. To complete the restructuring plan and succeed in attracting private investors to the bank, we have appointed a new manager for the bank and created a monitoring committee including Central Bank and Ministry of Finance representatives. On the basis of the existing action plan the new management aims to (i) put in place internal controls (internal audit, credit committee and other internal procedures) based upon the recommendations of a consultant engaged by the Malian authorities, and (ii) take measures to strengthen the liquidity position of the bank through asset recovery, lines of credit and cost control.

#### **E. State Enterprise Reforms and Private Sector Development**

**14. The reform of the cotton sector was relaunched in December 2005 with broad participation of stakeholders.** CMDT shareholders adopted a strategy for its privatization in 2008 (meeting a program structural benchmark) and the Council of Ministers approved a detailed revised timetable for the reform process. Implementation of reforms has generally proceeded in accordance with the timetable. On March 9, 2006, the Council of Ministers approved in principle a proposal to split CMDT into four private regional ginning companies in Mali's cotton-producing area. An operational plan for privatization will be elaborated in May-June 2006. Following consultations with stakeholders the plan will be

submitted for approval to the Council of Ministers (end-September 2006 benchmark) for which an adviser was hired in March 2006. The process to recruit a privatization adviser has been initiated, and the finalization of the contract with an adviser is expected by March 2007 (new structural benchmark).

15. **The short-term financial situation of the CMDT has stabilized, though problems remain.** Cash flow problems were alleviated by advances of CFAF 28.2 billion (1 percent of GDP) from the 2005 budget. The operating loss for the 2005/06 cotton crop is projected to be reduced to CFAF 7.5 billion (from CFAF 53 billion) on account of higher international prices, lower producer prices and control of costs. A drop in production owing to lowered yields and a drop in cotton seed prices adversely affected the financial results. In February 2006, the government approved the creation of a committee for regular surveillance of the cash flow operations of the CMDT (end-December 2005 structural benchmark). The committee met in May and will meet at least quarterly. Arrears with respect to external payments on medium- and long-term loans have been reduced.

16. **The CMDT is projected to continue to make modest losses in 2006/07 based on current projected revenues and costs** (including application of the memorandum of understanding on the price mechanism). On May 2, 2006, stakeholders agreed to set the initial producer price for seed cotton, consistent with the price mechanism, at CFAF 165/kg. Based on the 2005 financial results a recapitalization will be required by shareholders in mid-2006.

17. **The privatization of other nonfinancial sector companies is proceeding.** The selection of a privatization adviser for the sale of a majority share in the state telecommunications company (SOTELMA) to a strategic partner is close to completion. However, the sale is unlikely to be completed in 2006. The sale of a majority stake in a pharmaceutical company (UMPP) to a strategic partner in April 2006 stalled due to a lack of buyer interest. The liquidation of assets of a chemical company (SMPC) is under way.

18. **In the electricity sector, we are taking measures to maintain Energie du Mali (EdM) as a viable commercial operation.** On the basis of a strategic plan for EdM approved in January 2006 we have: (i) launched a management audit for 2000–05; (ii) a tariff study. However, these actions have taken longer to complete than initially envisaged (May 2006 structural benchmark). We now expect to complete the management audit and the tariff study by end-December 2006. Nonetheless, the financial situation of EdM appears sustainable during the time needed to revise the commercial strategy for EdM. The unaudited operating deficit for 2005 is CFA 3.1 billion, and this is expected to decline to CFAF 2.3 billion in the 2006 operating budget (including tax exemptions on fuel).

19. **The 2006 Presidential Investment Council decided to focus efforts to improve the business environment.** An action plan aims to reduce transaction costs for starting a business, simplify licensing, reduce hiring and firing restrictions, and simplify tax payments. By end-December 2006 we will create a one-stop shop for all administrative procedures related to new investments located at the Malian Investment Promotion Agency (new structural benchmark).

Very truly yours,

/s/

Abou-Bakar Traoré  
Minister of Economy and Finance

Attachment I Annex I. Mali: Quantitative Performance Criteria and Indicative Targets for March-December 2005 <sup>1</sup>

	2005							
	March		June		September		December	
	Performance Criteria	Actual	Indicative Targets	Actual	Performance Criteria	Actual	Indicative Targets	Actual
(In billions of CFA francs)								
Quantitative performance criteria and indicative targets								
Net domestic financing of the government, program ceiling <sup>2</sup>	19.9		-14.9		-4.5		-2.0	
Net domestic financing, adjusted ceiling and actual <sup>2</sup>	12.1	6.4	10.4	-1.2	15.3	-3.3	18.2	-7.4
Cumulative change in government external payments arrears <sup>2,3</sup>	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
External	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 <sup>2,3</sup>	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 <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial performance indicators								
Cumulative tax revenue <sup>4</sup>	94.4	100.3	198.1	206.9	318.4	322.0	430.0	446.2
Cumulative wage bill <sup>2</sup>	33.9	31.9	70.1	64.7	105.2	96.9	140.2	137.8
Basic fiscal balance <sup>4</sup>	5.9	20.0	-8.4	23.1	-18.0	14.1	-28.6	-6.2
Memorandum items:								
External budgetary assistance during the year <sup>5</sup>	0.0	10.5	60.5	23.3	70.5	43.6	80.2	64.3
HIPC Initiative debt relief	6.6	7.0	15.6	14.6	23.4	21.9	31.2	30.0
Expenditure financed with HIPC Initiative resources	6.3	4.0	14.8	13.9	22.2	15.4	26.8	29.8
Balance of HIPC Initiative resources	0.2	2.9	0.8	0.6	1.2	6.4	4.3	0.1

<sup>1</sup> All numbers are cumulative, starting at the beginning of each year.

For definitions and explanations, please see Technical Memorandum of Understanding.

<sup>2</sup> Maximum.

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

<sup>4</sup> Minimum.

<sup>5</sup> Excluding use of Fund resources and HIPC resources.

Attachment I Annex I. Mali: Quantitative Performance Criteria and Indicative Targets for March 2006-March 2007 (concluded) <sup>1</sup>

	(In billions of CFA francs)									
	March		June		September		December		March	
	Performance Criteria	Actual	Indicative Targets	Actual	Performance Criteria	Actual	Indicative targets	Actual	Performance criteria	Actual
(In billions of CFA francs)										
Quantitative performance criteria and indicative targets										
Net domestic financing of the government, program ceiling <sup>2</sup>	-23.0		-81.9		-96.5		-90.9		-107.8	
Net domestic financing, adjusted ceiling and actual <sup>2</sup>	-9.5	-65.4	..	..	..	..	..	..	..	..
Cumulative change in government external payments arrears <sup>2,3</sup>	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	..
External	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 <sup>2,3</sup>	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 <sup>3</sup>	0.0	0.0	0.0	..	0.0	..	0.0	..	0.0	..
Financial performance indicators										
Cumulative tax revenue <sup>4</sup>	109.3	92.8	218.7	..	350.0	..	469.9	..	588.4	..
Cumulative wage bill <sup>2</sup>	29.8	33.4	74.5	..	111.8	..	149.0	..	189.7	..
Basic fiscal balance <sup>4</sup>	36.0	6.3	19.2	..	24.9	..	-7.9	..	4.6	..
Memorandum items:										
External budgetary assistance during the year <sup>5</sup>	18.4	2.1	43.1	..	63.4	..	81.7	..	93.5	..
HIPC Initiative debt relief	4.9	5.9	8.8	..	12.2	..	12.4	..	15.4	..
Expenditure financed with HIPC Initiative resources	7.2	5.2	8.8	..	12.2	..	12.4	..	15.4	..
Balance of HIPC Initiative resources	-2.3	0.6	...	..	...	..	...	..	...	..

<sup>1</sup> All numbers (including March 2007) are cumulative from January 2006. Program includes impact of MDRI from Q2 2006.

For definitions and explanations, please see Technical Memorandum of Understanding.

<sup>2</sup> Maximum.

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

<sup>4</sup> Minimum.

<sup>5</sup> Excluding use of Fund resources and HIPC resources.

## Attachment I: Annex II. Mali: Structural Measures, 2005–07

Measures	Date	Status
<b>Structural Performance Criteria</b>		
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 for the second and third reviews	End-Mar. 2006	Not Met. Council of Ministers approved a package with delay on June 21, 2006.
<b>Structural Benchmarks</b>		
1. Assessment of the impact of parametric reforms on the financial position of the CRM over the medium term	End-Dec. 2005	Met.
2. Creation of a committee for regular surveillance of the cash flow operations of the CMDT	End-Dec. 2005	Met with delay in February 2006. The committee meets monthly and comprises of all CMDT Directors.
3. Approval by CMDT shareholders of a strategy for privatization of the CMDT in 2008 as defined in paragraph 32 of the letter of intent for the second and third PRGF reviews	End-Dec. 2005	Met.
4. 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-Mar. 2006	Not met. Delayed, pending completion of AFRITAC technical assistance delivered in April 2006.
5. Publication of a call for bids related to the sale of the government's shares in the BIM, providing no legal impediments remain	End-Mar. 2006	Ongoing. Court ruling which confirms the validity of government's shareholding delivered April 18, 2006. Expected to be completed by end-2006
6. 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 tariff rates, with a view to resolving cash management problems	End-May 2006	Ongoing. Recruitment of consultants underway. Expected completion date end-December 2006.

## Attachment I: Annex II. Mali: Structural Measures, 2005–07 (concluded)

Measures	Date	Status
7. Completion of the recapitalization of the housing bank (BHM), with a view to ensuring significant private sector involvement	End-Jun. 2006	Ongoing. Recapitalized in November 2005. Management changed on June 28 and a surveillance committee with central bank representation created to strengthen management and operations of the bank.
8. Approval by the Council of Ministers of an operational plan for privatization of the CMDT in 2008	End-Sept. 2006	Ongoing. The consultant charged with elaborating a draft operational plan was hired in March 2006.
9. 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-Sept. 2006	Ongoing. Reset from December 2005, so as to take account of the delays related to the preparatory activities.
10. Interconnection of revenue agencies, in particular Customs and Tax departments.	End-Dec. 2006	New structural benchmark
11. Launch of one-stop shop for new investors	End-Dec. 2006	New structural benchmark
12. Contract for adviser on CMDT privatization issued.	End-Mar. 2007	New structural benchmark.

## **Attachment I: Annex III. Technical Memorandum of Understanding (TMU)**

June 28, 2006

1. This technical memorandum of understanding defines the performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement. It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program-monitoring purposes. This memorandum replaces the memorandum in EBS/05/172 and differs from it in one respect: it removes the adjustment factor for net domestic financing relating to differences in HIPC Initiative resources in the program and the amount actually spent.

### **DEFINITIONS**

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

3. The definitions of "debt" and "concessional 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.

## **I. QUANTITATIVE PERFORMANCE CRITERIA**

### **A. Ceiling on Net Domestic Financing of the Government**

4. 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.

5. 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.

6. 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.

7. 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**

8. 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.

### **B. Nonaccumulation of External Public Payments Arrears**

9. 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.

10. 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**

11. 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.
12. 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.
13. 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.
14. 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**

15. The definition in paragraph 12 applies to this performance criterion.
16. 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.
17. In the context of the program, the government and public enterprises will not contract, or guarantee, short-term external debt.
18. This performance criterion is monitored on a continuous basis.

## **II. QUANTITATIVE PERFORMANCE INDICATORS**

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

### **A. Floor for Tax Revenues**

20. 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**

21. 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**

22. 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**

23. 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.

24. 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**

25. 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