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Mali: Letter of Intent and Technical Memorandum of Understanding

December 23, 2009

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Program of the Government of Mali Supported by an
Arrangement under the Extended Credit Facility

Letter of Intent for the 3rd Review

Bamako, December 23, 2009
Minister of Economy and Finance

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. As indicated in the Letter of Intent dated June 19, 2009, the Malian government has continued to implement its economic program satisfactorily in a challenging international environment. Our efforts to maintain macroeconomic stability and continue the implementation of important structural reforms were supported by strong gold prices and the ongoing assistance of our technical and financial partners (TFPs).

A. Implementation of the program in 2009

2. As anticipated during the 2nd program review, the effects of the international crisis have remained limited. The economic and financial objectives of the 2009 program are expected to be met by yearend. Additionally, we took advantage of the situation to strengthen public financial management and our structural reform program. Moreover, our external position has been strengthened by the Fund's allocation of Special Drawing Rights (SDRs) and by the sale of 51 percent of the shares in the national telecommunications company (SOTELMA) to a foreign operator for CFAF 180.4 billion. Apart from CFAF 16 billion already used for severance pay, as provided for in the tender offer, the proceeds of the sale have been deposited in a special account at the Central Bank of West African States (BCEAO). As publicly announced on November 6, 2009, by the President of the Republic, these exceptional resources will be used by 2012 to finance the implementation of a list of activities that support our growth strategy, reflecting the vision set out in the Economic and Social Development Program (PDES). An interministerial committee has been set up under the authority of the Prime Minister to monitor the use of these resources.

2009 Macroeconomic Framework

3. Our real GDP growth for 2009 is projected at 4.3 percent, given the sound performance of rice, cereal, and cotton production as a result of good rainfall and budget support for agriculture. However, the buoyancy of the primary sector was somewhat offset by the decline in value added of the secondary sector as gold production, food processing, and textiles dipped slightly.

4. Year-on-year inflation fell to 0.4 percent in October 2009 following the reversal in international food and fuel prices from their upward spiral in 2008. In this context, the Central Bank of West African States (BCEAO) has loosened monetary conditions at the regional level, reducing the repo and discount rates from 4.75 percent to 4.25 percent and from 6.75 percent to 6.25 percent, respectively, and pursuing liquidity injections operations. Moreover, the required reserve ratio was lowered in many countries of the Union, including Mali, where it was cut from 9 percent to 7 percent. Furthermore, in order to preserve the stability of the regional banking system, the Central Bank of West African States (BCEAO) has supported Member States' efforts to reduce domestic arrears through the on-lending, over ten years, of the CFAF equivalent of the SDR allocations by the IMF in August 2009, including CFAF 49.3 millions for Mali.

5. We expect a slight reduction of the 2009 current account deficit in the balance of payments. The positive impact of the substantial improvement in our terms of trade on our external position will only be partially offset by lower tourism receipts and transfers from migrants. The capital and financial account balance improved significantly in 2009, driven mainly by the partial privatization of SOTELMA and by the SDR allocations, resulting in a marked increase in Mali's contribution to the international reserves of the West African Economic and Monetary Union (WAEMU).

Fiscal policy

6. The government's basic fiscal balance recorded a surplus of CFAF 66.1 billion (1.6 percent of GDP) at end-June 2009, instead of the CFAF 11.7 billion (0.3 percent of GDP) deficit forecast during the 2nd program review. This performance, which was sustained during the 3rd quarter, mirrors both the solid performance of fiscal revenue and our consistent efforts to moderate spending by putting a freeze on the least urgent expenditures. The improvement in the basic fiscal balance made it possible to achieve a reduction in the government's pending payments due to suppliers and Treasury correspondents, down from CFAF 145.7 billion at end-2008 to CFAF 122 billion at end-September 2009. Further, the government reduced its VAT credit arrears to mining companies by CFAF 37.3 billion in the first half of the year. As a result, we have met all the performance criteria for end-June as well as the quantitative benchmarks for end-September 2009 (Table 1).

7. In light of the satisfactory performance in the first three quarters of the year, we saw no need to modify the end-of-year budget objectives except to take account of severance pay

for SOTELMA included in the supplementary budget for 2009 submitted to the National Assembly. Hence, the objective for the basic deficit for 2009 is set at CFAF 78 billion (1.8 percent of GDP), instead of the CFAF 62 billion (1.5 percent of GDP) set at the second program review.

8. For the fourth quarter, the budget allocations frozen over the first nine months of the year were only partially lifted, and the closing of budget commitments on November 30 was enforced. Moreover, we implemented a flexible price fixing policy for petroleum products, considering the recent oil price increases in the world market. These policies, with the raising of CFAF 33 billions on the regional financial market, should allow the attainment of fiscal program objectives for 2009, including the reduction of the payments float to CFAF 66.4 billions by end-year.

Structural reforms

9. With regard to structural reform, we met the following three benchmarks for end-September 2009: (i) alignment of the government's cash flow plan with the budget nomenclature; (ii) preparation of a monthly financial road map for the cotton sector for 2009/10, and (iii) the establishment of a dedicated, targeted subsidy system for agricultural inputs. Some unforeseen logistical problems delayed the start-up of the new tax directorate for medium-sized enterprises (DME), which was also a structural benchmark for end-September. These difficulties have been resolved and the DME has been operational since end-November 2009.

10. Regarding the cotton sector, the tender offer for the privatization of the Malian Textile Development Company (CMDT) will be issued by end December 2009. Negotiations are underway on severance benefits for employees leaving the company.

11. On the restructuring of the national housing bank (BHM), as provided for in our previous Letter of Intent, the government has assumed responsibility for the arrears due to the interbank syndicate (CFAF 0.916 billion). The projected cost of an employee reduction plan aimed at reducing personnel costs by 25 percent, estimated at CFAF 0.8 billion, has been included in the 2009 budget law. Further, on the basis of the restructuring finalized in accordance with the views of the Banking Commission and the BCEAO, the government aims to finalize a strategy and timetable for divestiture of the BHM by the end of the year.

12. In addition, the government continues to strengthen the monitoring of the payment float in the context of improvements in the Treasury's accounting and information systems. Our ongoing efforts to improve our government finance statistics include, in collaboration with the BCEAO, (i) an inventory of the bank accounts included in the net government position and (ii) an improved methodology for recording movements on these accounts, to ensure the appropriate classification in the government accounts summary table (TOFE). These measures should be completed by the end of the year as programmed, by which time we also expect the macroeconomic impact study of the gold mining sector (balance of payments, employment, growth, budget) and its medium-term prospects to be finalized.

13. Furthermore, the government has also taken steps to strengthen the institutional framework for public debt management. In that regard, by decree of September 24, 2009, a national public debt committee was established under the authority of the Minister of Finance with responsibility for coordinating the government's borrowing and public debt management policy with its fiscal and monetary policies. All planned domestic or external debt commitments as well as requests for guarantees from the government or its constituent parts must be submitted for comment to this committee. We continue also our efforts to improve the quality of public debt database.

B. Outlook for 2010

14. The priority of the government remains to promote sustainable economic growth, while preserving macroeconomic stability, so as to continue to improve the living standards of the population and reduce poverty. In that context, we will continue to focus on prudent fiscal management and the deepening of key structural reforms with a view to achieving the objectives contained in our Poverty Reduction Strategy Paper (PRSP). The support of our technical and financial partners remains essential to the pursuit of our efforts in this regard.

15. Real GDP growth is expected to be around 5 percent in 2010, propelled by a good crop season and an upturn in business activity in the secondary and tertiary sectors accompanying a global recovery. The BCEAO will continue to conduct prudent monetary policy at the regional level, with a view to anchoring expectations and stabilizing inflation at around 1.5 percent in Mali in 2010.

16. There is a risk that our external position may deteriorate slightly in 2010 owing mainly to a possible worsening of our trade deficit reflecting a tapering off of export revenues from gold and a rise in our oil bill. We also expect a decline in foreign direct investments from the exceptionally high levels recorded in 2009 arising from the privatization of SOTELMA. Furthermore, our economy remains heavily dependent on good rainfall and is vulnerable to new external shocks, including on terms of trade.

Fiscal policy

17. The government will pursue prudent fiscal policies in 2010. The 2010 draft Budget Law submitted to the National Assembly emphasizes pro-growth investments, while also providing for an increase in current spending in the health and education sectors with a view to achieving the Millennium Development Goals. The draft budget includes a basic fiscal deficit target, exclusive of HIPC, of CFAF 73.2 billion (1.6 percent of GDP). In keeping with the recent announcement by the President of the Republic, an allocation of CFAF 25 billion (0.5 percent of GDP) from the proceeds of the privatization of SOTELMA has been earmarked for financing selected investment projects from the medium-term program. Thus, the underlying basic budget deficit target, that is, excluding the expenses financed from the SOTELMA privatization receipts, is equivalent to 1.1 percent of GDP for 2010.

18. Total revenue is projected to reach CFAF 772 billion, that is, 16.9 percent of GDP versus 16.6 percent of GDP programmed for 2009. This slight increase in the tax burden reflects our firm intention to pass through changes in international oil prices to domestic prices and continue our efforts to improve tax administration, including through the new DME.

19. Total expenditure and net lending is projected at CFAF 1,132 billion, or 24.6 percent of GDP, versus 24.4 percent of GDP programmed for 2009. Within this envelope, current spending is expected to decline by 0.2 percent of GDP from 2009, while capital spending is set to increase significantly, driven mainly by the CFAF 25 billion allocation from the SOTELMA privatization receipts. The 2010 draft Budget Law also takes on board certain structural reform costs, such as the CFAF 11.4 billion needed to strengthen the capital and operating account of the BHM.

20. The overall budget deficit (excluding grants) in the draft budget law for 2010 is 7.7 percent of GDP, and is mainly financed through external grants or concessional loans and the use of SOTELMA privatization receipts. We therefore plan to limit our borrowing from the domestic banking system and the regional financial market to 1 percent of GDP, to ensure debt sustainability in line with the debt sustainability analysis undertaken recently by Fund and Bank staffs.

21. However, the draft Budget Law submitted to the National Assembly does not take account of some foreseeable expenditures whose estimates hinge on decisions or policies that will only be finalized in 2010. This is the case, for instance, of the agricultural input subsidy policy for the 2010/11 crop season, to be defined by the High Council for Agriculture in early 2010; of some employee reduction plans like that of the CMDT; and of possible budget support to relaunch the cotton sector. Moreover, there is a possibility that the deliberations of the committee established to monitor the use of the SOTELMA privatization receipts could lead to an increase in 2010 budget expenditures financed using these exceptional resources.

22. Before the conclusion of the fourth program review, the government will submit a supplementary budget to the National Assembly reflecting these items currently in abeyance, while limiting the underlying basic deficit to 1.1 percent of GDP, and the basic deficit including expenditures financed from the proceeds of the privatization of SOTELMA to 2.5 percent of GDP.

Structural reforms

23. The government intends to deepen its public financial management reforms. The preparation of a new series of reforms is underway with the support of the TFPs so as to consolidate the significant progress made under the government's action plan to improve and modernize public financial management (PAGAM). The new program (PAGAM 2) will focus on ensuring compliance of the legislative and regulatory framework with the new WAEMU directives in order to strengthening budget preparation and execution processes; improve cash management; and increase the transparency and reliability of the accounting

and financial data of the government and its constituent parts. The implementation of this new series of reforms will be overseen by a committee chaired by the Minister of Economy and Finance under the authority of the Prime Minister.

24. In the context of the transition to results-based budgeting, we will also seek by end-June 2010 to (i) put in place the PRED5 expenditure management software (structural benchmark); and (ii) adopt a decree regulating inventory accounting in order to improve the effectiveness of service delivery controls and to improve the computerization of this type of accounting.

25. In addition, the government intends to put in place the necessary tools for forward-looking cash management. At the institutional level, an interministerial cash flow committee will be created under the authority of the Minister of Economy and Finance, and a cash flow committee within the Ministry of Economy and Finance; the National Directorate of the Treasury and Government Accounting (DNTCP) will serve as the permanent technical secretariat (structural benchmark). Furthermore, starting in 2010, commitment plans consistent with the cash flow plan will be prepared to facilitate effective use of the financial instruments available on the regional financial market. We are also committed to improving our government finance statistics and plan to introduce, by end-June 2010, a new government accounts summary table (TOFE) in which the presentation of domestic financing (bank and nonbank) will be consistent with international best practices (structural benchmark).

26. Lastly, in 2010 and over the medium-term we intend to step up our efforts aimed at streamlining public expenditure and strengthening the link between the government's priorities, as outlined in the Poverty Reduction Strategy Paper, and the national budget. This will be done by improving the quality of program budgets and extending the MTEF approach to all departments and sectors. In that context, by end-June 2010, in consultation with the TFPs, we will refine the budget nomenclature for the definition of poverty-reducing spending, which will serve a basis for the monitoring of an upcoming structural benchmark.

27. With regard to tax revenue, the objectives of increasing the overall revenue performance and implementing a tax system conducive to private sector development would require a broadening of the tax base and a review of the exemption regimes. In that context, we are pursuing efforts to modernize our corporate income tax and tax incentive systems with the aim of implementing an in-depth reform that is neutral with respect to revenue. Those measures will be presented to the Government Council by end-September 2010. Further, to ensure more orderly management of VAT credit reimbursements, the government intends to develop an effective and efficient mechanism for such reimbursements, in consultation with Fund staff.

28. Regarding agricultural policy, particular emphasis will be placed on the monitoring and evaluation of the use of input subsidies. Efforts will be made, in 2010, to improve the census of farmers and land areas, as well as strengthen extension and outreach services aimed at improving compliance with technical procedures and proper and regular supplies of inputs.

The government will also adopt, by end-June 2010, a policy paper on the support to the cotton sector after the privatization of the CMDT (structural benchmark).

Modalities for monitoring the program

29. Discussions on the fourth program review will focus on the implementation of the program and the structural reforms for end-December 2009, as well as on the draft supplementary budget law for 2010. Performance under the current program will be evaluated on the basis of Tables 1 to 4 and the attached Technical Memorandum of Understanding. In that context, we request an additional quantitative benchmark on the basic fiscal balance excluding spending financed by the SOTELMA privatization receipts, with effect from December 2009. The fourth program review is expected to be completed by end-June 2010, based on the performance criteria for end-December 2009 and the fifth review is expected to be completed by end-2010, based on the performance criteria for end-June 2010.

30. The Government believes that the policies described in this Letter of Intent are sufficient to achieve program objectives, but stands ready to take any additional measures that may prove necessary for this purpose. Mali will consult with the Fund on the adoption of such measures and prior to any change in the policies set out in this Letter of Intent, in accordance with IMF policies on such consultations. The government is prepared to provide Fund staff with any information required to monitor the implementation of economic and financial policies, including the data set out in the Technical Memorandum of Understanding on progress made in implementing this program. During the program, the Government will not introduce or intensify any exchange restrictions, multiple currency practice, or import restriction for balance of payments purposes, nor conclude any bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement. The government authorizes the Fund to publish this Letter of Intent and the IMF staff report related to this review.

Sincerely yours,

/s/

Sanoussi Touré
Minister of Finance and Economy

Table 1. Mali: Quantitative Performance Criteria and Indicative Targets for 2009[1]

	2009										
	March			June			Sept.			Dec.	
	Indic. Targets	Adjusted	Actual	Rev. Perf. Criteria	Adjusted	Actual	Rev. Ind. Targets	Adjusted	Prel.	Perf. Criteria	Rev. Perf. Crit
Quantitative performance criteria [1]					(CFAF billions)						
Net domestic financing of the Government (ceiling) [2]	10.0	11.8	13.1 [7]	45.0	40.1	-5.0	50.0	32.9	-4.3	33.4	49.4
Of which: Bank and market financing [2]	15.0	16.8	22.3 [7]	80.0	75.1	55.1	90.0	72.9	-136.9	62.5	-101.5
Cumulative increase in external payments arrears (ceiling) [3]	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 contracted or guaranteed by the government on nonconcessional terms [3, 4]	0.0	0.0	17.5 [8]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New short-term external credits (less than one year) contracted or guaranteed by the government (ceiling) [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net tax revenue	140.0	140.0	143.5	290.0	290.0	319.9	430.0	430.0	451.3	603.0	603.0
Financial indicators (floors)											
Basic fiscal balance	-10.0	-10.0	17.1	-20.0	-20.0	66.1	-40.0	-40.0	23.7	-62.0	-78.0
Underlying basic fiscal balance [5]										…	-62.0
Memorandum items:											
External budgetary assistance during the year [1 6]	20.0	…	6.4	38.5	…	13.0	52.0	…	53.2	92.0	92.0
HIPC Initiative debt relief [1]	1.0	…	1.8	6.3	…	9.4	8.1	…	10.8	11.2	11.2

[1] Cumulative figures from the beginning of each year. Noncontinuous performance criteria at end-March and end-September 2009 are quantitative benchmarks. See technical memorandum of understandings for definitions.

[2] These quantitative targets are before payment of VAT credits in arrears. The revised targets for the end-June, end-September, and end-December 2009 reflect the recapitalization of the Housing Bank of Mali (BHM) for CFAF 19.1 billion in May 2009 and net projected reductions of the payment float by CFAF 45 billion at end-June and end-September 2009, and CFAF 30 billion at end-December 2009 (the program includes an adjustor for any deviations from the targets on the reduction of the payment float).

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

[4] Grant component equal to or higher than 35 percent.

[5] Excluding expenditures financed with funds from the privatization of SOTELMA.

[6] General budget support only.

[7] The nonobservance of the quantitative indicators for net domestic financing and bank and market financing results from a bond issue that was initiated in December 2008 but effective on January 2, 2009, leading to a downward correction of CFAF 12.3 billion at end-December 2008 and an upward revision of the same amount at end-March 2009 in market financing.

[8] Part of two CFAF syndicated loans that were signed in April and May 2009 for a total of CFAF 38 billion for the payment of VAT credit arrears and that involved non-Malian banks in the WAEMU and CEMAC CFA franc zones; subsequently resold to Malian ba

Table 2. Mali: Quantitative Performance Criteria and Indicative Targets for 2010[1]

	2010			
	March	June	Sep.	Dec.
	Indic. Targets	Perf. Criteria	Indic. Targets	Indic. Targets
Quantitative performance criteria [1]	(CFAF billions)			
Net domestic financing of the Government (ceiling)	0.0	0.0	10.0	30.0
Of which: Bank and market financing	0.0	0.0	10.0	30.0
Cumulative increase in external payments arrears (ceiling) [2]	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 credits (less than one year) contracted or guaranteed by the government (ceiling) [2,3]	0.0	0.0	0.0	0.0
Net tax revenue	130.0	300.0	470.0	670.0
Financial indicators (floors)				
Basic fiscal balance	-30.0	-40.0	-70.0	-75.0
Basic fiscal balance, adjusted [4]	10.0	0.0	-20.0	-50.0
Memorandum items:				
External budgetary assistance during the year [1]	20.0	50.0	80.0	125.3
HIPC Initiative debt relief [1]	3.1	6.2	9.3	12.4

1. Cumulative figures from the beginning of each year. Noncontinuous performance criteria at end-March and end-September 2009 are quantitative benchmarks. See technical memorandum of understandings for definitions.

2 These performance criteria will be monitored on a continuous basis.

3 Grant component equal to or higher than 35 percent.

4 Excluding expenditures financed with funds from the privatization of SOTELMA.

Table 3. Mali: Structural Benchmarks for the Third and Fourth Reviews Under the PRGF Program

	Measures	Status
For end-September 2009 (in the context of the 3rd program review)		
1	Put in place the tax center for medium-sized enterprises (CIME) and start up its activities.	Observed at end-November 2009
2	Prepare a government cash flow plan consistent with budget nomenclature (section, economic code) to facilitate (i) quarterly monitoring of budget execution in terms of commitment, validation, payment authorization, and payment of expenditure, and (ii) better alignment of budget execution with available resources.	Observed at end-September 2009
3	Regarding monitoring of the cotton sector and in consultation with the IMF, prepare a monthly financial plan for the 2009/10 crop season of the financial operations (revenue, commitments, payment, debt, amounts unpaid) of the various participants in the sector(producers, CMDT, suppliers, banks, the government).	Observed at end-September 2009
4	Regarding government support for the agricultural sector and preparation of the 2010 budget, put in place a dedicated, targeted input subsidization system for grain and cotton crops, including modalities for implementation, follow-up, and assessment.	Observed at end-September 2009
For end-December 2009 (in the context of the 4th program review)		
1	On the basis of the evaluation of the budgetary payment float at end-March 2008 by the Auditor General and the evaluation of the payment float at end-March 2009 by the Controller General’s Office and the Inspectorate General of Finance, put in place a system to monitor budgetary float supported by improvements in the Treasury's accounting, cash flow management, and information systems, in consultation with IMF staff.	
2	By government decision, adopt a strategy and timeframe for government divestment of the Banque de l’Habitat du Mali (BHM).	
3	Finalize the government study on the macroeconomic impact of the gold mining sector (balance of payments, growth, employment, budget) and its medium-term prospects.	
4	In conjunction with the BCEAO, prepare (i) an exhaustive inventory of the bank accounts taken into account in the net government position, and (ii) an appropriate methodology for recording movements on these accounts, based on an accepted classification (such as projects, correspondents, etc.) in the government flow of funds table (TOFE).	

Table 4. Mali: Structural Benchmarks for the Fifth Review Under the PRGF Program

	Measures
For end-June 2010	
1	Implement the new expenditure management software PRED5.
2	Introduce new reporting on the financial operations of the State (the "TOFE" table) which conforms to best international practices, including for the presentation of domestic financing.
3	Create an interministerial committee for treasury management planning under the authority of the Minister of Economy and Finance, with a permanent technical secretariat provided by Treasury
4	Prepare a draft policy paper on the role that the State is likely to play in the cotton sector after the privatization of the CMDT.

Annex I

Technical Memorandum of Understanding

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

I. Definitions

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

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

II. Quantitative Performance Criteria and Financial Indicators

Except as noted, the following financial variables shall constitute performance criteria at end-June and End-December and financial indicators otherwise. The basic fiscal balance is a financial indicator at all test dates.

A. Ceiling on Net Domestic Financing of the Government; Subceiling on Net Domestic Bank and Market Financing of the Government

4. Net domestic financing is 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 are calculated by the BCEAO. Figures on nonbank financing are calculated by the public treasury, and 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, excluding deposits at the BCEAO of the receipts from the sale of SOTELMA. 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 is defined as nonbank market financing and other nonbank financing. Nonbank market financing includes sales net of repayments of Government bills and bonds held outside national banking institutions. Other nonbank financing of the Government includes proceeds from the sale of Government assets, repayments on domestic debt to nonbank creditors, and other net claims on the treasury. 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.

8. Net domestic bank and market financing of the Government is defined as the sum of (i) net bank credit to Government, as defined above, (ii) other Government claims and debts vis-à-vis national banking institutions, and (iii) nonbank financing of the Government through the issuance of securities to nonbanks or to nonresident banks domiciled within the West African Economic and Monetary Union.

Adjustment factors

9. The ceiling on the change in net domestic financing of the Government will be adjusted down (up) if external budgetary assistance exceeds (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, but including both general and sectoral budget support). Adjustment will be made at a rate of nil percent for amounts up to CFAF 10 billion; 50 percent for amounts from CFAF 10 billion up to CFAF 25 billion; and 75 percent for amounts in excess of CFAF 25 billion.

10. The ceiling on the change in net domestic financing of the Government and the sub-ceiling on bank and market financing in 2009 will be adjusted up in the amount of the face value of the securities issued relating to VAT and duty refund payments accrued during 2006 and 2007 up to a maximum of CFAF 62 billion.

11. The ceiling on the change in net domestic financing of the Government and the sub-ceiling on bank and market financing in 2009 will be adjusted up (down) if the actual net reduction of the payment float exceeds (falls short) of the programmed amounts (CFAF 45 billion at end-June and end-September 2009, and CFAF 30 billion at end-December 2009.

B. Nonaccumulation of External Public Payments Arrears

12. 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.

13. 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

14. 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.

15. 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.

16. Starting on the date of 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.

17. 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, the criterion does not apply to (i) financing granted by the IMF, (ii) debt rescheduling transactions of debt existing at the time of the approval of the PRGF arrangement, and (iii) CFA franc debt contracted or guaranteed by the Government with West African Economic and Monetary Union (WAEMU) residents (including CFA debt initially contracted or guaranteed by the Government with WAEMU residents and subsequently acquired by nonresidents).

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

18. The definition in paragraph 2 and 3 of this TMU applies to this performance criterion. 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. In the context of the program, the Government and public enterprises will not contract, or guarantee, short-term external debt. This performance criterion is monitored on a continuous basis.

E. Floor on Cumulative Net Tax Revenues

19. Government tax revenues are defined as those that figure in the Table on Government financial operations (TOFE), and include all tax revenues accruing to the ordinary budget. Net tax revenues are gross tax revenues less tax refunds, notably on VAT. The Government shall report cumulative tax revenues from the start of each year to IMF staff each month in the context of the TOFE. Performance criteria and quantitative performance indicators for cumulative net tax revenues are set in Table 1 attached to the Letter of Intent.

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

20. 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 Table 1 attached to the Letter of Intent.

G. Floor on the Basic Fiscal Balance, Excluding HIPC Initiative-Related Expenditure and Expenditures Financed with SOTELMA Privatization Receipts

21. The basic fiscal balance, excluding HIPC Initiative-related expenditure and expenditures financed with SOTELMA privatization receipts is defined as in section II.F, with SOTELMA privatization revenues drawn from the special account at the BCEAO deducted.

III. Structural Measures

22. Information relating to the introduction of the measures constituting 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

23. 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)
	Balance of SOTELMA privatization receipts on deposit at the BCEAO	Monthly	End of month + 3 weeks
	Treasury general ledger	Monthly	End of month + 4 weeks
	TOFE of the central Government and consolidated TOFE	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Budget execution through the expenditure chain as recorded in the automated system	Monthly	End of month + 2 weeks
	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
	Execution of SOTELMA spending	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
	Regulatory order setting prices of petroleum products, tax revenues from petroleum products, and subsidies paid	Monthly	End of month
	Imports of petroleum products by type and point of entry	Monthly	End of month + 2 weeks
	Customs exemptions	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 and other items net of the BCEAO and the commercial banks.	Monthly	End of month + 8 weeks

Data Type	Tables	Frequency	Time Frame
	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 education outlays	Quarterly	End of quarter + 4 weeks
	Gross enrollment ratio in primary education, by gender	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