International Monetary Fund

Mali and the IMF

Press Release:
IMF Executive Board Completes Sixth Review Under Extended Credit Facility for Mali, Approves a US$40 Million Augmentation and US$33.7 Million Disbursement
June 13, 2011

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Mali: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

May 26, 2011

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

LETTER OF INTENT

Bamako, May 26, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Mr. Lipsky:

1. The fifth review of our economic and financial program, supported by an arrangement under the Extended Credit Facility (ECF), was completed favorably by the IMF Executive Board on January 26, 2011.

2. The attached Memorandum on Economic and Financial Policies (MEFP) describes recent developments in the Malian economy and the progress made in implementing our program in 2010. This memorandum also sets out the economic and financial policies that the Malian government intends to pursue in 2011.

3. The government's ongoing efforts to strengthen the tax and customs administration and to control public expenditure enabled it to meet all the performance criteria and indicative targets for end-December 2010, with the exception of the floor on social spending which fell slightly short of the programmed amount. In addition, the government implemented all of the measures associated with structural benchmarks for end-December 2010, with the exception of the funding of the Treasury account opened at the BCEAO to receive revenues intended for refunding Value Added Tax (VAT) credits, which will start shortly.

4. In 2011, the government will continue conducting a prudent fiscal policy, carry out reforms in all areas of fiscal management, and further its efforts to develop the financial sector and restructure the cotton and electricity sectors. In view of our overall achievements and based on the measures spelled out in the attached MEFP, we request the favorable conclusion of the sixth review under our ECF-supported program and a modification of performance criteria for end-June 2011.

5. In addition, the government requests that the IMF Executive Board augment its access to Fund resources under the current arrangement under the ECF in the amount of SDR 25 million (27 percent of Mali's quota), in order to mitigate the balance-of-payments

impact resulting from the crises in Côte d'Ivoire and Libya. These crises are causing a downturn in exports, in remittances from migrant workers, and in foreign direct investment (FDI), as well as an increase in import transport costs, for an overall impact estimated at SDR 44 million (0.6 percent of GDP) in 2011. Provided this augmentation of access is accepted, we request a disbursement in an amount equivalent to SDR 21 million, including SDR 20 million for the increase and SDR 1 million for the disbursement under the sixth review.

6. The government believes that the measures and policies described in the attached MEFP are appropriate for attaining the objectives of its program in 2011. It will take any additional steps necessary to that end. Mali will consult with the IMF on the adoption of such measures and before any revision of the policies described in the attached MEFP, in accordance with the IMF's policies on such consultations. The government will provide Fund staff with any required information referred to in the Technical Memorandum of Understanding (TMU) concerning progress made under the program. During the program, the government will not introduce or strengthen any exchange controls, multiple exchange rate practices, or import restrictions for balance of payments purposes, or conclude any bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement.

7. The government intends to make public the contents of the IMF staff report, including this letter, the attached MEFP, the TMU, as well as the informational annex. It therefore authorizes the IMF to publish these documents on its website following the conclusion of the sixth review by the IMF Executive Board.

Sincerely yours,

/s/

Lassine Bouaré
Minister of Economy and Finance

Attachments:
- Memorandum on Economic and Financial Policies
- Technical Memorandum of Understanding

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. The present memorandum of economic and financial policies describes recent developments in Mali and sets out the country's economic and financial policies in 2011 as part of the sixth review under the three-year arrangement under the Extended Credit Facility (ECF).

I. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION DURING 2010

2. In 2010, real GDP growth is expected to remain at approximately 5.8 percent. The sharp decline in gold production (-14.3 percent) due to the delay in commencing the operation of a new mine has been more than offset by the strong growth in the agricultural sector (+ 16.1 percent), which has benefited from favorable levels of rainfall and positive conditions for the crop season, including the government's financial support for farmers in the form of input subsidies. The positive conditions for the crop season held inflation at 1.4 percent for the year as a whole.

3. The balance-of-payments current account deficit, including grants, widened slightly to 7.5 percent of GDP. The favorable impact of rising gold and cotton prices has been outweighed by rising oil prices and transportation costs. The balance of payments current account deficit has been only partially financed by net capital inflows, primarily through foreign aid and foreign direct investment. As a result, the overall balance of payments showed a deficit of about CFAF 86 billion (US$174 million), financed by drawing on the foreign exchange reserves of the Central Bank of West African States (BCEAO).

4. The money supply increased by 8.9 percent during 2010, driven mainly by credit to the private sector. The latter increased by 13.5 percent in response to heightened demand for credit for the crop season and for consumption during the final quarter.

5. The latest available data in regard to financial sector stability point to an improvement in the banking sector capital, which reached 10 percent of total assets at end-December 2010. All banks (except for one) meet the minimum capital requirement, which was raised to CFAF 5 billion. The stock of non-performing loans (less provisioning) stayed at 9 percent of total credits (less provisioning) as provisioning rate (64 percent) remained unchanged.

6. The program targets for end-December 2010 with respect to government finances were met. The basic fiscal balance recorded a deficit of CFAF 56 billion (1.2 percent of GDP), whereas a deficit of CFAF 112 billion (2.4 percent of GDP) had been programmed. The underlying basic fiscal balance (excluding spending financed by revenues from the privatization of SOTELMA) has recorded a decline (deficit of CFAF 17 billion or 0.4 percent of GDP) relative to the programmed amount (deficit of CFAF 51 billion or 1.1 percent of GDP). This result is due to the favorable performance of tax and non-tax receipts, control of

current and capital expenditures, and delays in executing the capital expenditures financed by the telecommunication company (SOTELMA) privatization revenues because of the time needed to comply with the procurement procedures. All pending bills for 2009—which amounted to CFAF 129 billion—were cleared during the first 8 months of the year, and pending bills at end-FY 2010 were held slightly below the programmed amount of CFAF 80 billion. Consequently, all performance criteria and indicative targets for end-December were observed, except for the floor on priority spending, where the execution shortfall posted throughout the current year was almost entirely made up during the final quarter (Table 1).

7. The government has implemented almost all the measures covered by structural benchmarks for end-December 2010 (Table 2):

- The government has begun implementing all the measures set forth in its MEFP of December 31, 2010 to ensure regular repayment of the value added tax (VAT) credits beginning in January 1, 2011.[1] The only one of these measures to have taken longer than anticipated is the funding of the Treasury account opened at the BCEAO to receive revenues intended for refunding VAT credits, which will start shortly (¶19).

- The Ministry of Economy and Finance has prepared an assessment of the restructuring of the Malian Housing Bank (BHM), including the use of public funds transferred to the BHM during the first half of 2010 in order to restart its lending activity.

- To strengthen revenues further while rationalizing and modernizing tax legislation, the Directorate General of Taxation (DGI) prepared a memorandum proposing the strategy for reforming the tax system based on types of taxes. In particular, this memorandum took account of the diagnostic analyses performed and the recommendations put forward by the technical assistance mission from the Fund's Fiscal Affairs Department in September 2010.

- The Treasury's new integrated accounting application (AICE) and its interface with the expenditure management software (PRED 5) was put in operation in the General Payments Office (PGT) of the Treasury (the accounting office which processes 80 percent of national budget expenditure) by January 3, 2011.

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[1] See Mali: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, December 31, 2010, ¶21.

II. THE PROGRAM IN 2011

A. Implementation of the Growth and Poverty Reduction Strategy Paper (G-PRSP)

8. Budget policy is aligned with the priority sectors of the G-PRSP II for the period 2007-11. In 2011, priority measures will focus chiefly on six areas, which will receive special emphasis out of the 14 priority areas indicated in G-PRSP II. These areas are as follows: education; health; food security and rural development; the development of small and medium-sized enterprises; the follow up of reforms in the business environment; and the promotion of democratic governance and public freedoms.

9. The G-PRSP III will provide a framework for the government's economic, financial, and sectoral policies implemented in 2012-17. Preparation of the new G-PRSP is participatory, involving civil society, the private sector, and technical and financial partners (TFPs). The final version of G-PRSP III should be available by end-2011, but its major outlines and priority areas should be known in time to be incorporated into preparations for the 2012 budget.

B. Impact of the crises in Côte d'Ivoire and in Libya, and rising food and oil prices

10. In early 2011, the Malian economy was confronted with a combination of several external shocks: the economic and political crisis in Côte d'Ivoire since end-2010, the crisis in Libya, and rising food and oil prices on international markets.

11. Assuming a return to normal economic conditions in Côte d'Ivoire during the second half of 2011, the crisis in that country will leave its mark on the Mali economy for about six months through the following transmission channels:

- a 5 percent increase in transportation costs corresponding to approximately CFAF 8 billion (0.2 percent of GDP) due to the diversion of exports and imports to more distant ports (about 12 percent of Mali's imports and 1 percent of Mali's exports transited through Côte d'Ivoire in 2010);
- a decline in livestock exports, valued at CFAF 5 billion (0.1 percent of GDP);
- a decrease in income repatriated by Malians living in Côte d'Ivoire, estimated at CFAF 10 billion (0.2 percent of GDP);
- the Malian banking system is exposed to Côte d'Ivoire (by about CFAF 100 billion or 2 percent of GDP, equivalent to about 60 percent of banking sector equity) mainly through holdings of treasury bills and bonds issued by the Ivorian government but also through and credit to the Ivorian banking system equivalent to about half of banking sector's equity (23 billion CFAF or 0.4 percent of GDP).

12. The crisis in Libya raises questions about the continuation of foreign direct investment in the hotel and agricultural sectors amounting to approximately CFAF 16 billion (0.3 percent of GDP) in 2011. This situation also calls for a careful monitoring of the two Libyan-owned banks in the local market, whose cumulative balance sheet accounts for about 3 percent of the size of the entire banking system.

13. In addition, the Malian economy is facing an anticipated increase in international oil prices of about 30 percent compared to 2010 as well as a 20 percent increase in global food prices. The favorable agricultural production recorded in 2010 indicates that foodstuffs are resilient to shocks. However, the failure to adjust retail oil and electricity prices could lead to a significant deterioration in the fiscal position through a loss of tax receipts on petroleum products in the amount of CFAF 30 billion (0.6 percent of GDP, ¶16) and require an increase in transfers to the utility company EDM of about CFAF 20 billion (0.4 percent of GDP, ¶36).

C. Macroeconomic Framework

14. In spite of these shocks, real growth in GDP is expected at 5.3 percent thanks to the increase in gold and agricultural production, driven by the high levels of gold and cotton prices. Due to the rise in transportation costs in the wake of the crisis in Côte d'Ivoire and the increase in imported food prices, inflation is expected to rise to about 3.5 percent. Fiscal policy will remain cautious and will focus on maintaining the underlying basic fiscal balance at 1.4 percent of GDP. The increase in gold and cotton exports should help improve the current account balance and the overall balance of the balance of payments. However, these improvements will be diminished by the negative impact of the crises in Côte d'Ivoire and Libya, which will contribute to keeping the overall balance of the balance of payments in deficit, and will require a further drawdown on the BCEAO's foreign exchange reserves in the amount of about CFAF 53 billion (US$111 million). The growth in credit to the government and to the private sector is expected increase in the money supply in line with nominal GDP.

D. Economic and Financial Policies

Fiscal policy and reform

Fiscal policy

15. To address these shocks, and to meet the needs for which no resources were allocated in the 2011 budget law approved by Parliament, the government is preparing a supplementary budget law, which targets an underlying basic balance of CFAF 73.5 billion (1.4 percent of GDP), a level very close to the one specified in the initial budget law. The government will submit the draft supplementary budget law to Parliament by end-June. While making provision for an underlying basic fiscal balance close to the level set forth in the initial budget law, the draft supplementary budget law will reflect key policy changes and adjustments in comparison with the initial budget law.

16. The following changes are proposed on the revenue side:

- Tax revenue losses on petroleum products in the event of a failure to bring about an upward adjustment in retail fuel could reach CFAF 30 billion (¶13). The government has decided to implement a mechanism for indexing retail oil prices to changes in the supplier price, which will make it possible to safeguard government tax revenue, while cushioning excessively sharp increases in retail prices. If the government decides against implementing this mechanism for economic and social reasons, it will adopt revenue or expenditure measures to maintain the underlying basic balance at the level envisaged in the supplementary budget law.

- To improve confidence in the VAT system, the draft supplementary budget law will revise the amount of the tax refund upward from CFAF 4 billion to CFAF 37 billion, of which CFAF 33 billion will be used for refunding VAT credits to exporters and to local operators, and CFAF 4 billion will be used for exemptions.

- Additional revenues are envisaged by DGI in the amount of CFAF 10 billion, which is an upward revision in light of the 2010 results.

- Additional revenues are envisaged by the National Directorate of Government Property and the Land Registry (DNDC) in the amount of CFAF 26.4 billion arising from: supplemental dividends expected from SOTELMA in the amount of CFAF 5 billion, additional dividends expected from the mining companies in the amount of CFAF 15.6 billion, nontax receipts in the amount of CFAF 2.4 billion, and additional tax receipts in the amount of CFAF 3.4 billion.

17. On the expenditure side, the proposed changes are as follows:

- To respond to the crisis in Côte d'Ivoire and Libya, out of the CFAF 10 billion in funds allocated to social safety net in the initial budget law, CFAF 2 billion will be devoted to accommodating migrant workers returning from those two countries.

- To organize the constitutional referendum in 2011 and prepare for the legislative and presidential elections in 2012, expenditures on goods and services for these items have been revised upward by CFAF 12 billion, but other goods and services have been lowered by CFAF 5 billion and transfers have also been lowered by CFAF 5 billion.

- As a result of its decision not to raise electricity prices, the government is proposing to increase transfers to Energie du Mali (EDM) from CFAF 2 billion to CFAF 20 billion, following its energy sector policy (¶36).

- To allow for a favorable crop season in 2011/12, subsidies for agricultural inputs will be raised by CFAF 10.8 billion.

- Capital expenditures financed by SOTELMA privatization income will be increased by CFAF 19.9 billion, i.e., the amount of expenditures recorded in the 2010 supplementary budget law and not executed in 2010 (Table 6).

- Other capital spending from domestic resources will be reduced by CFAF 18 billion.

- Payments of arrears from previous financial years will be increased from CFAF 8 billion in the approved budget to CFAF 12.3 billion in the supplementary budget, of which CFAF 10 billion are for the payment of VAT credit arrears, following the verification of these arrears by DGI (¶19), and CFAF 2.3 billion for the payment of guarantees, following an inventory conducted by the Directorate General of Public Debt (DGDP) of the all the agreements regarding domestic debt and the commitment to guarantee domestic debt provided by the government (¶29).

Reforms of public financial management

Tax policy

18. In light of the tax reform strategy established by the DGI (¶7), the government will propose an action plan for the next three years aimed at modernizing and simplifying tax legislation and bringing it in line with regional directives. In pursuance of this plan, by June 30, the government will identify the tax-related measures to be included in the 2012 draft budget (structural benchmark, Table 4). The DGI has requested technical assistance from the IMF's Fiscal Affairs Department for this purpose. Without waiting for this to be done, the government will take the necessary steps to make a lasting improvement in the workings of the VAT as described below.

Tax and customs administration

19. In 2011, priority will be given to putting in place reforms that will make a lasting improvement in the workings of the VAT, which accounts for about 40 percent of tax revenue. To that end, the government is implementing the following measures:

- A Treasury account was opened at the BCEAO on January 18, 2011 to receive: (a) the full amount of VAT receipts paid by mining companies on their imports; and (b) 10 percent of domestic VAT receipts. The use of this account is reserved for refunds of VAT credits. This practice will ensure effective and regular refunding of VAT credits owed to mining companies on their imports and to all other enterprises; in 2011, the relevant amounts are projected at CFAF 21 billion and CFAF 12 billion, respectively. The monthly funding of this account by the DGI and the DGD has not yet begun due to the time required to prepare the account's operating arrangements in accordance with budget procedures but will start shortly.

- The DGI has determined the value of VAT credits accumulated as of December 31, 2010 which remains to be refunded by the government; these are equivalent to CFAF 31.4 billion. The results will be validated by all stakeholders and will be used to determine the timing and other arrangements for settling the arrears in question. The 2011 supplementary budget will include CFAF 10 billion (¶17).

- On May, 31 2011, the import tax regime of 6 percent rate without entitlement to a VAT credit, which had benefited two gold mining companies, as well as the VAT exemption enjoyed by their subcontractors will end. Therefore, as of June 1, 2011, all gold mining companies and their subcontractors will be subject to the standard VAT regime at the sole rate of 18 percent.

- No later than September 30, 2011, the threshold for the application of VAT will be raised from CFAF 30 million to CFAF 50 million to simplify the collection of VAT.

- No later than September 30, 2011, the system of withholding of VAT at source will end, except for the Treasury. The Treasury will phase out withholding of VAT at source by December 31, 2011.

- Not later than by the time the 2012 draft budget is presented to Parliament, the government will propose amendments to tax legislation to bring Malian legislation on VAT into line with the WAEMU directive on VAT.

20. The DGI and DGD will pursue their efforts to improve tax and customs administration with technical assistance from the IMF. The DGI will modernize the taxpayer administration managed by the Large Business Directorate (DGE) by implementing a system of filing on-line, encouraging large businesses to pay their taxes by bank transfer, with the objective of obtaining ISO certification for the DGE. The DGI will continue to pay special attention to the functioning of the new Medium-Size Business Directorate (DME), which will take steps to follow up systematically on taxpayers that do not abide by their filing obligations. The DGI will pay particularly close attention to improving the facilities and strengthening the personnel of the DME. Similarly, the DGD will introduce an automated targeted system for customs inspections from the beginning of 2012 onward. To that end, the DGD will set up a technical Risk Management Section, which will complete all the necessary preparatory tasks in 2011. Strengthening tax administration resources will also make it necessary to modernize the DNDC, established in 2002, and to build up its capacities. In 2011, the DNDC will carry out a study to determine the potential for obtaining government revenue from property tax and enhancing the collection of such revenues, and will further conduct a study to prepare and implement a computerization plan. The DNDC will pursue its efforts to set up a land registry and will implement a secure archiving system.

21. The Treasury's new integrated accounting application and its interface with the DGD (ASYCUDA) and DGI (SIGTAS) applications will be put into operation in the District of Bamako revenue collection office (RGD) in January 2012.

Management of public expenditure and transparency of public finance

22. The results of the Public Expenditure and Financial Accountability (PEFA) assessment finalized in 2011 show the progress made in the public expenditure management system in Mali, particularly in regard to budget credibility and comprehensiveness and the preparation of budget legislation. Nevertheless, there are some persistent weaknesses regarding the monitoring of domestic arrears, accounting, and external auditing.

23. To build on the progress made thus far, the government adopted a new action plan in July 2010 to strengthen and modernize public financial management (PAGAM-GFP II), covering the period 2011-15. The action plan is organized around four strategic objectives: sustainable optimization of revenues; budget preparation and execution consistent with international standards; accountability of stakeholders and increasing transparency of public finance; and further deconcentration and decentralization.

24. This action plan reflects the government's desire to play a leading role in implementing WAEMU directives in the area of public expenditure. The government is committed to incorporating WAEMU Directives 5 to 10 of 2009 in Malian laws and regulations regarding transparency, budgets, public accounting, budget nomenclature, the government's chart of accounts, and the Central Government Consolidated Financial Operations Table (TOFE) by October 31, 2011. In pursuance of these directives, during 2011 budget execution, no further payment authorizations will be processed after December 31, 2011 and no payments will be made after January 31, 2012.

25. In the short-run, the government also will pursue its efforts in improving budget execution, managing cash flow and domestic debt, and strengthening accounting, external auditing, and government finance statistics:

- *Changes in borrowing during the year will be reported in a consolidated fashion in draft supplementary budgets or draft legislation to settle accounts.* All regulatory measures to alter budget appropriations during the course of the year (decrees concerning advances, transfers, payments, carry-overs, cancellations, credit funds, etc.) will be provided as reference information attached to the first draft supplementary budget following the measure in question or, if there is no such supplementary budget, attached to the draft legislation concerned with the settlement of accounts (*loi de règlement*) for the corresponding fiscal year.

- *A key step will be taken toward establishing a Single Treasury Account.* With technical assistance from the IMF's Fiscal Affairs Department and AFRITAC West, the Treasury is pursuing its efforts to produce a full status report on the bank accounts of government entities held with commercial banks and the BCEAO. It will be updated every month in the case of those entities covered by the TOFE and every three months for other entities. Some accounts found to be held with commercial banks will be closed by end-2011. An impact study on the transfer from commercial banks to the BCEAO of all accounts held by government entities situated in Bamako, Mopti, and Sikasso (except for project accounts whose establishment is explicitly provided for under agreements concluded with technical and financial partners) will be carried out by September 30, 2011 (structural benchmark, Table 4). Accounts held with commercial banks by departments within the Ministry of Economy and Finance in Bamako, Mopti, and Sikasso will be transferred to the BCEAO according to a timetable based on the results of that study.

- *The quality of accounts will be progressively strengthened.* Abnormal balances found on current accounts, third-party accounts, and financial accounts in the general balance sheets of the Central Treasury Accounting Bureau (ACCT), the PGT, and the RGD will be cleared by June 30, 2011.

- *The production and auditing of the government's annual accounts will be speeded up.* The Accounts Section of the Supreme Court is implementing a strategy to clear accounts on the basis of the assessment of the situation of the accounts produced by the National Directorate of Treasury and Public Accounting (DNTCP). For the public accounts prior to 1992, the government will adopt a draft validation law by June 30, 2011. The public accounts for the fiscal years 1992-2008 will be reviewed on an expedited basis. Parliament voted on the law validating the accounts for FY 2007. The government has submitted the draft law validating the accounts for FY 2008 to Parliament. The Accounts Section has examined the draft law validating the accounts for 2009. The government will adopt draft legislation validating the 2010 accounts by September 30, 2011.

- *Work will continue on improving government financial statistics*. As of May 31, 2011, changes will be made to the TOFE as described in the Technical Memorandum of Understanding (TMU, ¶23; structural benchmark, Table 4).

- *Tracking of payment times will be strengthened.* The new PRED 5 expenditure management software will be used to ensure that payments are made within 90 days after payment orders have been issued. For this purpose, monthly reports will be produced.

26. In the context of improving the budget process, the government intends to organize with Parliament a budget policy debate before the session of October 2011.

Internal and external oversight

27. Internal and external oversight mechanisms have shown a number of administrative weaknesses in the management of Mali's public finances. At the internal level, the Office of the Inspector General of Public Services has highlighted that there are not enough procedures manuals and that they are not being used. At the external level, the Office of the Auditor General has drawn attention to large sums outstanding to be recovered by the Public Treasury. To remedy these problems, the government is working swiftly to adopt a national internal oversight strategy for the period 2011-15, with the support of several technical and financial partners.

Debt management

28. From the updated debt sustainability analysis prepared with IMF and World Bank staff, it is clear that Mali's risk of debt distress has shifted from low to moderate because of increased vulnerability to external shocks. The volatility of gold exports has increased more than was expected in the previous analysis. The update also confirmed that Mali's debt sustainability depends on pursuing a prudent macroeconomic policy anchored on maintaining the deficit level, in terms of the underlying basic fiscal balance, at close to 1 percent of GDP. The government therefore reiterates its commitment to cover its external financing requirement by means of grants, and by concessional borrowings having a level of concessionality of at least 35 percent (continuous PC, Table 3). However, the government intends to take advantage of the next the debt sustainability analysis prepared with IMF and World Bank staffs next Fall to determine the potential envelope for non-concessional borrowing, compatible with maintaining debt sustainability, which would be potentially available to the government under IMF and World Bank policy.

29. To strengthen domestic debt management, the Minister of Economy and Finance assigned the DGDP the task of producing a full list of all the agreements under which the government has contracted domestic debt or given a commitment to guarantee domestic debt, with deadlines and maturity dates, so that this information can be recorded in public debt data and budgets (structural benchmark, Table 4). The DGDP has started working on this by contacting local banks. These efforts have already made it possible to identify debts with the banking system, not yet verified and reconciled, for the amount of CFAF 65 billion (1.3 percent of GDP), including CFAF 21 billion in guarantees. The payment schedule is now being negotiated with creditors, and CFAF 2.3 billion will be appropriated in the 2011 supplementary budget. The difficulties involved in reconciling and verifying debts have made it necessary to implement a new schedule for the list to be completed by end-June 2011.

Reform of the Malian Social Security Fund

30. The government intends to take steps to ensure the actuarial equilibrium of the Malian Social Security Fund (*Caisse Malienne de Sécurité Sociale* (CMSS)), which manages

the pension system and health/disability insurance plan for civil servants. The government recently commissioned a new actuarial study, indicating that unless reforms are implemented, the annual balancing subsidy (*subvention d'équilibre*) for the CMSS could increase from CFAF 34 billion (0.7 percent of GDP) in 2011 to CFAF 60 billion (0.9 percent of GDP) in 2015. In light of the results of the study conducted in 2005, the government has submitted to Parliament a pension reform project whose adoption will reduce the deficit of the CMSS.

Policy on maintaining the stability and development of the financial sector

31. The government will pay close attention to developments in the banking system in connection with the post-electoral crisis in Côte d'Ivoire and developments in Libya (¶11-12). To limit the impact of the Côte d'Ivoire crisis on bank soundness, the BCEAO, under instructions from the Council of Ministers and on the basis of a mandate by the Minister of Economy and Finance of Côte d'Ivoire, is organizing auctions on behalf of Côte d'Ivoire to roll over the maturing T-bills while capitalizing the interest payments. Maturing interest payments on Ivoirian bonds issued with BCEAO cooperation are paid by the issuance of 6-month T-bills subscribed by bondholders. Claims on Ivorian companies will be monitored regularly in accordance with the existing prudential regulations, particularly the provisioning rules. The government will also monitor closely the situation of two small banks owned by Libya in cooperation with the monetary authorities of WAEMU.

32. The government will continue to implement its development strategy for the financial sector adopted in 2008, taking into account the Financial Sector Assessment Program (FSAP) recommendations for Mali and the WAEMU zone from the same year. The strategy has four main pillars:

- strengthening and developing the banking and capital markets sector;
- strengthening and developing nonbanking financial institutions;
- consolidating, strengthening, and developing the microfinance sector; and
- improving the legal and judicial framework.

33. In 2011, the government will place high priority on the following measures:

- *Restructuring the BHM:* implementing the restructuring plan adopted on December 30, 2009 calls for the government to withdraw its equity stake in the BHM by 2012. A call for tenders was launched with the support of the World Bank to recruit a consulting firm consisting of an investment bank and a law firm to implement the privatization successfully. Until then, the Ministry of Economy and Finance and the BCEAO will closely follow the BHM's operations to ensure that the government resources made available to it for recapitalization (up to CFAF 11.4 billion in 2010) and the allocation to the BHM of funds from the national budget to finance social housing (up to CFAF 7 billion in 2011) will result in productive loans.

- *Raising the minimum capital requirements for banks and other financial institutions*: the increase in the minimum capital requirement under WAEMU regulations (CFAF 5 billion, and CFAF 10 billion as of some future time to be determined) will be regularly monitored by the BCEAO.

- *Putting in place mechanisms to guarantee loans to small and medium-size enterprises (SMEs)*: a mechanism to provide partial guarantees in the amount of US$26 million (0.3 percent of GDP) has been set up with two banks, in collaboration with the International Finance Corporation (IFC). The government has set up a fund in the amount of CFAF 595 million (less than 0.1 percent of GDP) to provide partial guarantees during 2009-13 to facilitate access to bank financing for 200 SMEs. The government has also launched two feasibility studies to set up a guarantee fund and an investment fund for the private sector.

- *Setting up a corporation to manage the banks' real estate holdings*: the purpose of this entity will be to buy real estate assets received by banks as a result of the execution of guarantees so as to take them off the banks' books. In agreement with the World Bank, it has been decided to assign this role to the Property Transfer Agency (ACI), a semipublic corporation whose purpose is to clean up property holdings and sell them.

- *Developing microfinance*: microfinance will be promoted by adopting new regulations concerned with decentralized financial systems and implementing a national microfinance development plan, in collaboration with technical and financial partners.

- *Enabling the financial sector to mobilize remittances from migrants*: this effort will focus on a study and a workshop on initiatives and mechanisms relating to remittances from migrants.

Reform of the cotton sector

34. The government plans to complete the privatization of the Malian Textiles Company (CMDT) in 2011. Upon completion of the call for tenders, six prospective investors stepped forward, three submitted a bid, and one investor was chosen to buy two of the four regional subsidiaries of CMDT. The government intends to launch a new call for tenders for the two subsidiaries that have not yet found a buyer. The government will watch this privatization operation closely to ensure that it takes place in optimal conditions, to assure the continued economic and financial viability of the cotton sector.

Reform of the electricity sector

35. The government intends to honor its commitments regarding EDM. Since the early 2000s, the government has been implementing an electricity pricing policy, which provides the option to adjust electric power prices to reflect changes in the firm's operating costs or to refrain from implementing the policy for economic and social reasons by means of payment of a subsidy allowing EDM to meet its assigned objectives. Under this policy, the government has applied only two price adjustments since 2003—a 10 percent decrease in 2004 and a 4 percent increase in 2009—even though international oil prices have doubled since 2004. This policy means that EDM has recorded a loss estimated at CFAF 13.9 billion in 2010.

36. Pursuant to its policy of electricity tariff setting, the government will include CFAF 20 billion in the 2011 supplementary budget law to improve the financial situation of EDM. This appropriation is necessary in part because of the government's decision not to adjust the price of electricity in 2010 and during the first half of 2011. This amount will be reviewed in September 2011 in the light of the financial situation of EDM, and with the help of a mechanism to index prices that the Electricity Regulatory Commission of Electricity and Water will finalize with support from the World Bank. The government will apply this mechanism from the second half of 2011 to adjust rates or determine, if necessary, budgetary transfers to strengthen the financial situation of EDM. In the meantime, the government will continue to regularly pay its electricity bills and to implement its development strategy for the sector in cooperation with the World Bank.

Governance

37. The recent separation of the functions of budget and human resource management previously assigned to the Directors of Administrative and Financial Affairs of each ministerial department has led the government to establish a position of Human Resource Directors and a position of Directors Finance and Materials (DFM). To invigorate the function of DFM, the decrees appointing the DFM were repealed on April 13, 2011. The subsequent appointment of new DFMs has been based, inter alia, on good governance criteria.

38. Moved by the desire to make the mining sector an engine of development and a means of combating poverty, Mali applied to join the Extractive Industries Transparency Initiative (EITI) in 2006. As part of that process, Mali produced an initial report on reconciling flows of payments by mining companies against government revenues for the 2006 fiscal year, on the basis of external auditors' findings. From the results contained in that report, the assessor named by the EITI Secretariat concluded that Mali had made significant progress but was not yet compliant. Drawing lessons from that first report, the government has started work on preparing a second report concerned with mining revenues in 2007 and 2008 with a view to joining the EITI by end-2011.

III. PROGRAM MONITORING

39. The 2011 program will be evaluated on the basis of revised performance criteria and indicative targets for end-June, revised indicative targets for end-September, continuous performance criteria (Table 3), and structural benchmarks (Table 4). These criteria are defined in the Technical Memorandum of Understanding (TMU), which also specifies the nature and frequency of the data reporting required in order to assure the proper monitoring of the program.

40. Discussions for the seventh review of the program will focus on the preparation of the 2012 draft budget, taking into account the need to anchor the government's finances on an underlying basic deficit of close to 1 percent of GDP.

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

	March				June				Sep.				Dec.			
	Indic. Targets	Adjusted Targets	Est.	Status	Perf. Criteria	Adjusted Targets	Est.	Status	Indic. Targets	Adjusted Targets	Est.	Status	Perf. Criteria	Adjusted Targets	Est.	Status Prel.
								(in CFAF billions)								
Quantitative performance criteria																
Net domestic financing of the Government (ceiling) [2]	0.0	52.4	19.3	Met	79.8	128.7	-32.8	Met	113.7	176.0	-1.4	Met	127.0	144.7	72.4	Met
Of which: Bank and market financing [2]	0.0	52.4	46.9	Met	99.3	148.2	62.7	Met	128.7	191.0	56.7	Met	138.6	156.4	76.0	Met
Cumulative increase in external payments arrears (ceiling) [3]	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	…	0.0	Met
New external borrowing at terms of one year or more contracted or guaranteed by the government on nonconcessional terms (ceiling) [3]	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	…	0.0	Met
New short-term external credits (less than one year) contracted or guaranteed by the government on nonconcessional terms (ceiling) [3]	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	…	0.0	Met
Net tax revenue (floor)	130.0	…	154.8	Met	304.7	…	343.0	Met	490.9	…	503.0	Met	677.1	…	681.8	Met
Indicative targets																
Basic fiscal balance (floor)	-30.0	…	23.3	Met	-52.8	…	80.8	Met	-92.4	…	55.4	Met	-111.5	…	-56.4	Met
Basic fiscal balance, underlying (floor) [4]	10.0	…	23.3	Met	-38.8	…	106.7	Met	-48.4	…	81.3	Met	-51.7	…	-16.5	Met
Priority spending (floor)	…	…	…		117.0	…	97.3	Not met	175.0	…	150.0	Not met	235.0	…	233.2	Not met
Memorandum items:																
External budget support [5]	20.0	…	15.5		68.3	…	50.9	…	96.4	…	90.6		144.1	…	120.3	
Pending bills reduction	-2.0	…	-54.4		-43.7	…	-83.6	…	-48.7	…	-108.2		-49.1	…	-53.3	
VAT credits refunds	0.0	…	0.0		0.0	…	-1.8	…	0.0	…	-2.8		-29.0	…	-34.7	

Source: Malian authorities.

[1] Cumulative figures from the beginning of the year. Noncontinuous targets at end-March and end-September 2010 are indicative targets. See Technical Memorandum of Understanding (TMU) of June 28, 2010 for definitions.

[2] The targets for these performance criteria and indicative targets are subject to adjustment for external budgetary assistance, reduction of pending bills and payment of VAT credits. See TMU of June 28, 2010 for more details.

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

[4] Excluding expenditure financed with revenue from the privatization of SOTELMA.

[5] As defined in paragraph 7 of TMU of December 31, 2010.

Table 2. Mali: Structural Benchmarks for the Sixth Review Under the ECF Program

Measures	Macroeconomic rationale	Status
For end-December 2010		
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.	In progress
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.	Met
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.	Met
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.	Met

Source: Malian authorities.

Table 3. Mali: Proposed Quantitative Performance Criteria and Indicative Targets, 2011 [1]

	March	June		Sep.		Dec.	
	Indic. Targ.	Perf. Criteria		Indic. Targets		Indic. Targets	
	Prog. [2]	Prog. [2]	Rev. Prog.	Prog. [2]	Rev. Prog.	Proj. [2]	Rev. Proj.
	(in CFAF billions)						
Quantitative performance criteria							
Government bank and market financing (ceiling) [3]	118.4	189.8	78.4	179.2	122.6	66.5	74.9
Cumulative increase in external payments arrears (ceiling) [4]	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 (ceiling) [4]	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 on nonconcessional terms (ceiling) [4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross tax revenue (floor)	181.4	362.9	359.5	559.4	554.5	755.8	764.8
Indicative targets							
Basic fiscal balance (floor)	-26.0	-62.7	-81.3	-79.9	-112.3	-100.4	-129.4
Basic fiscal balance, underlying (floor) [5]	-17.0	-44.7	-53.3	-52.9	-70.3	-64.4	-73.5
Priority spending (floor)	50.8	112.8	152.8	188.3	252.4	271.4	352.0
Memorandum items:							
External budget support [6]	73.9	74.5	79.9	94.1	99.5	121.1	127.9
Pending bills reduction	-80.0	-80.0	-18.1	-80.0	-43.8	0.0	4.2
Tax refunds	-7.7	-15.4	-18.5	-24.0	-27.6	-32.6	-37.0
Arrears payment	-5.2	-10.3	-12.3	-10.3	-12.3	-10.3	-12.3

Sources: Malian authorities; and IMF staff projections.

[1] Cumulative figures from the beginning of the year. Noncontinuous targets at end-March, end-September 2010 and end-December 2011 are indicative targets. See Technical memorandum of understanding (TMU) for definitions.

[2] IMF Country Report No. 11/37: Mali —Fifth Review Under the Extended Credit Facility (ECF).

[3] The targets for this performance criterion or indicative target are subject to adjustment for external budgetary assistance, reduction of pending bills, tax refunds, and arrears payment. See TMU for more details.

[4] These performance criteria will be monitored on a continuous basis since the beginning of the year.

[5] Excluding expenditure financed with revenue from the privatization of SOTELMA.

[6] As defined in paragraph 6 of TMU .

Table 4. Mali: Structural Benchmarks for the Seventh Review Under the ECF Program

Measures	Macroeconomic rationale	Timing	Status
In the context of the seventh program review			
Prepare a data base of: (i) all the domestic debt contracts signed by the governement including the stock of the debt at end-2010, and the quarterly interest payments and amortization due; and (ii) the debts guaranteed by the government.	Strengthen domestic debt management.	28-Feb	Postponed to June 30
Present the Central Government Consolidated Financial Operation (TOFE) at end-March 2011 according to the presentation decribed in paragraph 23 of the Technical Memorandum of Understanding (TMU).	Strengthen fiscal transparency.	31-May	
Do a study to analyze the impact of transferring all outstanding balances of accounts held by line ministries in commercial banks, except of accounts established by contracts with donors in the context of externally-financed projects, to the Treasury Single Account at the BCEAO.	Strengthen cash management.	30-Jun	Postponed to September 30
Introduce in the draft 2012 budget law a reform of the tax system, aiming at a greater mobilization of revenue while ensuring greater rationalization and modernization of the tax laws, including through a reduction of tax exemptions.	Strengthen revenue mobilization and the business environment.	30-Sep	

Source: Malian authorities.

Table 5. Mali: Central Government Consolidated Financial Operations, 2011

	March	June		September		December	
	Prog.[1]	Prog.[1]	Rev. prog.	Prog.[1]	Rev. prog.	Prog.[1]	Rev. prog.
	(in CFAF billions)						
Revenue and grants	283.6	522.0	487.8	793.5	745.9	1,062.6	1,019.3
Total revenue	199.1	398.3	399.5	611.6	617.2	824.8	852.5
Budgetary revenue	181.3	362.5	365.9	557.9	565.4	753.3	781.0
Tax revenue	173.7	347.5	341.0	535.4	526.9	723.2	727.9
Direct taxes	51.1	102.3	100.6	153.4	155.2	204.5	214.1
Indirect taxes	122.6	245.2	240.4	382.0	371.7	518.7	513.8
VAT	69.0	138.0	141.3	215.6	218.0	293.1	300.7
Excises on petroleum products	5.4	10.8	11.3	17.3	17.5	23.9	24.1
Import duties	24.0	48.0	46.2	77.3	71.3	106.6	98.4
Other indirect taxes	31.9	63.9	59.9	95.8	92.4	127.7	127.5
Tax refund	-7.7	-15.4	-18.5	-24.0	-27.6	-32.6	-37.0
Nontax revenue	7.5	15.1	25.0	22.6	38.5	30.1	53.1
Special funds and annexed budgets	17.9	35.8	33.6	53.6	51.8	71.5	71.5
Grants	84.5	123.7	88.2	182.0	128.7	237.8	166.9
Projects	38.7	77.3	41.8	116.0	62.7	154.6	83.7
Budgetary support	45.8	46.4	46.4	66.0	66.0	83.2	83.2
Of which: general	17.2	17.8	17.8	34.4	34.4	47.1	47.1
Of which: sectoral	28.6	28.6	28.6	31.6	31.6	36.1	36.1
Total expenditure and net lending (payment order basis)	331.4	649.5	618.1	960.7	924.1	1,279.4	1,235.3
Budgetary expenditure	311.5	609.8	580.0	901.1	865.6	1,199.9	1,154.9
Current expenditure	160.3	335.9	343.5	501.5	522.2	673.2	703.0
Wages and salaries	63.7	127.4	127.6	198.6	198.9	269.8	270.2
Goods and services	53.3	113.1	116.3	164.5	174.4	224.8	232.5
Transfers and subsidies	37.4	83.4	87.6	121.0	131.4	153.5	175.3
Interest	5.9	12.1	12.1	17.5	17.5	25.1	25.1
Of which: domestic	2.5	2.5	2.5	4.4	4.4	8.0	8.0
Capital expenditure	151.2	273.9	236.5	399.5	343.4	526.7	451.9
Externally financed	104.6	180.6	130.3	259.6	184.1	340.1	239.4
Domestically financed	46.6	93.3	106.2	139.9	159.3	186.6	212.4
Special funds and annexed budgets	17.9	35.8	33.6	53.6	51.8	71.5	71.5
Net lending	2.0	4.0	4.5	6.0	6.7	8.0	8.9
Overall fiscal balance (excl. grants)	-132.2	-251.3	-218.5	-349.1	-306.9	-454.5	-382.8
Overall fiscal balance (incl. grants)	-47.8	-127.6	-130.3	-167.2	-178.1	-216.7	-216.0
Variation of arrears	-5.2	-10.3	-12.3	-10.3	-12.3	-10.3	-12.3
Adjustment to cash basis	-80.0	-80.0	-18.1	-80.0	-43.8	0.0	4.2
Overall balance (cash basis, incl. grants)	-132.9	-217.9	-160.7	-257.5	-234.2	-227.0	-224.1
Financing	132.9	217.9	160.7	257.5	234.2	227.0	224.1
External financing (net)	62.5	97.6	76.5	131.9	103.0	177.9	137.6
Loans	65.5	102.8	93.3	140.2	123.3	187.3	164.4
Project loans	37.4	74.7	59.8	112.1	89.8	149.4	119.7
Budgetary loans	28.1	28.1	33.5	28.1	33.5	37.9	44.7
Amortization	-4.6	-13.1	-23.8	-17.9	-30.8	-23.4	-40.8
Debt relief	1.6	7.9	7.0	9.6	10.5	14.0	14.0
Domestic financing (net)	70.5	120.3	84.2	125.6	131.3	49.1	86.5
Banking system	59.4	104.3	80.5	113.9	125.8	80.4	79.2
Net credit to the government	59.4	104.3	80.5	113.9	125.8	80.4	79.2
IMF (net)	1.4	1.2	1.2	1.1	13.1	2.7	17.6
Central bank credit (net)	-0.6	-1.3	-1.3	-1.9	-1.9	-2.6	-2.6
Other	58.6	104.3	80.6	114.7	114.6	80.3	64.2
Privatization receipts	0.0	0.0	1.7	3.3	2.5	3.3	3.3
Other financing	11.1	16.0	2.0	8.4	3.0	-34.6	4.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items							
Basic fiscal balance [2]	-26.0	-62.7	-81.3	-79.9	-112.3	-100.4	-129.4
Underlying basic fiscal balance [3]	-17.0	-44.7	-53.3	-52.9	-70.3	-64.4	-73.5
External budget support [4]	73.9	74.5	79.9	94.1	99.5	121.1	127.9
Government bank and market financing	79.2	133.0	78.4	139.1	122.6	66.5	74.9

Sources: Ministry of Finance; and IMF staff projections.

[1] Same as in IMF Country Report No. 11/37: Mali —Fifth Review Under the Extended Credit Facility (ECF), with the exception of total grants for March, June and September, which have been corrected, and corresponding changes in the overall fiscal balance and domestic financing.

[2] Revenue excluding grants minus domestically financed expenditure.

[3] Basic fiscal balance excluding spending financed by the revenue from the privatization of the telecom company SOTELMA.

[4] As defined in paragraph 6 of TMU .

Table 6: Use of Revenue from the Sale of 51 percent of the Telecom Company SOTELMA
(in CFAF millions)

	2009	2010		2011		2012	Total
		Prog.	Real.	Prog.	Rev. Prog.		
Fiscal consolidation	9,500	2,000	2,000	0	0	30,500	42,000
Economic operators	0	0	0	0	0	24,000	24,000
Banks	9,500	2,000	2,000	0	0	6,500	18,000
Human resource development	1,000	11,253	8,253	5,255	8,255	0	17,508
Youth, education, jobs	0	9,300	7,100	5,255	7,455	0	14,555
Higher education	0	3,900	3,182	3,755	4,473	0	7,655
Construction of university facilities in Bamako and Ségou	0	3,188	3,017	3,755	3,926	0	6,943
Establishment of research competitiveness fund	0	500	0	0	500	0	500
Université de Bamako interconnection	0	212	165	0	47	0	212
Secondary education, professional training, youth, and jobs	0	5,400	3,918	1,500	2,982	0	6,900
Construction and equipment, technical high schools and IFPs (1)	0	4,400	2,918	1,000	2,482	0	5,400
Building financial capacities of the Youth Employment Agency (APEJ)	0	1,000	1,000	500	500	0	1,500
Health and social development	1,000	1,953	1,153	0	800	0	2,953
Supplemental funding for construction of Mopti Hospital	0	1,000	1,000	0	0	0	1,000
Supplemental funding for construction of Sikasso Hospital	1,000	0	0	0	0	0	1,000
Computer equipment, manadatory health insurance	0	953	153	0	800	0	953
Infrastructure and equipment	0	7,747	3,580	11,263	15,430	0	19,010
Roads and bridges	0	3,375	2,637	3,875	4,613	0	7,250
Kayes: Paving of 6 km of Bafoulabé-Mahina road	0	1,000	1,000	0	0	0	1,000
Koulikoro: Paving of 5 km of roads	0	1,000	1,000	0	0	0	1,000
Kidal: Paving of 5 km of roads	0	375	0	875	1,250	0	1,250
Bamako: Construction of Yirimadio hospital access road	0	1,000	637	0	363	0	1,000
Sikasso: Bridge over the Baoulé between Manankoro-Tienfinzo	0	0	0	3,000	3,000	0	3,000
Communication and transportation	0	4,372	943	7,388	10,817	0	11,760
1 outdoor broadcasting van, 12 cameras	0	1,950	795	0	1,155	0	1,950
1 production van with four cameras	0	700	0	0	700	0	700
1 audio production and broadcasting van	0	45	0	105	150	0	150
1 Fly and vehicle accessories	0	108	0	252	360	0	360
1 terrestrial broadcasting station	0	669	147	931	1,453	0	1,600
Acquisition of second national television (ORTM) channel	0	0	0	4,000	4,000	0	4,000
Acquisition of 2 flatboats for the Malian Navigation Company (COMANAV)	0	900	0	2,100	3,000	0	3,000
Agricultural development	0	13,675	7,405	225	6,495	0	13,900
Municipal works	0	3,330	1,318	225	2,237	0	3,555
Maintenance upgrade outreach infrastructures Niger Office	0	4,100	4,100	0	0	0	4,100
Contribution to National Agricultural Development Fund	0	5,000	1,188	0	3,812	0	5,000
Support for development/assistance measures		445	0	0	445		445
PRODEVALAIT (2)	0	800	799	0	1	0	800
Improving living conditions	0	18,206	11,753	5,708	12,161	0	23,914
Contribution to the National Fund for Local Government Investment	0	6,000	0	4,000	10,000	0	10,000
Rehabilitation of military barracks	0	3,292	3,279	1,708	1,721	0	5,000
Social-interest housing program	0	6,500	6,141	0	359	0	6,500
Development of Diafrana Ko	0	1,614	1,533	0	81	0	1,614
Construction of the fiftieth anniversary monument	0	800	800	0	0	0	800
Financial support for development of small and medium-size enterprises and industries	0	0	0	6,000	6,000	0	6,000
Establishment of a private sector guarantee fund	0	0		3,000	3,000	0	3,000
Establishment of a national investment fund	0	0		3,000	3,000	0	3,000
Economic reform and improved governance	0	6,900	6,900	0	0	0	6,900
Restructuring of the government-controlled mortgage bank (Banque de l'Habitat de Mali, BHM)	0	5,000	5,000	0	0	0	5,000
Support for the national civil-registration census (recensement administratif à vocation d'état civil, RAVEC)	0	1,900	1,900	0	0	0	1,900
Miscellaneous projects	0	0		7,579	7,579	0	7,579
Public investments in partnership with donors and lenders	0	0	0	0	0	28,577	28,577
Establishment of the technology hub	0	0	0	0	0	. . .	. . .
Connection of secondary cities to the national road network, over 100 Km	0	0	0	0	0	. . .	. . .
Construction of a second bridge in Kayes	0	0	0	0	0	. . .	. . .
Improvement and development of the Lake Faguibine System	0	0	0	0	0	. . .	. . .
Improvement of the Bamako Sénou industrial park	0	0	0	0	0	. . .	. . .
Implementation of modern land register for the cities of Bamako and Kati	0	0	0	0	0	. . .	. . .
Strengthening logistical capacities of the armed forces and regional governments	0	0	0	0	0	. . .	. . .
Restructuring plan	15,000	0	0	0		0	15,000
Total	25,500	59,781	39,891	36,030	55,920	59,077	180,388

1/ IFP: Professional training institutions
2/ Project to Develop and Promote Dairy Production in Mali.

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum of understanding defines the quantitative performance criteria and indicative targets for the program supported by the Extended Credit Facility (ECF) in 2011. It also specifies the frequency and deadlines for reporting data 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 government of the Republic of Mali and does not include local governments, the central bank, or any other public entity with autonomous legal personality that is not included in the Central Government Consolidated Financial Operations Table (TOFE).

II. PERFORMANCE CRITERIA AND INDICATIVE TARGETS

3. Except as noted, the following financial targets will constitute performance criteria for end-June and indicative targets for end-September.

A. Ceiling on Net Domestic Financing of the Government by Banks and the Financial Market

4. **Net domestic financing of the government by banks and the financial market** is defined as the sum of (i) the net government position as defined below, and (ii) financing of the government through the issuance (net of redemptions) of securities to legal entities or individuals outside the banking system or to nonresident banks domiciled in the West African Economic and Monetary Union (WAEMU).

5. The net government position is defined as the balance between government claims and debts vis-à-vis the central bank and commercial banks. The scope of the net government position is that used by the Central Bank for West African States (BCEAO) and is consistent with the IMF's general practice in this area. It implies a broader definition of the government than that specified in paragraph 2 and includes local governments and certain government administrative agencies and projects. Government claims include the CFAF cash balance, postal checking accounts, secured liabilities, and all deposits of government agencies with the BCEAO and commercial banks, with the exception of government industrial and commercial agencies (EPIC) 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 the net government position. The net government position vis-à-vis the State is calculated by the BCEAO.

Adjustment factors

6. The ceiling on net domestic financing of the government by banks and the financial market will be adjusted downward if **external budget support** exceeds program projections. Budget support is defined as grants, loans, and debt relief operations (excluding project loans and grants, IMF resources, and debt relief under the HIPC Initiative, but including general and sectoral budget support). The adjustment factor will be applied at the rate of 0 percent for amounts up to CFAF 25 billion; and 100 percent for amounts in excess of CFAF 25 billion. The ceiling on net domestic financing of the government by banks and the financial market will be adjusted upward if external budget support falls short of program projections. The adjustment factor will be applied at the rate of 100 percent up to a threshold of CFAF 25 billion and at the rate of 0 percent for larger amounts.

7. The ceiling on net domestic financing of the government by banks and the financial market will be adjusted upward (downward) if the **net reduction in pending bills** exceeds (is less than) the programmed amounts (MEFP, Table 3). Pending bills are defined as payment orders not paid by the National Directorate of Treasury and Public Accounting (DNTCP) in the context of budget execution or on miscellaneous correspondent and depositor accounts, regardless of their age.

8. Finally, the ceiling on net domestic financing of the government by banks and the financial market will be adjusted upward (downward) for the **payment of VAT credits, other tax refunds, and arrears from previous fiscal years** exceeding (under) the programmed amounts (MEFP, Table 3).

B. Non-accumulation of External Public Payments Arrears

9. The stock of external payments arrears is defined as the sum of payments due but not paid on external liabilities of the government and the external debt owed or guaranteed by the government. The definition of external debt provided in paragraph 11(a) applies here.

10. During the program, the government undertakes not to accumulate external payments arrears (except with regard to debt being renegotiated or rescheduled). The performance criterion on the non-accumulation of external payments arrears will be applied on a continuous basis throughout the program period.

C. Ceilings on Non-Concessional External Debt with a Maturity of One Year or More and on Short-Term External Debt Contracted or Guaranteed by the Government and/or Public Enterprises

11. **Definition of debt.** For the purposes of the relevant assessment criteria, the definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91):

(a) Debt is understood to mean a direct, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

12. **Debt guarantees.** For the purposes of the relevant assessment criteria, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

13. **Debt concessionality**. A debt is considered concessional if it includes a grant element of at least 35 percent;[1] the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The

[1] The following reference on the IMF website creates a link to a tool that allows for the calculation of the grant element of a broad range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by OECD.[3] For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. The margins for differing repayment periods (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) are added to the ten-year and six-month CIRR averages.

14. **External debt.** For the purposes of the relevant assessment criteria, external debt is defined as debt borrowed or serviced, or requiring repayment, in a currency other than the CFAF. This definition also applies to debt among WAEMU countries.

15. **Debt-related assessment criteria.** The relevant assessment criteria apply to the contracting and guaranteeing of new nonconcessional external debt by the government, Energie du Mali (EDM), and the Compagnie Malienne des Textiles (CMDT), insofar as the government is a majority shareholder. The criteria apply to debt and commitments contracted or guaranteed for which value has not yet been received. The criteria also apply to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government. These performance criteria are monitored on a continuous basis. No adjuster will be applied to these criteria.

16. **Special provisions.** The assessment criteria do not apply to: (i) debt rescheduling transactions of debt existing at the time of the approval of the arrangement; (ii) short-term external debt (maturity of less than one year) related to imports; (iii) external debt of the CMDT guaranteed by cotton export proceeds; and iv) short-term external debt (maturity of less than one year) contracted by EDM to finance the purchase of petroleum products.

17. **Reporting requirements.** The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

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[2] The calculation of concessionality will take into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[3] For debts in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the composite CIRR (weighted average) of the currencies in the SDR basket.

D. Floor on Gross Tax Revenue

18. Gross tax revenue of the government is defined as the revenue appearing in the TOFE and includes all tax revenue in the national budget, before deduction of tax refunds generated, particularly VAT credits accumulated.

E. Floor on the Basic Fiscal Balance

19. The basic fiscal balance is defined as the difference between total net revenue, excluding grants and privatization receipts, and total expenditure cleared for payment plus net lending, excluding capital expenditure financed by foreign creditors or donors and HIPC expenditure.

F. Floor on the Basic Fiscal Balance Excluding Expenditure Financed with SOTELMA Privatization Receipts

20. The basic fiscal balance expenditure financed with SOTELMA privatization receipts is defined in accordance with the basic fiscal balance defined in paragraph 19, less expenditure financed with SOTELMA privatization receipts drawn from the special account at the BCEAO.

G. Floor on Priority Poverty-Reducing Expenditure

21. Priority poverty-reducing expenditure is defined as the sum of the expenditure of the Ministry of Elementary Education, the Ministry of Secondary and Higher Education and Scientific Research, the Ministry of Health, and the Ministry of Social Development. It excludes capital expenditure financed by external technical and financial partners in the form of projects.

III. Structural Measures

22. Information on the introduction of measures constituting structural benchmarks will be sent to IMF staff no later than two weeks after the date set for their implementation.

23. As of May 31, 2011, **changes** will be made **to the Central Government Consolidated Financial Operations Table (TOFE)** as described below. Revenues and expenditures recorded in suspense accounts will be recorded above the line as revenues or expenditures without being broken down. As part of the adjustment to cash basis, a distinction will be made between transactions under previous fiscal years and transactions under the current fiscal year, as well as, in the latter case, a distinction between the “float” (less than three months) and types of arrears (more than three months) with respect to budget expenditures (including VAT credits and calls upon guarantees and pledges). Within the entry “net domestic financing,” a distinction will be made between bank financing, privatization income, and other financing sources. Bank financing includes changes in the net

government position vis-à-vis the central bank, the IMF, and resident commercial banks. In showing operations with commercial banks, a distinction will be made between the Treasury, the National Social Insurance Administration (INPS), and other government entities. Within Treasury transactions, deposits and withdrawals on the SOTELMA privatization income account will be specifically identified. Other financing will consist mainly of checks that have not been cashed, advance tax installments received in the current year for the following year, the regularization of advance tax installments received the previous year for the current year, operations with nonresident WAEMU creditors, and changes in deposits from Treasury correspondents.

IV. Additional Information for Program Monitoring

24. To facilitate program monitoring, the government will provide IMF staff with the information indicated in the following summary table.

Summary of Reporting Requirements

Type of data	Tables	Frequency	Reporting deadline
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 position of other government agencies' accounts with the banking system) and breakdown of nonbank financing	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Balance of the account recording SOTELMA privatization receipts on deposit with the BCEAO	Monthly	End of month + 3 weeks
	Central government TOFE 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 the revenue and expenditure recorded in the TOFE	Monthly	End of month + 6 weeks
	Separate report on HIPC-financed expenditure	Monthly	End of month + 6 weeks
	Execution of the capital budget	Quarterly	End of quarter + 8 weeks
	Tax revenue as recorded in the TOFE Showing tax refunds (including VAT credits)	Monthly	End of month + 6 weeks
	Wage bill as recorded in the TOFE	Monthly	End of month + 6 weeks
	Basic fiscal balance as recorded in the TOFE	Monthly	End of month + 6 weeks
	Customs exemptions	Monthly	End of month + 4 weeks

Type of data	Tables	Frequency	Reporting deadline
	Order setting the prices of petroleum products, tax revenue from petroleum products, and total exemptions granted	Monthly	End of month
	Imports of petroleum products by type and point of entry	Monthly	End of month + 2 weeks
	Expenditure cleared for payment but not paid 90 days after issuance of the payment order	Monthly	End of month + 1 week
Monetary and financial data	Summary accounts of the BCEAO, summary accounts of banks, accounts of monetary institutions	Monthly	End of month + 4 weeks (provisional); end of month + 8 weeks (final)
	Foreign assets and liabilities and breakdown of other items net of the BCEAO and of commercial banks	Monthly	End of month + 8 weeks
	Lending and deposit interest rates, BCEAO policy rate, 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 the balance of payments	Variable	8 weeks following each revision
External debt	Breakdown of all new external borrowing	Monthly	End of month + 4 weeks
	Debt service, indicating amortization, interest expenses, and relief obtained under the HIPC Initiative	Monthly	End of month + 4 weeks
Budget Directorate	Priority poverty-reducing expenditure as defined in ¶ 21.	Quarterly	End of quarter + 4 weeks