International Monetary Fund

Mali and the IMF

Press Release:
IMF Executive Board Completes Fourth Review Under ECF Arrangement for Mali
July 16, 2010

Country's Policy Intentions Documents

Mali: Letter of Intent and Technical Memorandum of Understanding

June 28, 2010

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

LETTER OF INTENT FOR THE 4TH REVIEW

Bamako, June 28, 2010

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

Sir:

1. Implementation of our economic and financial program supported by the International Monetary Fund through an arrangement under the Extended Credit Facility (ECF) was satisfactory in 2009 and the results achieved were encouraging. Unlike the surge in global food and energy prices in 2008, the 2009 international financial crisis and global recession had only a limited impact on the national economy. In 2010, the year of our fiftieth anniversary of independence, we intend to continue our efforts to promote sustained economic growth with a view to improving the living standards of the population and reducing poverty. Attainment of these objectives is contingent on maintaining macroeconomic stability and deepening important structural reforms, particularly in the area of public financial management.

A. Program implementation in 2009 and in the first quarter of 2010

2. The economic climate was relatively positive in 2009. As stated in our letter of December 23 last, favorable prices for gold—which accounts for 75 percent of our export earnings—the fall in world energy and food prices following their steep rise in 2008, and a second consecutive year of good rainfall meant that the Malian economy was not unduly affected by the adverse effects of the global recession.

3. Gross domestic product (GDP) grew by 4.5 percent in real terms, driven mainly by the good results of the crop year. These good results also helped bring average inflation down

from 9.1 percent in 2008 to 2.2 percent in 2009, against the backdrop of the easing of regional monetary conditions by the Central Bank of West African States (BCEAO).

4. Helped by the evolution of international prices of gold, petroleum products and food, the external current account deficit showed only a slight dip despite a drop of around 15 percent in migrant workers' remittances and a decline in revenue from tourism as a consequence of both the global recession and security problems in the north of the country.

5. The capital account balance also improved markedly owing essentially to the IMF SDR allocations and the rise in foreign direct investment, which was in turn largely attributable to the partial privatization of *Société des Télécommunications du Mali* (SOTELMA), resulting in an appreciable increase in Mali's contribution to the international reserves of the West African Economic and Monetary Union (WAEMU).

6. These good results overall reflect not only favorable external factors but also the implementation of prudent macroeconomic policies. The government's underlying basic fiscal balance (excluding expenditures financed by the Highly Indebted Poor Countries (HIPC) Initiative and receipts from the privatization of SOTELMA) recorded a deficit of CFAF 32.7 billion (0.8 percent of GDP) in 2009, as opposed to the 1.4 percent of GDP projected during the third program review and compared with a deficit of 1 percent of GDP in 2008. The basic deficit, including expenditures financed by SOTELMA, was contained at 1.4 percent of GDP compared with a target of 1.8 percent. This outcome is a reflection of strong tax revenue performance, especially indirect taxes, and control of spending. Revenue overshot their targets by 0.5 percentage point to reach 15.4 percent of GDP. On the expenditure side, savings on current expenditure made it possible to offset an overrun in domestic financed capital outlays and net lending.

7. Despite improved control of the basic fiscal balance, we were unable to meet the target for reducing the government's budgetary float vis-à-vis its suppliers and Treasury correspondents at end-2009. The budgetary float of CFAF 145.7 billion at end-2008 was reduced to CFAF 129.1 billion at end-2009, compared with the CFAF 66 billion targeted in the program. This outcome can be explained by the stepped up pace of expenditures in the last quarter of 2009, following the strict regulation of spending over the first nine months of the year, and the late disbursement of CFAF 32 billion in external budgetary assistance in the last days of the month of December 2009. The issuance and the settlement of payment orders in the fourth quarter were consequently carried over in part to 2010 in the form of new budgetary float. Nevertheless, the deposits accumulated at December 31, 2009 were used in the first quarter of 2010 to reduce the budgetary float to CFAF 55.2 billion at end-March 2010, that is below the target initially set for end-2009. These significant fluctuations of the budgetary float strengthen our determination to make further improvements in the forward management of government cash flow. If one takes into account the reduction of the Value Added Tax (VAT) credits owed to mining companies from CFAF 69 billion at end-December 2008 to CFAF 29 billion at end-December 2009, the pending bills of the State

have been reduced from CFAF 215 billion to CFAF 158 billion over the same period. We intend to reduce this level of pending bills to CFAF 80 billion at end-December 2010.

8. All the performance criteria of the program for end-December 2009 were met, including the two related to net domestic financing of the government, which were corrected to take account of VAT arrears clearance operations and the underperformance noted with regard to the reduction of the budgetary float. In addition, the three structural benchmarks for end-December 2009 on the (i) adoption of a strategy and a timetable for government divestment of the state-owned housing bank (BHM), (ii) finalization of a study on the macroeconomic impact of the gold sector, and (iii) preparation, jointly with the BCEAO, of an inventory of the accounts included in the net position of the government vis-à-vis the banking system and of an appropriate methodology for recording the movements of the accounts in the table of the government's financial operations (TOFE).

9. However, the benchmark on the putting in place of a system to monitor the budgetary float has not been met, particularly as a result of delays in implementing the new integrated government accounting software application. A coordination unit was set up at the National Directorate of the Treasury and Public Accounting (DNTCP) to support the provider in accelerating the operationalization of the software. Pending the implementation of the real time monitoring system, outstanding payments continue to be monitored on a regular basis through the expenditure chain. Since end-April 2010, the DNTCP has also been receiving technical assistance from an IMF resident expert for the implementation of the new public accounting management integrated software.

10. We have continued to observe satisfactory economic and financial developments in 2010. International market trends remain favorable to Mali; national economic growth indicators are encouraging; and average inflation has continued to subside to reach 1.2 percent at end-April. The launching of the 2010/11 agricultural campaign was done under good conditions and is supported by favorable initial weather conditions, except in the East of the country where a drought persists and results in pockets of food shortages that we aim at addressing through our food security program and with our development partners. The implementation of our program remains satisfactory; based on preliminary data, the indicative quantitative targets at end-March 2010 have been observed.

B. Outlook for 2010

11. The revision of our economic and financial program for 2010 is based on the objectives and commitments made under the third program review. Essentially, it reflects the implementation of a fiscal policy that targets higher growth through an increase of non-recurrent spending financed by revenues from the privatization of SOTELMA. We intend to continue to focus on prudent public financial management and the deepening of key structural reforms in pursuit of the objectives contained in the Poverty Reduction and Growth

Strategy Framework (CSCRP). The support of Mali's technical and financial partners (TFPs) remains vital for our ongoing efforts in this direction.

12. Economic growth is expected to exceed 5 percent in 2010, fuelled by the upturn in both regional and global economic activity, our adjusted fiscal policy, and the projected good agricultural harvest. According to current forecasts, cotton ginning is set to recover and more robust activity is projected in the building, public works, and tertiary sectors. At the regional level, the BCEAO will continue to pursue a prudent monetary policy to anchor inflation expectations and stabilize inflation at around 2 percent in Mali. However, despite the continued solid performance of gold prices on the world market and the rise in cotton prices, our external position may deteriorate slightly as foreign direct investment tapers off from the exceptionally high level reached in 2009 as a result of the privatization of SOTELMA. Further, our economy remains very heavily dependent on rainfall and continues to be vulnerable to new exogenous shocks, including on its terms of trade.

Fiscal policy

13. The government stands by the commitments and fiscal objectives adopted in its previous letter of intent. Thus, prior to the conclusion of the fourth program review, the government intends to submit to the National Assembly a supplementary budget incorporating various policy components that could not be taken into account at the time of the vote on the initial budget for 2010.

14. In the supplementary budget law for 2010, the target for the basic deficit (excluding HIPC expenditure) has been increased from 1.6 to 2.4 percent of GDP, reflecting an increase in non-recurrent spending financed by SOTELMA privatization receipts. As regards the underlying basic deficit, that is, excluding expenditures financed by SOTELMA, the initial target level remains unchanged at 1.1 percent of GDP as both revenue and expenditure measures have been put in place to offset the new fiscal spending amounting to around 0.8 percent of GDP.

15. The revenue target remains unchanged at 15.4 percent of GDP. The supplementary budget includes an amount of CFAF 5 billion paid by a telecommunications company for a third-generation (3G) license. Further, in view of the efforts made by the Directorate-General of Taxes (DGI) in the area of tax administration, its revenue target for 2010 has been revised upwards by CFAF 3 billion. To ensure that its revenue targets are met, the government will continue its policy of reflecting international oil price fluctuations in domestic prices. Petroleum product prices were, therefore, raised last April. Good revenue performance in the first quarter of 2010, in line with the program, also offers sufficient justification for keeping the revenue target unchanged.

16. On the expenditure side, we have finalized the broad outlines for use of the SOTELMA privatization proceeds to finance non-recurrent expenditures over the 2009–12

period (see attached Table 1). The revised 2010 budget law takes on board an additional CFAF 30.9 billion in expenditures to be financed by these proceeds, that is, an increase of 0.9 percent of GDP bringing the total to 1.4 percent of GDP. The planned expenditure concerns mostly capital expenditure to support economic growth. The transparent management and close monitoring of the use of the privatization receipts will be ensured through specific allocations in the budget laws and the use of a sub-account of the Treasury in the BCEAO, which was opened especially for the recording and use of this revenue.

17. The supplementary budget also provides an opportunity for budget support needs in the context of efforts to revive the cotton sector and the agricultural inputs subsidization policy for the 2010/11 crop season to be reflected more adequately. These needs have arisen from recent information on the conduct of the crop season and decisions taken in March 2010 by the Higher Council for Agriculture. The budget allocation of CFAF 13.9 billion included in the initial budget law for the subsidization of agricultural inputs will be increased by CFAF 7.8 billion to incorporate expenditures planned under this item for the 2010/11 crop season. Similarly, budget support to the cotton sector in 2010 will be increased by CFAF 16.1 billion, including CFAF 8.7 billion corresponding to assumption by government of the costs of the CMDT employee reduction scheme, a CFAF 2 billion contribution to the efforts to rehabilitate the cotton ginning plant, CFAF 2 billion for the settlement of banking payment arrears, and CFAF 3.4 billion to clear the arrears on invoices for inputs from the 2006/07 and 2007/08 crop seasons. The adequacy of these additional expenditures to meet the needs of supporting agricultural inputs and the cotton sector will be assessed in the context of the fifth program review.

18. The supplementary budget law also includes an adjustment of the amounts to cover expenditures for interest payments on domestic debt and the holding of a constitutional referendum before the end of the year. This referendum opens the way for important institutional reforms aimed at consolidating our democracy. Among other things, the proposed reforms address the creation d'un Senate, an Audit Office (Cour des Comptes) to strengthen existing provisions for ex-post control of budget execution, and a single, independent audiovisual regulatory authority.

19. Thus, the new expenditures contained in the supplementary budget law amount in total to CFAF 63.9 billion, i.e., 1.4 percent of GDP, broken down as follows: 7.0 billion in expenditures of goods and services, 19.1 billion in transfers and subsidies, 4.0 billion in interest on domestic debt, 28.9 billion in capital expenditure, and 7.4 billion in net lending. SOTELMA privatization receipts will finance the increased level of capital expenditure and CFAF 2 billion of net lending, in addition to the CFAF 28.9 billion already included in the initial budget law, i.e., a total of CFAF 59.8 billion.

20. In the light of the new expenditure and revenue, the government has committed in the supplementary budget law to making savings on expenditure during the execution of the budget law so as to limit the underlying basic deficit to CFAF 52.6 billion, that is the initial

target of 1.1 percent of GDP. Twenty-five percent of the planned budget savings, estimated at about CFAF 20 billion, or 0.4 percent of GDP, will be in the area of goods and services, twenty-five percent in subsidies and transfers, and fifty-percent in capital expenditure.

21. The government's overall budget deficit, on a commitment basis and excluding grants, is targeted at CFAF 393 billion, i.e., 8.5 percent of GDP versus actual figures of 6.9 percent of GDP in 2009. Taking into account net external financing, including grants, estimated at 3.9 percent of GDP, the need for domestic financing of this fiscal stimulus to support growth is limited to 1.1 percent of GDP. To this need should also be added, however, the projected reduction of the stock of outstanding payments at end-2009 by CFAF 49 billion. In addition, the government has accumulated CFAF 29 billion in new arrears of VAT credit reimbursements to four mining companies whose tax amnesty period recently expired. These arrears will be settled in 2010, possibly through a rescheduling agreement over 3 years.

22. The overall need for domestic financing of the budget, therefore, amounts to 2.8 percent of GDP. It will be met primarily by drawing on the exceptional revenues from the privatization of SOTELMA (1.3 percent of GDP), deposits constituted at end-2009 (0.7 percent), and rescheduling of the VAT arrears (0.4 percent).

Structural Reforms

23. We are pursuing our efforts to improve public financial management supported by our TFPs. In the wake of the satisfactory implementation of the action plan for improving and modernizing public financial management (PAGAM/GFP), a second generation of reforms is under preparation (PAGAM 2) in line with standards of the Public Expenditure and Financial Accountability (PEFA) framework. In the strategic plan, the PAGAM/GFP2 are aimed mainly at:

- Optimizing government revenues on a sustainable basis,
- Improving the quality of budget preparation and execution to encourage our partners to use budget support as the preferred form of assistance,
- Strengthening the system of financial governance by improving the efficiency of ex-post controls by the Accounts Section,
- Stepping up fiscal deconcentration and decentralization supported, starting in 2010, by a three-year World Bank technical assistance program.

24. Improving the mobilization of domestic financial resources remains one of the government's main priorities. To this effect, we will adopt a national tax transition program with a view to increasing the tax revenue to GDP ratio to 17 percent in the medium term, with emphasis on broadening the tax base and revamping existing exemption arrangements

(structural benchmark). The program will include a study on the tax potential of Mali as well as a new generation of tax reforms aimed at modernizing and streamlining our tax system for which we are seeking IMF technical assistance. Against that backdrop and in the context of transposing WAEMU directives on taxation into the national legislation, a number of draft legislative texts will be prepared for submission to the National Assembly, including legislation to reduce corporate taxes and introduce a land tax on developed and undeveloped property. A draft new mining code will be prepared by end-December 2010 that will cover other mineral resources beyond gold, facilitate mining research and exploration, and be integrated in the program to modernize and streamline the tax system.

25. The Directorates-General of Taxes (DGI) and of Customs (DGD) will continue their efforts to improve tax and customs administration, with technical assistance from the IMF. The DGI will continue to pay special attention to the functioning of the new Medium Taxpayer Office (MTO). Along similar lines, the DGD will continue to work towards introducing an automated targeting system for customs inspections by early 2011. Efforts will also to needed to modernize and strengthen the capacity of the National Directorate of Government Lands and Property Registry (DNDC), established in 2002, as part of the broader objective of boosting revenue recollection. A program to enhance the DNDC will be approved by end-2010.

26. The government will implement by end-December 2010, in consultation with the Fund, a VAT management system that respects the integrity of the tax and provides an effective mechanism for the prevention and the reimbursement of VAT credit arrears (structural benchmark). In this context, it commits to resolving the problems of accumulation and reimbursement of VAT credits in general and of export companies in particular.

27. In the context of the transition to result-oriented budgets, we have effectively started in April 2010 the migration of our public spending management software to a new version (PRED5). The modules for the preparation and execution of the budget have been parameterized and output tables prepared. Test operations are ongoing with a view to make it fully operational by end-June 2010. A new public accounting software will also be operational at end-2010 and inter-connected with the public spending management software to ensure a monitoring not only of budgetary execution up to the final payment stage but also of pending bills (structural benchmark).

28. Significant progress has been made towards the introduction, by end-June 2010, of a new government flow of funds table (TOFE) in which the presentation of domestic financing (bank and nonbank) will be consistent with international best practices. These efforts aimed at improving budgetary statistics will be pursued in the second half of 2010 and incorporated into the ongoing work to upgrade the rolling projected cash-flow plan to strengthen cash management.

29. In addition, the National Public Debt Committee (CNDP) established by Decree of September 24, 2009 will become operational by end-September 2010 by the adoption of regulations regarding its operations and the nomination of the members of the technical commission of the CNDP. The CNDP is responsible for examining all domestic or external debt plans and requests for guarantees prior to any final decision by the government. The reporting and the management of the domestic debt will be strengthened with a view to, first, ensuring the exhaustivity of data at the level of the CNDP and, second, improving the programming of the recourse to regional financial markets.

Other structural reforms

30. The government will continue to implement the recommendations of the 2008 Financial Sector Assessment Program (FSAP), in keeping with the financial system development strategy adopted in the same year. Particular attention will be paid to implementation of the restructuring plan of the BHM, with the goal of divestment of the government's interests in 2012. Thus, by end-December 2010, the government will proceed with the recruitment of a privatization advisor. It will conduct an evaluation of the restructuring plan of the BHM, including the use of the government funds transferred for the renewed lending activities of the BHM in the first half of 2010, in collaboration with the BCEAO (structural benchmark).

31. For the cotton sector, the call for expressions of interest in the privatization of the cotton parastatal CMDT was published in February 2010. A special workshop in April 2010 validated the draft of the national strategic framework for the development of the cotton sector, and the final report will be ready by end-June 2010. The government will ensure that this privatization operation takes place in the best conditions to ensure the economic and financial sustainability of the sector.

Modalities for monitoring the program

32. Discussions on the fifth program review will focus on the implementation of structural reforms and on the draft budget for 2011 taking into account the fiscal anchor on an underlying basic deficit of around 1 percent of GDP.

33. Performance under the current program will be evaluated on the basis of Tables 3 and 5 and the Technical Memorandum of Understanding attached. In that context, we request the modification of the end-June 2010 quantitative performance criteria and benchmarks, which takes into account the end-2009 outcome and recent developments. It is envisaged that the fifth program review will be concluded by end-2010 on the basis of the performance criteria at end-June 2010 and that the sixth review will be completed by end-May 2011 on the basis of the performance criteria at end-2010.

34. The government requests that the Executive Board of the IMF complete the fourth review of Mali's ECF arrangement and approve the disbursement of the fifth loan equivalent to SDR 2 million. The government considers that the policies described in this letter are sufficient to achieve its program objectives. It will, however, take any other measures that may prove necessary to that end. Mali will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in this letter, in accordance with the Fund's policies on such consultation. The government will provide Fund staff with any required information contained in the Technical Memorandum of Understanding on progress made in implementing the program. During the program, the government will not introduce or intensify any exchange restrictions, multiple currency practice, or import restriction for balance of payments of purposes, nor conclude any bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement. The government authorizes the IMF to publish this letter, and the related Staff Report on this review.

Yours sincerely,

/s/

Mr. Sanoussi Touré

Minister of Economy and Finance

Table 1. Mali-Use of Proceeds from Partial Privatization of Sotelma, 2009-2012

(In billions of CFA Francs)

	2009 Est.	2010 Proj.	2011 Proj.	2012 Proj.	Total Proj.
Fiscal consolidation / Reduction of domestic debt and payment arrears	9,451	2,000	15,274	15,274	42,000
Vis-à-vis economic agents	-	-	12,000	12,000	24,000
Vis-à-vis banks	9,451	2,000	3,274	3,274	18,000
Human resources development	1,000	11,253	5,255	-	17,508
Youth, Education, Employment	-	9,300	5,255	-	14,555
Higher education	-	3,900	3,755	-	7,655
Construction of university infrastructure at Bamako and Ségou	-	3,188	3,755	-	6,943
Creation of a competitive-access research fund	-	500	-	-	500
Interconnection University of Bamako	-	212	-	-	212
Secondary education, vocational training, youth and employment	-	5,900	1,500	-	6,900
Construction and equipping of Technical High Schools and IFPs (1)	-	4400	1,500	-	5,400
Strengthening of APEJ financial capacity	-	1,500	500	-	1,500
Health and social development	1,000	1,953	-	-	2,953
Supplement for construction of Mopti Hospital	-	1,000	-	-	1,000
Supplement for construction of Sikasso Hospital	1,000	-	-	-	1,000
Computer equipment for the Compulsory Sickness Insurance System	-	953	-	-	953
Infrastructure and equipment	-	7,747	6,863	-	14,610
Roads and bridges	-	3,375	3,875	-	7,250
Kayes : paving of the Bafoulabé-Mahina road (6 km)	-	1,000	-	-	1,000
Koulikoro : street paving (5 km)	-	1,000	-	-	1,000
Kidal : street paving (5 km)	-	375	875	-	1,250
Bamako: construction of access road to Yirimadio Hospital	-	1,000	-	-	1,000
Sikasso : Bridge over the Baoulé between Manankoro-Tienfinzo	-	-	3,000	-	3,000
Communication and Transport	-	4,372	2,988	-	7,360
1 OB van, 12 cameras	-	1,950	-	-	1,950
1 Production van, cameras	-	700	-	-	700
1 Mobile radio/TV production unit	-	45	105	-	150
1 Vehcile fly and accessories	-	108	252	-	360
1 Transmitting earth station	-	669	531	-	1,200
Purchase of 2 flat-bottom boats for COMANAV	-	900	2100	-	3,000
Agricultural development	-	13,675	225	-	13,900
Local improvements	-	3,330	225	-	3,555
Upgrade/maintenance of extension service facilities Niger Office	-	4,100	-	-	4,100
Funding for the National Agriculture Development Fund	-	5,000	-	-	5,000
Development/improvement support	-	445	-	-	445
PRODEVALAIT (2)	-	800	-	-	800
Improvement of living standards	-	18,206	5,708	-	23,914
Funding for the National Investment Fund for Local Governments	-	6,000	4,000	-	10,000
Hydraulic works	-	3,000	2,000	-	5,000
Public lighting Bamako	-	1,000	-	-	1,000
Solar energy	-	2,000	2,000	-	4,000
Rehabilitation of army barracks	-	3,292	1,708	-	5,000
Social Housing Program	-	6,500	-	-	6,500
Construction of Fiftieth Anniversary Monument	-	800	-	-	800
Development of DIAFRANA KO	-	1,614	-	-	1,614
Financial support for SME/microenterprise development	-	-	10,000	-	10,000
Creation of a private sector guarantee fund	-	-	5,000	-	5,000
Creation of a National Investment Fund	-	-	5,000	-	5,000
Economic reform and governance	-	6,900	-	-	6,900
Restructuring of BHM	-	5,000	-	-	5,000
Support for RAVEC	-	1,900	-	-	1,900
Public investment in partnership with donors	-	-	-	36,556	36,556
Creation of a technology cluster	-	-	-	...	...
Connection of secondary towns to the national road network > 100 Km	-	-	-	...	...
Construction of a second bridge at Kayes,	-	-	-	...	...
Improvement/development of the Faguibine System,	-	-	-	...	...
Development of the Bamako Sénou industrial park,	-	-	-	...	...
Modernized cadastre for the cities of Bamako and Kati	-	-	-	...	...
Strengthening of regional government and military logistic capacities	-	-	-	...	...
Social plan	15,000	-	-	-	15,000
Total	25,451	59,781	43,325	51,830	180,388

Table 2. Mali: Quantitative Performance Criteria and Indicative Targets for 2009[1]

	March			June			Sept.			Dec.		
	Indic. Targets	Adjusted	Actual	Rev. Perf. Criteria	Adjusted	Actual	Rev. Ind. Targets	Adjusted	Actual	Rev. Perf. Crit	Adjusted	Actual
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	49.4	46.0	26.6
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	-101.5	-104.9	-105.9
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	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	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	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	624.3
Financial indicators (floors)												
Basic fiscal balance	-10.0	-10.0	17.1	-20.0	-20.0	66.1	-40.0	-40.0	23.7	-78.0	-78.0	-58.1
Underlying basic fiscal balance [5]										-62.0	-62.0	-32.7
Memorandum items:												
External budgetary assistance during the year [1 6]	20.0	…	6.4	38.5	…	13.0	52.0	…	53.2	92.0	…	91.6
HIPC Initiative debt relief [1]	1.0	…	1.8	6.3	…	9.4	8.1	…	10.8	11.2	…	13.0
Expenditure financed with HIPC Initiative resources												
Balance of HIPC Initiative resources												

[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 banks.

Table 3. Mali: Quantitative Performance Criteria and Indicative Targets for 2010[1]

	2010								
	March			June		Sep.		Dec.	
	Indic. Targets	Adjusted Targets	Prel.	Perf. Criteria	Rev. Perf. Criteria	Indic. Targets	Rev. Ind. Targets	Indic. Targets	Perf. Criteria
Quantitative performance criteria [1]					(CFAF billions)				
Net domestic financing of the Government (ceiling) [2]	0.0	52.4	19.3	0.0	79.8	10.0	113.7	30.0	127.0
Of which: Bank and market financing [2]	0.0	52.4	46.9	0.0	99.3	10.0	128.7	30.0	138.6
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
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	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, 4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net tax revenue	130.0	130.0	154.8	300.0	304.7	470.0	490.9	670.0	677.1
Financial indicators (floors) [1]									
Basic fiscal balance	-30.0	-30.0	23.3	-40.0	-52.8	-70.0	-92.4	-75.0	-111.5
Basic fiscal balance, adjusted [5]	10.0	10.0	23.3	0.0	-38.8	-20.0	-48.4	-50.0	-51.7
Priority spending	…	…	…	…	117.0	…	175.0	…	235.0
Memorandum items:									
External budgetary assistance during the year [1]	20.0	24.0	15.5	50.0	68.3	80.0	96.4	125.3	144.1
HIPC Initiative debt relief [1]	3.1	1.3	1.3	6.2	6.9	9.3	9.7	12.4	12.4

[1.] Cumulative figures from the beginning of each year. Noncontinuous performance criteria at end-March and end-September 2010 are quantitative benchmarks. See technical memorandum of understandings for definitions.

[2] These performance criteria and benchmarks are subject to adjustors for shortfalls of external budgetary assistance et over/under performance regarding the targeted reduction of pending bills and VAT credits.
The reductions of pending bills are 2.0, 43.7, 48.7 and 49.1 billion of CFAF at end-March, June, September and December 2010, respectively. A reduction of VAT credits by 29.0 billion of CFAF is projected for end-December 2010.

[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.

Table 4. Mali: Structural Benchmarks for the Third and Fourth Reviews Under the ECF Program

	Measures	Macroeconomic rationale	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.	Strengthen revenue mobilization.	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.	Strengthen public financial management, budget execution, and treasury management.	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).	Improve governmence and transparency in the cotton sector with the view to ensuring smooth cottn campaign in 2009-2010 and limit budgetary risks.	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.	Increase effectiveness and transparency of agricultural policy, prevent open-ended budgetary contributions and ensure monitoring and evaluation of subsidies.	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.	Improve transparency, measurability and management of domestic debt, and prevent occurance of domestic payment arrears.	Not observed at end-December 2009, as a result of decision to implement new public accounting software; monitoring of pending bills continues to be done through the expenditure chain.
2	By government decision, adopt a strategy and timeframe for government divestment of the Banque de l'Habitat du Mali (BHM).	Increase confidence in and resilience of the banking system, and avoid more costly rescue packages.	Observed at end-December 2009
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.	To help policy and decision making in the context of a declining sector (known reserves are equivalent to 10 years of exploitation).	Observed at end-December 2009
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).	Improve public finance statistics.	Observed at end-December 2009

Table 5. Mali: Structural Benchmarks for the Fifth and Sixth Reviews Under the ECF Program

	Measures	Macroeconomic rationale
For end-June 2010 (in the context of the fifth program review)		
1	Implement the new expenditure management software PRED5.	To improve budgetary management.
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.	To strengthen government statistics and reporting.
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.	To improve treasury management and its coordination with budgetary management.
4	Prepare a draft policy paper on the role of the State in the cotton sector after the privatization of the CMDT.	To set the business environment in the cotton sector in a post-privatization of the state monopsony CMDT.
For end-December 2010 (in the context of the sixth program review)		
1	Implement a system for the management and timely payment of Value Added Tax (VAT) credits to eligible companies.	To prevent accumulation of VAT credit arrears and ensure neutrality of VAT on exports.
2	Produce an evaluation of restructuring of the Housing Bank of Mali (BHM), including the use of State funds transferred to the BHM in the first half of 2010 to relaunch its lending activities.	To ensure that the BHM is effectively on a recovery track.
3	Elaborate a program for the reform of the tax system, aiming at a greater mobilization of revenue while ensuring greater rationalization and modernization of the tax laws, including through reconsideration of tax exemptions.	To simplify and make the tax system more buoyant, while implementing regional directives.
4	Implement the new public accounting software in the Treasury with the necessary links to the budget application software to ensure monitoring of spending from commitment to payment, including the stock of pending bills.	To ensure improved recording and reporting of financial operations of the State.

ATTACHMENT I

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical memorandum of understanding defines the performance criteria and benchmarks for the program supported by the Extended Credit Facility (ECF) 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 Decision of the Executive Directors of the IMF No. 12274-00/85 of August 24, 2000, as revised on August 31, 2009 (Decision No. 14416-(09/91).

(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 currency specific commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debt with a maturity exceeding 15 years, the ten-year-average CIRR published by the OECD is used to calculate the grant element. For shorter maturities, the six-month average CIRR is used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

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, and (ii) 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. 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, 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 and the subceiling on bank and market financing in 2010 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 2010 will be adjusted up (down) if the actual net reduction of the payment float exceeds (falls short) of the programmed amounts (CFAF 43.7 billion at end-June, CFAF 48.7 billion at end-September 2010, and CFAF 49.1 billion at end-December 2010). The payment float is defined to include payment orders unpaid by the Treasury in the context of the budget execution and the deposits of correspondents and various depositors, irrespective of their age. In addition, the ceiling on the change in net domestic financing and the sub-ceiling on bank and market financing in 2010 will be adjusted up for the settlement of VAT credits to exporters that are in excess of the programmed amounts, that is CFAF zero billion at end-June and end-September 2010, and CFAF 29 billion at end-December 2010: the adjustment refers to payments made on VAT credits accrued in 2010 and on the end-2009 stock of CFAF 29 billion.

B. Nonaccumulation of External Public Payments Arrears

11. 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.

12. 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

13. This performance criterion applies not only to debt as defined in point 9 of the Executive Board Decision No. 12274-(00/85) (8/24/00), as revised on August 31, 2009 (Decision No. 14416-(09/91), but also to commitments contracted or guaranteed for which no value has yet been received.

14. 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), state-owned enterprises, and local governments.

15. 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.

16. 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 Executive Board Decision No. 12274-(00/85) (8/24/00), as revised on August 31, 2009 (Decision No. 14416-(09/91), 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

17. 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

18. 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.

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

19. 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.

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

20. The basic fiscal balance, excluding HIPC Initiative-related expenditure and expenditures financed with SOTELMA privatization receipts is defined as in section II.F, from which are deducted expenditures financed by SOTELMA privatization revenues.

H. Floor on Priority Poverty-Reducing Expenditures

21. Priority poverty-reducing expenditures are defined as the total of current expenditures of the Ministry of Primary Education; the Ministry of Secondary and Higher Education and Scientific Research; and the Ministry of Health. Current Expenditures are defined as expenditures on personnel, goods and services, transfers, and other current spending, including those labeled HIPC Initiative. It excludes spending on equipment and investment, whether financed domestically or externally, and expenditures financed with sectoral budget support.

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