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Minutes of Executive Board Meeting 19/73-2
10:03 a.m., August 28, 2019

2. Mali—Request for a Three-Year Arrangement Under the Extended Credit Facility

Documents: EBS/19/78 and Supplement 1

Staff: Yontcheva, AFR; Gonzalez, SPR

Length: 55 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors Alternate Executive Directors

<p>M. Raghani (AF)</p> <p>L. Levonian (CO)</p> <p>R. Kaya (EC)</p> <p>A. De Lannoy (NE)</p> <p>T. Ostros (NO)</p> <p>A. Mahasandana (ST)</p> <p>P. Inderbinen (SZ)</p> <p>S. Riach (UK)</p>	<p>K. Obiora (AE)</p> <p>J. Di Tata (AG)</p> <p>J. Shin (AP), Temporary</p> <p>B. Saraiva (BR)</p> <p>P. Sun (CC)</p> <p>E. Cartagena Guardado (CE), Temporary</p> <p>P. Rozan (FF), Temporary</p> <p>K. Merk (GR)</p> <p>P. Dhillon (IN), Temporary</p> <p>F. Spadafora (IT), Temporary</p> <p>K. Chikada (JA)</p> <p>K. Osei-Yeboah (MD), Temporary</p> <p>F. Al-Kohlany (MI), Temporary</p> <p>S. Potapov (RU), Temporary</p> <p>F. Rawah (SA), Temporary</p> <p>P. Pollard (US), Temporary</p>
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C. McDonald, Acting Secretary
H. Malothra, Summing Up Officer
A. Lalor, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present

African Department: B. Arnason, A. Fedelino, E. Mensah, A. Nguyen-Duong, B. Yontcheva.
Communications Department: R. Elnagar. Fiscal Affairs Department: D. Bartolini. Legal
Department: D. McDonnell. Strategy, Policy, and Review Department: M. Gonzalez,
Y. Some. World Bank Group: L. Moller.

2. MALI—REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

Mr. Raghani and Mr. Diakite submitted the following statement:

Our Malian authorities would like to thank the Executive Board, Management and staff for their continued support to Mali's development efforts. Under the previous Extended Credit Facility (ECF)-supported program which expired in December 2018, notable progress has been made in strengthening Mali's macroeconomic framework. The steadfast implementation of the Fund-supported arrangement contributed significantly to achieving the country's economic and social objectives despite the daunting challenges of insecurity and the impact of exogenous shocks.

To sustain the progress achieved and meet large development needs while coping with the significant spending required to maintain peace and fight against terrorism, the authorities are requesting a new ECF arrangement. This would help Mali preserve fiscal and debt sustainability, mobilize much-needed international assistance while supporting the implementation of far-reaching reforms in the framework of the new development strategy (Cadre Stratégique pour la Relance Economique et le Développement Durable) covering the period 2019-23.

Economic developments in 2018 and outlook for 2019

Economic activity remained buoyant in 2018 with real GDP growth estimated at 4.7 percent (compared to 5.4 percent in 2017) and inflation stayed low at below 2 percent. The overall balance of payments position was positive, thanks to the important reduction in the trade balance deficit (-6.7 percent of GDP down from -9.1 percent of GDP in 2017), reflecting the significant increase in gold exports and the overall decline in imports. Budget execution was marked by a sharp decline in tax revenue which fell from 15.2 percent of GDP in 2017 to 11.8 percent of GDP due mainly to the weak performance of the tax and customs administrations. The overall fiscal deficit (on a commitment basis) stood at 4.7 percent of GDP against 2.9 percent of GDP in 2017. These fiscal developments led to an increase in the budgetary float.

In 2019, real GDP growth is projected at 5 percent and inflation should remain moderate. The increase in GDP growth will be driven mainly by the upturn in the tertiary and the construction sectors. Tax revenues are expected to increase as a result of the implementation of strong operational measures by the tax and customs administrations, with revenue mobilization normalizing

by 2020. The overall balance of payments is expected to deteriorate due notably to an increase in imports resulting from the strengthening of economic activity. Mali, as a member of the West African Economic and Monetary Union (WAEMU), has access to the pooled foreign exchange reserves of the regional central bank (BCEAO) which continue to serve the economy well.

Policies and Reforms under the new ECF Arrangement

The new ECF arrangement aims to preserve macroeconomic stability, including debt sustainability, and consolidate the foundation for higher, broad-based and sustainable growth that bolsters jobs creation and poverty reduction. To this end, the authorities intend to enhance the effectiveness of fiscal policy and administration, control the overall fiscal balance while protecting priority expenditures, enhance the efficiency and execution of public spending, and pursue a sustainable debt policy. Furthermore, bold measures will be taken to improve the financial situation of the state-owned electricity company EDM and the business environment. Additional efforts will be made to advance economic diversification and promote good governance.

Fiscal Policy

The authorities remain determined to conduct a sustainable fiscal policy while preserving priority spending and strengthening revenue mobilization by improving the effectiveness of fiscal policy and administration. They are also committed to meet WAEMU's convergence criterion of 3 percent of GDP for the overall fiscal deficit, while preserving priority social and capital spending in line with the program objectives. The 2019 supplementary budget law submitted to the National Assembly on August 1, 2019, and the draft 2020 budget law will aim at achieving these objectives.

On the revenue side, the authorities are mindful of the need to address the causes of the shortfall in fiscal revenues experienced in 2018. In this regard, they have finalized the audit on revenue underperformance in 2018 which was a prior action. Corrective measures are underway to better the performance of the tax and customs administrations and additional steps will be taken in the framework of the 2019 action plan which will be completed based on the results of the various audits.

In the tax administration, efforts to tackle revenue underperformance will focus notably on upscaling the audit of all enterprises which have applied

for the flat-rate tax declarations, and those concerned by the main risks identified by the Ministry of Finance. To this end, a coordinated and effective exchange of information mechanism will be established between the various administrative entities involved. Moreover, enhanced monitoring of tax declarations and strengthened controls will be conducted. The creation of a central unit to monitor tax collection and enhance recovery of tax arrears is also contemplated. In addition, the digital procedures for tax filing and payments will be promoted. At the same time, efforts to implement a results-based management framework, ameliorate human resources management together with incentive schemes will be further stepped-up.

The customs administration is the other strategic entity targeted by the authorities to strengthen revenue mobilization. They will implement an action plan focused on reinforcing its organizational structure, digitalizing procedures and strengthening controls based on risk assessment. Furthermore, current mechanisms to fight against fraud and smuggling will be reassessed to make them more effective. Training of customs officers as well as reinforcing collaboration with other security forces will be bolstered.

Regarding tax policy, measures will be taken to abolish the VAT withholding practice as soon as possible and enhance fiscal revenue on petroleum products through a more systematic implementation of the automatic fuel price adjustment mechanism. Based on the recommendations of the Fund's technical assistance, the mining code will be revised to streamline and make exemptions more effective. Considering the need to broaden the tax base, the Government will also take additional measures including to reform property taxation, bolster payment for some taxes through mobile banking services, notably for the informal sector, and revise certain aspects of the tax code to include nonprofit organizations.

On the expenditure side, the government is determined to preserve priority social and capital spending, in particular in the education and health sectors. In this regard, the 2019 supplementary budget and the draft 2020 budget provide adequate resources to meet this commitment while ensuring compliance with the regional convergence criteria. Should revenues fall below the targeted level, budget execution will continue to release spending allocations based on revenue performance in relation to program objectives. Streamlining budgetary transfers and subsidies by improving their transparency and predictability is also envisaged.

Based on the recommendations of the 2017 public investment management assessment (PIMA), the authorities will continue enhancing the

efficiency of public investment through rigorous project selection and implementation. With the view to maximizing fiscal efficiency and projects' impacts on the economy, the ex-ante appraisal process will be systematically upgraded. Moreover, efforts to reinforce the legal framework for public-private partnerships will be intensified to mitigate fiscal risks and improve the quality of public investment.

With technical assistance from the Fund, the authorities will continue to consolidate the cash position of the government. They will strengthen cash management, notably by better integrating the disbursements of donors in the forecasts and expand the coverage of the Single Treasury Account (TSA). They intend to make headways in completing the implementation of the TSA by operationalizing the IT systems to facilitate the transfer of public accounts from commercial banks. Moreover, these improvements in IT systems will help modernize cash management and promote digitalization of tax payments.

Recognizing the impact of domestic arrears on the financial sector and economic activity, the authorities plan to clear in 2019 all the arrears accumulated in 2018. Going forward, they are determined not to accumulate new domestic arrears.

As regards debt policy, the government remains committed to preserve debt sustainability. To this end, it will continue to limit external debt and guarantees within the ceiling agreed under the program. It will also address the refinancing risk associated with short term financing instruments used in the regional market and is working to reprofile the domestic debt through a longer term commercial loan with assistance from the World Bank.

Structural reforms

Pursuing the implementation of structural reforms to ameliorate living standards and bolster jobs creation, especially for the youth, remains a key priority. Under the program, bold reforms aimed at improving the business environment, promoting good governance and strengthening the financial situation of EDM will be pursued.

Regarding EDM, efforts will continue to bring the company to cost-recovery, ensure that it is able to meet its financial obligations and provide reliable electricity. With the support of the World Bank, the government will implement the restructuring plan which aims at stabilizing the financial situation of the company by 2021. This plan encompasses the restructuring of the company's debt owed to banks and refinancing on more

favorable terms. These actions should help the government to gradually reduce subsidies to EDM in the medium term. EDM will gradually align medium-voltage tariffs to the real cost of production while protecting the most vulnerable segments of the population through a social tariff for electricity.

The authorities are committed to further improve the business environment by addressing the major constraints to private sector development. They intend to enhance the investment framework to attract FDI and strengthen public-private partnerships (PPPs) to minimize fiscal risks. In this regard, the directives of the regional law on PPPs will be transposed into national Law by 2021 in consultation with the Fund. The PPP unit will be operationalized under the program to support the competitiveness of the Malian economy (Programme d'Appui à la Compétitivité de l'Economie Malienne).

Financial sector

Promoting the stability and inclusion of the financial sector remains a high priority. In this vein, the weaknesses of the financial sector will be addressed and the process of removing non-operating fixed assets from banks' balance sheets will be supported to comply with regional prudential norms. The use of mobile banking to expand access to financial services by unbanked populations will be promoted, as well as the provision of administrative services and payment of taxes. Efforts will be stepped up to reduce gender disparities including through income generating projects for women which will create 400 cooperatives and train 50,000 beneficiaries in financial and project management.

Governance

The commitment to further foster transparency in public financial management and tackle corruption remains strong. Further progress will be made on asset declarations of civil servants notably by stepping up the revision of the Law on illicit enrichment, to make it more effective and inclusive. The authorities will ensure the enforcement of the Law by the Ministries and other administrative institutions. The coordination between anti-corruption agencies will be strengthened to enable them to carry out their mandates effectively. The Government will consider additional actions to reinforce governance and fight corruption following the Fund's diagnostic mission expected in early 2020.

Conclusion

Despite the challenging security environment, Mali continues its economic expansion and is making notable progress to maintain macroeconomic stability, and improve public financial management and the business environment to foster sustainable and inclusive growth. Our Malian authorities remain committed to pursuing sound policies and far-reaching reforms with the support of the Fund and their development partners. In this endeavor, they seek Directors' favorable consideration for a three-year arrangement under the ECF.

Mr. Obiora and Ms. Maidi submitted the following statement:

We support the Malian authorities' request for an Arrangement under the Extended Credit Facility (ECF) to help preserve macroeconomic stability and support attainment of more sustainable and inclusive growth. Our support to the proposed decision is premised on the new administration's strong commitment to undertake the much-needed reforms and to meet a broad range of prior actions. While we are comforted by the authorities' remarkable track record in the implementation of reforms under previous programs, challenges remain, and further policy actions are required to promote an inclusive economy, reduce poverty and significantly improve social outcomes.

A frontloaded fiscal consolidation would be essential to stabilize the economy and align the fiscal deficits with the WAEMU convergence criteria. As elucidated in the buff Statement by Mr. Raghani and Mr. Diakite, we support the authorities' domestic revenue mobilization efforts including strengthening tax compliance and human capacities, finalizing audits, improving information systems, strengthening customs procedures, reviewing the subsidies as well as widening the tax base. We commend the authorities for protecting vulnerable consumers while implementing much-needed fiscal consolidation and prioritizing investment spending. While we commend the authorities for the consolidation efforts and ensuring limits on the pass-through costs from large international fuel price increases to domestic prices, could staff elaborate on the sustainability of cutting non-priority spending when international prices continue increasing over a longer period. Further, pursuing PFM reforms to improve the quality of public investment and strengthening cash management would aid budget efficiency. In this light, we welcome authorities' commitment to expand the scope of the Treasury Single Account as well as liquidity forecasting and management.

We think the preservation of debt sustainability, particularly through addressing risks stemming from the SOEs, is crucial. We welcome the authorities' consideration to reduce and restructure domestic debt alongside rationalizing and reducing budget transfers to the Energy du Mali (EDM-SA). We welcome staff comments on how the authorities' plans to contribute to the reduction of the EDM-SA's stock of arrears through additional transfers would affect debt sustainability over time.

While the report alludes to the stability of the financial sector, the analysis of some key monetary and financial indicators gives us cause for concern. With Table 5 of the report indicating a loan-deposit ratio of about 97 percent, NPLs at 12.2 percent, low loan provisioning, and credit distribution concentrated in only three sectors, we are concerned that the financial system's stability could unravel rapidly, and welcome staff comments on these observations. We would also appreciate an explanation for the drivers of banking sector credit particularly as the report indicates a significant expansion of credit to the economy between 2018 and 2019 from 0.4 percent to 9.0 percent. Could this spike in credit growth also boost NPLs and affect the stability of the banking system?

To promote inclusive growth, urgent efforts are required to improve the business environment and enhance governance. In this vein, we believe that addressing the infrastructure gaps and enhancing governance should rank high on the authorities' agenda. To this end, we are encouraged by the planned reforms in the energy and transportation sectors and the authorities' commitment to promote financial inclusion by developing mobile banking, which could facilitate both personal and commercial transactions. Furthermore, we support the authorities' commitment to tackle governance and corruption issues especially through enhancing coordination between the control, audit and inspection agencies, by strengthening the role of the Auditor General and by the creation of special economic crime prosecution service. We note the authorities' plan to implement recommendations of the AML/CFT assessment in line with FATF standards and urge them to do so with urgency as these will be important to support broader anti-corruption efforts.

Mr. Di Tata and Mr. Rojas Ulo submitted the following statement:

We would like to thank staff for a clear and concise report and Mr. Raghani and Mr. Diakite for their very helpful buff statement.

We support the authorities' request for a new three-year arrangement under the Extended Credit Facility (ECF) and, thus, the proposed Decision. We base our support on the authorities' commitment to maintain sound macroeconomic policies and on their efforts to design and implement the New Strategic Framework for Economic Recovery and Sustainable Development (CREDD) for 2019-23, which provides a long-term development vision that prioritizes strong, sustainable, pro-poor growth. We also commend the authorities for the progress made under the five-year ECF agreement that expired in December 2018, which helped strengthen Mali's macroeconomic framework under difficult circumstances. Risks to external debt sustainability remain moderate and the new arrangement is expected to help catalyze external assistance.

Overall, Mali's economy has shown a favorable performance and the economic outlook looks positive although subject to important downside risks. Under the five-year ECF arrangement, Mali was able to achieve robust growth despite capacity limitations, social tensions, and security challenges, including insurgency and terrorism. However, implementation of structural reforms was mixed and progress in reducing poverty and improving social conditions was limited. The new program envisages real GDP growth of about 5 percent a year, with inflation expected to remain contained through the CFAF's peg to the euro. We support the new arrangement's immediate goals of improving domestic revenue mobilization and strengthening fiscal discipline. These are key priorities to create fiscal space for public investment and social spending and for strengthening Mali's growth potential, as discussed in Box 3 of the staff report. As noted by staff, main downside risks relate to a further possible deterioration of the security situation, potential terms of trade shocks, adverse weather conditions, and continued shortfalls in domestically-financed investment.

The new program aims to maintain a prudent fiscal policy in line with the WAEMU fiscal deficit convergence criteria. After widening from 2.9 percent of GDP in 2017 to 4.7 percent in 2018, the overall fiscal deficit is projected to decline to 3.0 percent in 2019 and to remain at that level through 2023. We note that revenue collection underperformed markedly in 2018, with tax receipts declining by 3.4 percentage points of GDP. We encourage the authorities to press ahead with the implementation of the strong operational measures included in the program to improve tax and customs administration. In this regard, we welcome the finalization of the audit of the revenue underperformance in 2018, the corrective measures underway (which have yielded positive results in the first semester of 2019), and the additional steps envisaged in the context of the 2019 action plan. We also note that the

authorities are considering options for protecting fuel tax revenues and are preparing tax policy measures to broaden the tax base over a longer horizon, including through reforms to land and property taxation and changes to the mining and investment codes to eliminate exemptions. Could staff elaborate further on the envisaged changes to the oil price mechanism and the expected timing of implementation of those changes? Also, could it provide an estimate of total tax expenditures in Mali, as well as of the possible fiscal impact of the tax policy (as opposed to the tax administration) measures being considered? The report highlights the importance of improving collaboration between tax administration and customs. Has the possibility of creating a single entity integrating both administrations been considered? Continued technical support from the Fund on tax policy and administration will be crucial to achieve the program's revenue targets.

We take positive note of the authorities' efforts to enhance spending efficiency, improve governance, and lessen the gender gap. There is a need to improve the composition and effectiveness of spending to enhance public investment. Further reforms are needed in the areas of public finance management and cash management, including by expanding the coverage of the Single Treasury Account. The authorities should also continue to strengthen the ex-ante evaluation of projects based on the recommendations of the 2017 PIMA and improve the legal framework governing public-private partnerships (PPPs) to mitigate fiscal risks. In addition, actions to enhance governance and transparency and to curb corruption should continue, including through the implementation of the recommendations of the ongoing AML/CFT assessment and of the Fund's governance diagnostic mission planned for early 2020. In this connection, we concur with staff on the importance of publishing the governance diagnostic report when it becomes available. The efforts underway to reduce gender disparities through income generating projects for women are welcome.

We take positive note of the multipronged reform strategy for the energy sector being prepared with support from the World Bank, which aims to stabilize the financial situation of EDM-SA by 2021. The plan seeks to bring EDM-SA to cost-recovery, ensure that the company meets its obligations, and provide reliable electricity. In this regard, we look forward to the finalization of the performance contract by end-November 2019. The implementation of the actions under consideration should allow for a gradual reduction of budget subsidies over the medium term.

We notice from the report that the banking system remains broadly stable. Banking stability indicators have improved and the ratio of

non-performing loans to total loans has declined, although it remains elevated. We welcome the authorities' plans to address the high level of non-operating fixed assets, as well as their policies to capitalize the rapid development of mobile banking services to improve the payments system and promote financial inclusion.

Lastly, we support the effective implementation of the structural reforms planned for 2019-23 in the context of the CREDD. Mali's economy has a narrow production base and a large infrastructure gap, and it is highly vulnerable to security shocks. The new CREDD, which is aligned with the African Union's development agenda and the UN's Sustainable Development Goals, provides a road-map for achieving strong inclusive growth. The new development strategy relies on a private-sector led structural transformation of the economy. Going forward, we encourage the authorities to accelerate the implementation of structural reforms centered on improving the business climate to support private sector development. Could staff also elaborate on the policies envisaged in the new CREDD to better protect the environment and strengthen resilience to climate change?

With these comments, we wish the Malian authorities every success in their future endeavors.

Mr. Beblawi and Mr. Al-Kohlany submitted the following statement:

Mali's human development indicators remain among the lowest in the world, and its macroeconomic challenges are compounded by the ongoing social and security tensions. Despite high risks, Mali's economic outlook remains positive. Given this context, and the important results achieved under the previous Fund arrangement, and in light of the authorities' commitment to Mali's ambitious Economic Recovery and Sustainable Development Plan as set out in Mr. Raghani and Mr. Diakite helpful buff statement, we support the request for a new three-year arrangement under the Extended Credit Facility.

Following the large revenue slippage in the final stages of the previous program and a widened fiscal deficit in 2018, we are encouraged that the authorities are implementing corrective measures to restore revenue performance as identified by the Fund's technical assistance missions. Looking ahead, comprehensive reforms of tax policy and revenue administration are crucial to create fiscal space for critical infrastructure investments and priority social spending. Sustained fiscal revenue performance and prudent debt management are also important for maintaining debt sustainability. To this end, we agree with staff's recommendation to

continue to pursue concessional financing, however we note the absence of a criterion on non-concessional borrowing, staff comments are welcome.

Governance and public financial management reforms are essential to strengthen the integrity and transparency of public finances, address governance weaknesses, and improve spending efficiency. We encourage the authorities to continue implementing the Public Finance Reform Plan, and we positively note the planned measures to broaden the scope of the Single Treasury Account, improve cash management, and strengthen budget processes. The forthcoming governance diagnostic mission would assist the authorities in formulating a plan of action to address governance vulnerabilities and to improve the identification and prioritization of measures in the areas of public finance and AML/CFT. We welcome the authorities' plans to publish the mission's report as indicated in the authorities MEFP.

Staff report presents a sobering assessment of the state-owned electricity company's financial and operational situation and the risk it presents to ongoing economic activity. High production costs, inadequate tariffs, and inefficiencies and mismanagement led to mounting debt to commercial banks and fuel suppliers and an increasing subsidy burden on the budget. We support the program's appropriate focus on reforming the energy sector and the authorities plans to restructure its commercial bank debt with technical and financial support from the World Bank as shown in Box 5. As an immediate step, we encourage the authorities to finalize the planned performance contract with the electricity company to strengthen the company's balance sheet and place the company on the road toward financial and operational recovery. We also welcome the authorities plan to revise the electricity tariff structure; however, we take note of the plan to maintain a "social tariff" to protect the most vulnerable segments of the population. Could staff elaborate on the trade-offs between this approach and providing direct and targeted help for low-income families via Mali's social safety programs?

Mr. de Villeroché, Ms. Albert and Mr. Rozan submitted the following statement:

We thank staff for their informative report and Mr. Raghani and Mr. Diakite for their useful buff statement. We commend the authorities for their commitment to support macroeconomic stability and their development agenda despite the country's fragility and security context, with very good progress achieved over the previous IMF arrangement. We support the request for a three year-arrangement under the Extended Credit Facility. The focus of this ECF on supporting stronger revenue mobilization for development needs,

poverty reduction and human capital development, as well as key structural reforms (in particular on the electricity sector) is warranted. We globally agree with the thrust of the staff report, and offer the following comments for emphasis:

Growth remains very dynamic, despite the security challenges. The new ECF will be key to support the country macroeconomic stability and growth, in the face of significant demographic pressure. Given the long-term challenges and needs of the country, we wonder whether a program duration of more than 3 years would not have been warranted.

Improving fiscal space for productive investment and priority social spending underscores the need to put a priority on revenue mobilization and spending efficiency, and we commend the authorities' determination. In this regard, we strongly support staff recommendations regarding domestic resource mobilization. Moreover, as the revenue shortfall was quite significant in 2018, we encourage authorities to continue their efforts and reach their ambitious fiscal targets, especially thanks to a streamlining of the tax exemptions, with a special attention to the mining code, and an expansion the tax base, through the development of a property taxation as well as enhancement of tax collection. Could staff share the first results of the internal audit of the tax administration and customs which should have been concluded by August 15? Regarding spending, we agree with staff that more progress need to be done regarding efficiency as financial resources remain limited.

To ensure long term growth and poverty reduction, we particularly welcome the authorities' 2019-2023 CREDD initiative and encourage them to proceed with its implementation, with the help of development partners. With an extreme poverty rate still at 42.7 percent we would welcome more details as to how the new ECF will contribute in this field. Going forward, throughout the program's reviews, a specific focus on supporting social spending will be key, in a country where the human development index is one of the lowest in the world.

We welcome the specific focus on the restoration of the financial health of Energie du Mali, to avoid a negative financial and economic impact. A more financially sustainable energy sector is needed in the long term and should be implemented, with a sustainable pricing policy, while preserving specific tariffs for the most vulnerable. We welcome the structural benchmark in this area. Regarding the possibility of the reprofiling of the domestic and regional debt, could staff precise the modalities of the potential operation of

the budgetary loan and policy-based guarantee operation, and whether a comparison of cost/advantage between using the IDA allocation as a loan and as a guarantee has been made?

The focus on strengthening the business environment, on improving governance and fighting corruption is warranted. This is key to trigger a strong private-sector led growth. We appreciate the several structural benchmarks dedicated to these issues, and we are looking forward the results of the FAD-LEG mission next year.

We recognize that achieving long lasting program results requires a strong provision of technical assistance, in coordination with other development partners, in the light of limited domestic capacity. We commend the authorities for their strong efforts in this regard and thank staff for the particularly useful annex on this issue.

Ms. Mahasandana and Ms. Susiandri submitted the following statement:

We thank staff for the good report and Mr. Raghani and Mr. Diakite for the informative buff Statement.

Despite the challenges of insecurity and external shocks, Mali recorded notable outcomes supported by the five-year ECF arrangement which ended in December 2018. Economic growth remained robust and inflation was well-contained. However, we take note with concern that the political and economic situation in Mali remains fragile. While the economic outlook is broadly positive, the significant downside risks arise from the deterioration of the security situation, unfavorable shocks from terms of trade, adverse weather conditions, as well as domestic revenue shortfall. There are also some remaining critical issues in the Malian economy, mainly stemming from limited revenue collections, persistent large current account deficit, a narrow-based economic structure, as well as weak human capital and institutions. A new ECF arrangement will continue to support the Mali authorities in addressing their major economic challenges to achieve a strong, sustainable, and inclusive growth. Against this background, we support the authorities' request for a three-year Extended Credit Facility (ECF) arrangement. We broadly concur with the thrust of staff's appraisal and offer the following comments for emphasis.

Enhancing revenue mobilization accompanied by improving spending efficiency should be the government's priorities. We support the short-term ECF program's objective to significantly boost the revenue collection to

provide the fiscal space for development spending. The authorities' work to take corrective measures to improve the revenue collections based on IMF TA recommendations are encouraging, but there is a large agenda ahead. We encourage the authorities to step up efforts to implement tax and customs reforms. With regards to the fuel tax revenue, we note the authorities' decision to implement the oil price mechanism to limit the pass-through of international to domestic prices. Considering that this policy option can be costly for the budget if the oil prices are on the upward trend, we welcome staff's comment on the medium-term strategy well fitted to the Mali's situation. We welcome the authorities' intention to improve expenditure efficiency given the limited resources. Spending allocation must be prioritized to maximize the benefit to the economy, by shifting from current spending to capital as well as poverty-reduction social spending. Regarding the capital expenditure, we commend authorities' continuing efforts to strengthen the process for the selection and implementation of investment projects. We also support the authorities' work to strengthen the legal framework of the public private partnership (PPP) to mitigate the associated risks. In this light, we appreciate staff's assessment on the current fiscal risks arising from contingent liabilities in Mali. Staff recommendations on risk mitigation are welcome.

Maintaining fiscal discipline is important to preserve macroeconomic stability. A new Strategic Framework for Economic Recovery and Sustainable Development (CREDD) for 2019-23 is commendable as it serves as a guideline to achieve the country's medium-to-long term development goal. However, we note that it requires some adjustments as macroeconomic framework under the new CREDD does not comply with the WAEMU fiscal deficit convergence criterion. In this light, we take positive note of the authorities' commitment to bring the fiscal deficit back to a maximum of 3 percent of GDP to be in line with the fiscal framework under the program parameters. As fiscal deficit will be significantly cut and maintained at 3 percent of GDP over the medium term, could staff elaborate on the economic impact including the poverty reduction under the new scenario compared to the original CREDD plan? We also note that trimming down the fiscal deficit in 2021 onwards would barely affect the economic growth and the external position (Table on the Box 1 Vs Text Table 1). Could staff comment on this?

The current situation in Mali urgently calls for the steadfast implementation of structural reforms. We welcome the authorities' work with the World Bank to reform the energy sector, including the public electricity company (EDM-SA). In relation to the EDM-SA reform, we support the

strategy for revising the outdated tariff structure on electricity, while monitoring the pass-through effect to domestic inflation and protecting the vulnerable people. Moreover, we encourage the authorities to expedite policy measures to enhance the business environment. This is an important step to diversify Mali's economy as the current economic structure depends heavily on the gold and cotton sectors. We would appreciate if staff could elaborate on the grand strategy as well as the progress to diversify the Malian economy. Lastly, we also encourage the authorities to strengthen governance and combat corruption as they are preconditions to boost investment and achieve a sustainable and inclusive growth. To this end, we welcome the joint FAD-LEG mission in early 2020 to support the authorities' efforts.

With these remarks, we wish the authorities every success in their policy endeavors.

Ms. Levonian, Ms. McKiernan and Mr. Williams submitted the following statement:

We thank staff for their informative set of papers and Messrs. Raghani and Diakite for their insightful buff statement. Mali like many other fragile states continues to grapple with development challenges that require sustained effort and solid international support to overcome. The recent Fund-supported ECF was instrumental in stabilizing the economy and invigorating growth. Still, socio-economic outcomes lag peers. To build on the gains on the macroeconomic front and advance the social agenda, the authorities have requested a new three-year ECF. We support the request and offer the following remarks for emphasis.

Strong program ownership will remain key to the success of the ECF. In this context, it is imperative that the program objectives are appropriately aligned with the authorities' Strategic Framework for Economic Recovery and Sustainable Development (CREDD). We take positive note that the Supplementary Budget mirrors the program objectives and is in line with the WAEMU deficit convergence criterion. Looking ahead, further fiscal effort will be necessary to satisfy this regional criterion, and we look forward to the authorities' proposed measures in upcoming reviews to ensure continued adherence over the longer term.

We welcome the authorities' focus on revenue mobilization as a near-term priority. In addition to helping to curtail the fiscal deficit and moderating the debt, stronger revenue flows are critical for expanding fiscal space to support increased spending on priority public investment and social protection. Against this backdrop, the contraction in tax revenue in 2018 was

regrettable, and we commend the corrective steps being undertaken to limit further fallout. Already, 2019 has seen a rebound in collections, which augurs well for the success of the program. That said, we encourage the authorities to act decisively on the findings of the ongoing audit of the tax administration and customs, once completed. Going forward, the authorities are advised to buttress the planned revenue administrative enhancements with sound tax policy measures to broaden the tax base and safeguard the revenue stream.

Further fiscal and structural reforms will be integral to supporting inclusive growth. Strong fiscal and growth dividends can accrue from strengthening the public investment management system through better project selection and implementation, in line with the objectives of the CREDD. Measures to improve cash management including, inter alia, broadening the coverage of the treasury single account will also be important. Furthermore, there is an urgent need to transform the energy sector. In this regard, improving the viability of the state-owned energy entity EDM-SA, including by restructuring the burdensome short-term debt, must be pursued vigorously. We also urge the authorities to continue to promote gender equity and to strengthen the governance framework, not least of which are needed efforts to further enhance the AML/CFT regime. Taken together, these measures will be key to improve the business environment, support economic diversification, and boost potential growth.

Finally, the capacity development strategy appears broadly aligned with the program objectives. Amid Mali's capacity constraint, the menu of TA envisaged must be properly sequenced to secure optimal results. That said, we welcome the high priority assigned to building capacity in revenue administration, which remains an area of critical need.

Mr. Villar and Mr. Cartagena Guardado submitted the following statement:

We thank staff for its comprehensive report and Mr. Raghani and Mr. Diakite for their helpful buff statement.

We support Mali's request for a new three-year arrangement under the Extended Credit Facility (ECF). As noted in the staff's report, the previous five-year ECF helped the authorities achieve macroeconomic stability in spite of difficult circumstances, although progress in reducing poverty and improving social conditions remained limited. The new three-year ECF is aimed to preserve macroeconomic stability and will support the authorities' development strategy for 2019-2023.

Mali shows good economic performance and prospects despite difficult circumstances. We welcome the economic measures adopted by the authorities under the previous ECF. Economic growth was around 5 percent between 2016-2018 with forecasts close to 5 percent up to the year 2023. This good performance was achieved despite challenging security circumstances.

We welcome Mali's new Strategic Framework for Economic Recovery and Sustainable Development (CREDD) for 2019-2023 adopted in May 2019. Authorities remain committed to preserve macroeconomic stability, debt sustainability and inclusive growth. ECF will provide resources and a framework to help authorities to achieve CREDD's goals with fiscal discipline and stability. Further staff comments about the scope of CREDD and ECF's role to improve the weak human development indicators will be welcomed. As staff's report notes, Mali's human development indicators are among the lowest in the world.

Fiscal and debt sustainability continue as key objectives. We welcome the authorities' commitment to observe the fiscal deficit criterion of 3 percent of GDP under the new three-year ECF. However, we note that the overall fiscal deficit, including grants, was 4.7 percent in 2018, while the forecast for 2019-2023 is 3.0 percent. We welcome Mali's capacity development taking advantage of technical assistance (TA) provided by the Fund in revenue administration and other fiscal fields, and mainly to implement corrective measures to address the sharp decline in tax revenue collection experienced in 2018 related to the weak performance of the tax and customs administrations. We note that public debt is low but debt is susceptible to external shocks, as stated in the staff report. Staff comments on the preliminary results of the audits of tax administration and customs will be welcomed. Are they achieving the targeted results? Are the measures effective in addressing the weakness noted in the tax and customs administration in the 2018 revenue collection?

Addressing risks in the state-owned energy company remains a key challenge. We welcome the government's implementation of the two-pronged strategy to strengthen the public electricity company (EDM) with World Bank support. As the staff reports, EDM needs to restructure the short-term debt with local commercial banks. The difficult financial situation of the state-owned electricity company and the instability due to interethnic violence may pressure expenditures and the fiscal deficit. Further comments about the pressures to the fiscal forecast arisen from the public energy enterprise and of the feasibility of the policies that authorities are/will take in this regard will be welcomed, as well as comments on the outcome of the strategy with the

World Bank and the effectiveness of the authorities' measures to address the fiscal exposure derived from EDM.

Mr. Fanizza and Mr. Spadafora submitted the following statement:

We thank staff for an informative set of reports and Mr. Raghani and Mr. Diakite for their candid buff statement.

Amid persistent fragilities and challenging security conditions, Mali's economic outlook remain broadly favorable, providing the authorities with an opportunity to implement their ambitious private sector-led development strategy (CREDD) for 2019-2023. They are requesting a new 3-year ECF arrangement to support this new strategy, preserve achieved macroeconomic stability and catalyze external assistance. In view of their strong commitment to the envisaged policies, the implemented prior actions and a satisfactory track record of policy implementation, we support the authorities' request.

We agree with the main objectives of the new ECF arrangement, notably its focus on improving revenue mobilization. This is paramount to preserve priority spending and avoid cuts in investment spending, which have detrimental effects on potential growth. The sharp decline in tax revenue in 2018 is a regrettable reversal of the improvements achieved over the previous four years. While the decline mostly arises from weak performance of tax and customs administrations – including issues related to human resource management and the system of incentives for tax and customs inspectors – we welcome the authorities' commitment to fully identifying the causes of the shortfall, as reported by Mr. Raghani and Mr. Diakite. We encourage the authorities to effectively and timely implement the needed corrective measures under way to durably improving the efficiency of the tax and customs administrations. We ask staff to further elaborate on the timing of the revenue shortfall.

We also welcome the authorities' commitment to preserve debt sustainability; the submission to parliament of the 2019 supplementary budget law is a step toward complying with the WAEMU fiscal convergence criteria. To this end, further contributions can usefully come from strengthening public-private partnerships and enhancing fuel-based revenues.

Ensuring the financial sustainability of the state-owned electricity company EDM is highly macrocritical and we welcome the program's attention paid to this objective. We strongly call on the authorities to

effectively implement the World Bank-supported restructuring plan of EDM to gradually reduce its drag on public finances.

Finally, we share the program's focus on fostering the implementation of structural reforms in such key areas as the business environment, governance and corruption-fighting. We welcome the forthcoming Fund's diagnostic mission and the planned integration of its results in the EFC arrangement.

Mr. De Lannoy and Mr. Hanson submitted the following statement:

We thank staff for a well written report and Mr. Raghani and Mr. Diakite for their informative buff statement. We support the proposed 3-year arrangement under the Extended Credit Facility. The ECF rightly focuses on domestic revenue mobilization, public financial management, strengthening the business environment and combatting corruption. Program engagement in these areas can make an important contribution to economic stability and growth in Mali against the background of challenges related to fragility, capacity limitations and security challenges. We welcome the strong reform commitment of the authorities, as well as their new development strategy. We would like to make the following points for emphasis.

Revenue mobilization

We agree with staff that revenue mobilization is important to sustain growth, also in light of large infrastructure gaps. We also stress the importance of a more equitable tax system and would welcome efforts to reduce fuel tax exemptions. Staff clearly describes the sharp reduction in revenue collection in 2018. We hope that the internal audit of the tax and customs administrations has provided further insight into the decrease in tax revenue in 2018. We welcome that this audit is included as a prior action, and we agree that the outcome of the audit can provide a basis for additional measures. Can staff elaborate on the outcome of the audit and on possible corrective measures following from the audit?

Efficiency of public finances

We welcome staff's emphasis on improving the composition of public expenditure towards investment and poverty-reducing social spending. Implementation of the recommendations of the 2017 PIMA will be important in this regard. We understand that the Malian Peace Agreement stipulates that 30 percent of the budget must be implemented through local and regional

authorities by 2022, which is a substantial increase from the current 17 percent. Annex II on capacity building mentions that staff assists the implementation of this decentralization. We wonder whether the envisaged decentralization is feasible and how the process of decentralization would interact with the efforts to improve the efficiency of public finances. Staff comments are welcome.

Corruption and governance

We welcome the emphasis on measures to improve governance and combat corruption in the program. Progress on this front is important and should be closely monitored during the program, particularly considering the limited follow-up to recommendations to reduce corruption made by the Auditor General in different reports. The authorities' commitment to strengthen the asset declaration regime, to step up the revision of the Law on illicit enrichment and to create a permanent consultative framework are important steps. The diagnostic mission planned for early 2020 will provide a good basis for further conditionality in this area.

Weather shocks

We agree that adverse weather conditions are a downside risk to Mali. Climate change has a profound effect on Mali. Temperature increases in the Sahel region are projected to be 1.5 times higher than the global average, and Mali is subject to frequent droughts and floods. Adverse weather conditions pose risks for food security and social stability. The Risk Assessment Matrix classifies adverse weather condition as a domestic/regional risk. We note that weather conditions are not under the control of the authorities and we would consider them to have an external nature.

Capacity development

As a low-income fragile country, continued coordination between capacity development and program conditionality is important for program success. The contribution of IMF technical assistance to the internal audit of the tax and customs administrations is a positive example of this. More generally, we welcome the capacity building framework strategy in Annex II. We note that the data coverage in the DSA is limited to the general government. We wonder whether the planned debt management TA will also focus on broadening the coverage of public debt to include guarantees and SOE debt?

Mr. Ray and Mr. Shin submitted the following statement:

We thank staff for their comprehensive reports and Mr. Raghani and Mr. Diakite for their informative buff statement. Mali's economy has performed relatively well amid daunting social and security challenges. The authorities' implementation of the previous 5-year ECF program has been beneficial and it is encouraging that the authorities' commitment to the reform agenda remains strong. Given the significant catalytic effect for Mali, we support the proposed request for a new three-year ECF arrangement, as well as the release of the first disbursement.

Further revenue mobilization with firm revenue administration is essential to create space for security spending and growth-enhancing investment. While welcoming the authorities' corrective measures to restore revenue performance including the recovery of tax arrears, we encourage the authorities to increase efforts for fundamental improvement in revenue administration in order not to be affected by political cycles in the future. We also support the authorities' plan to broaden the tax base through streamlining tax exemptions, especially in customs and the mining sector. At the same time, improving spending efficiency would help meet the large development needs given limited domestic and external resources. We suggest the authorities fully utilize the 2017 PIMA recommendations to inform further steps to improve public investment outcomes in major projects. In the meantime, we have some reservations on the suggested innovative financing schemes involving the private sector including PPPs to complement the budget, given its potential fiscal risks and the country's capacity constraints. Staff's view would be welcome.

Debt sustainability should continue to be a key objective going forward. Despite the relatively low level of public debt (37.3 percent of GDP in 2018), continued prudent borrowing on concessional terms would be warranted, given the considerable contingent liabilities from SOEs including the electricity company (EDM) and PPPs. Under this circumstance, we wonder if the plan for the syndicated loans in the international market on commercial terms is desirable. Even though the principal is guaranteed by the World Bank and the African Trade Insurance Agency, the burden from interest payments could still weigh on the budget in the future. We would appreciate staff's comment.

We encourage further efforts to address governance weaknesses and corruption. A joint FAD-LEG mission early next year that will conduct a diagnostic and provide a plan of action could be a cornerstone for governance

reforms going forward. We also believe a strong communication strategy should accompany such reforms to help garner public trust in government institutions during the process. In that sense, we encourage the authorities to publish the governance diagnostic report and welcome their intention to reflect the main conclusions of the report in later reviews of the program.

Mr. Sun and Mr. Huang submitted the following statement:

We thank staff for the well-written reports and Mr. Raghani and Mr. Diakite for their helpful buff statement. Despite daunting challenges, Mali has experienced a solid economic growth in 2018. However, risks are tilted to the downside, with possible deterioration of the security situation as a major concern. The previous Extended Credit Facility (ECF) arrangement has helped Mali restore macroeconomic stability and strengthen the policy frameworks. Given the authorities' strong commitment and a sound track record, we support the request for a new three-year ECF arrangement.

We agree that the program should target a significant strengthening of tax revenue mobilization. The tax revenue to GDP ratio fell sharply in 2018, after a stable increase during the first four years in the previous program. We take positive note that the authorities have taken corrective measures, and as a result, the first half of 2019 has witnessed considerable improvement in tax collection. We welcome the audit of tax administration and customs as a prior action of the program. We look forward to continued improvement in tax administration, including through organizational restructuring, information system upgrading, and electronic filing and payment.

On the expenditure side, it is important to improve the spending efficiency through better public investment project selection and implementation, and less transfer and subsidies to the SOEs. The authorities' move to reallocate expenditures to security, food, health, and education for the most affected region is welcome. It is expected that the new ECF program could help catalyze external assistance to meet the country's increasing needs, including for security spending. We commend the authorities' commitment to further strengthening public finance management through better cash management and broader-covered Treasury Single Account.

If the financial situation of the state-owned electricity company, EDM-SA, further deteriorates, it could have negative impact on the country's macroeconomic stability. We support the authorities' effort in implementing the multipronged reform strategy with the help of the World Bank. Apart from restructuring the EDM-SA's short-term debt, it is important to improve the

company's efficiency and governance, reduce its cost of providing electricity, and raise the tariff while protecting the most vulnerable groups in the long run. We welcome the authorities' plan to make use of the rapid expansion of mobile banking to offer administrative services and facilitate tax payment. The authorities' commitment to fighting corruption is also commendable.

Regarding the program conditionality, we take note of the ceiling on new external debt contracted or guaranteed by the government. Does this mean that the authorities are no longer allowed to borrow new external debt, except for those loans that are guaranteed by the World Bank for the purpose of reprofiling domestic debt during the program? Staff's clarification would be welcome.

With these remarks, we wish the authorities every success in their future endeavors.

Ms. Pollard and Mr. Shenai submitted the following statement:

Mali continues to face economic, political, and security challenges. We appreciate the Fund's engagement in this fragile country and staff's candid assessment of the ECF that expired in December 2018. Given Mali's continued balance of payments need and its commitment to a reform agenda as presented in its 2019–2023 Strategic Framework for Economic Recovery and Social Development (CREDD), we support the authorities' request for a 3-year Extended Credit Facility. We thank Messers. Raghani and Diakite for their informative buff Statement and welcome the authorities' commitment to economic reform. We agree with the program's focus on revenue mobilization and enhancing spending efficiency to boost investment in both infrastructure and in human capital, improving the business environment and reducing corruption, and increasing capacity development.

Revenue underperformance: Revenues underperformed in 2018, and corrective measures to prevent policy backsliding are needed. We therefore welcome the Arrangement's focus on fiscal reform. We would have appreciated greater granularity from staff, however, in understanding underperformance of the tax and customs administrations in their staff report. In this context, the detailed tax policy studies and measures to be undertaken by the authorities as presented in Messers. Raghani and Diakite's buff were welcome. We look forward to the results of the 2018 revenue audit and 2019 action plan and hope that these findings can be incorporated into future reviews.

Debt: Staff's debt sustainability analysis is welcome. We would have appreciated more information on the terms of the Abu Dhabi Development Fund loan signed in July 2019. While staff included this loan in their debt sustainability analysis, could staff provide further details on the concessionality of this loan? Going forward, broadening debt coverage to include all SOEs and contingent liabilities is needed to improve debt transparency and management.

WAEMU deficit convergence criterion: Although staff's baseline indicates Mali will meet the WAEMU's 3 percent fiscal deficit criterion through 2023, the baseline scenario in the authorities' CREDD shows a deficit above 9 percent by 2023. We recognize that the WAEMU authorities are considering factoring security costs into their deficit criteria. Can staff provide their views on this issue and whether the authorities can meet the objectives of the CREDD with smaller deficits?

Governance and transparency: Corruption is pervasive in Mali and is thus macrocritical. We strongly agree that addressing governance weakness and corruption can help Mali move toward more inclusive and sustainable growth. We look forward to the release of staff's governance diagnostic and anti-corruption plan and expect the diagnostic's findings to be incorporated into program conditionality in further reviews. We also encourage the authorities to take further steps to meet international anti-corruption standards under the UNCAC and to strengthen AML/CFT controls consistent with FATF Standards. Given the importance of improving governance, it is unfortunate that planned steps to address governance weakness were not included in the program's structural benchmarks.

Energy sector: Achieving a successful restructuring of EDM-SA while avoiding negative investment climate and poverty spillovers will require strong political will and ownership. We look forward to learning more about the authorities' plan to restructure EDM-SA debt using a World Bank Policy-Based Guarantee (PBG). Does staff expect the authorities to seek PV writedowns or a refinancing of EDM-SA debt on more favorable terms?

Poverty reduction: We welcome the CREDD's focus on reducing the poverty rate to 40 percent by 2023 and hope that subsequent reviews can provide specific areas of progress in alleviating poverty as facilitated by the program. Like Mr. de Villeroché, Ms. Albert, and Mr. Rozan, we would appreciate staff's comments on how the ECF will contribute to poverty reduction.

Mr. Merk and Ms. Lucas submitted the following statement:

We thank staff for their informative set of reports and concur with the thrust of their appraisal. We also thank Mr. Raghani and Mr. Diakite for their helpful buff statement. It is encouraging that Mali's economy continues to perform robustly under very challenging circumstances. Growth remains solid, inflation is in check and the external position has strengthened lately. However, notwithstanding the policies and reforms implemented under the predecessor arrangement, important downside risks continue to persist, and the necessary economic adjustment remains incomplete, especially with regard to important structural reforms. We are willing to consent to the authorities' request for another ECF-arrangement.

The economy remains vulnerable to shocks. Despite the country's long history of adjustment programs, economic stability remains rather feeble. Furthermore, the country's economic well-being is still highly dependent on developments in global commodity prices. Regarding the request at hand, we do not see a pressing balance of payments need and are concerned about the prolonged use of Fund resources as well as the substantial domestic program risks – including from severe contingent liabilities. Furthermore, the failure to boost tax revenue during the last program, exacerbated by the significant slippages in 2018, are disconcerting. We would therefore have welcomed it, if the audits of tax administration and customs, which should presumably inform the authorities' corrective revenue measures, had been finalized in time before the board meeting to integrate its findings into the program.

Nevertheless, we honor the catalyst nature of the arrangement and support the new government's commitment to structural reforms under its strategic framework. Could staff set out the authorities' plans to ensure a high level of reception and implementation of Fund advice over the course of this program, especially with regard to necessary (and partly long overdue) structural reforms? In doing so, we acknowledge the program's emphasis on prudent fiscal policies evident in several respective quantitative performance criteria and structural benchmarks. We also trust that prior actions have been met, including the submission of the supplementary budget based on a fiscal deficit target of 2.5 percent of GDP. Could staff please elaborate more on that?

Strengthening revenues remains essential to bolster fiscal sustainability and create room for priority spending and productive public investment. The authorities' commitment to corrective actions to quickly and fully reverse the recent plunge in revenues represents a first step and we

encourage the authorities to increase domestic revenue mobilization. Going forward, it will be especially important to lastingly secure revenues at a higher level, including by fiscal structural reforms to broaden the tax base and strengthen compliance and collection efficiency both in the tax administration and in customs. Last year, tax revenue projections at the time of the last review turned out vastly optimistic, even after significant shortfalls for the first half of the year had been recorded. Stepped-up efforts will thus be key to reach budget targets without recourse to cuts or freezes in priority social and capital spending.

Substantial advances in efficiency, transparency and accountability of public entities including with regard to improvements in project management as well as in public financial management should be pursued before any large-scale infrastructure investments are realized. On debt management, we second staff's call for prudence in weighing external financing options. We are concerned about the authorities' intention to boost deficits well beyond WAEMU targets after 2020. In this regard, could staff provide further comments on the large discrepancies between the authorities' plans under CREDD and staff's baseline?

Bold structural reforms are necessary to facilitate poverty reduction and pave the way for robust, sustainable and inclusive growth. The ongoing initiative to set the state-owned energy supplier EDM-SA on a firmer financial footing is important, not least in order to limit contingent fiscal risks. Decisive action is also necessary to fight corruption and enhance governance and transparency. We second staff's call on the authorities to bolster the anti-corruption and anti-money laundering frameworks along UNCAC-commitments and FATF-standards. We are looking forward to tangible progress over the course of the program informed by the upcoming IMF mission's plan of action. Progress in this area will also be crucial to set the stage for more vigorous, inclusive and formal private business activity. In this regard, we also see merit in the authorities' plans to strengthen financial and gender inclusiveness. We understand that structural reforms in the aforementioned areas are rather among the ECF's medium term goals. Could staff already provide an outlook on potential structural benchmarks and the intended timeframe for their completion?

Mr. Ostros and Ms. Skrivere submitted the following statement:

We thank staff for a comprehensive report and Mr. Raghani and Mr. Diakite for their insightful buff statement. We support the three-year ECF arrangement for Mali, along with the disbursement of the first tranche. We

broadly share staff's appraisal and offer the following remarks on fiscal policy, governance, energy sector, and capacity development for emphasis.

Maintaining fiscal sustainability through improved revenue collection should be a key priority under the new ECF arrangement. We urge the authorities to fully comply with the WAEMU fiscal deficit criterion of 3 percent of GDP over the program duration. Nevertheless, we would see merit in accumulating additional fiscal buffers, which would give the authorities more room to respond to potentially adverse weather conditions and commodity price fluctuations. The authorities have rightly put improving revenue collection as one of their key priorities. Building on Fund's past TA advice and recommendations, we encourage further progress on increasing tax compliance, improving data management and information sharing practices within and across various government agencies, and further leveraging online solutions. We welcome the authorities' intention to improve public spending efficiency, and we particularly emphasize the importance of having a sound governance framework for PPPs to limit the risk of contingent liabilities. Could staff provide an assessment of the authorities' progress with implementing the prior actions: to finalize the audits of tax administration and customs, and to prepare and submit to parliament a supplementary budget?

We welcome the program focus on addressing governance vulnerabilities and tackling corruption. The joint FAD-LEG governance diagnostic planned for early next year sounds like a helpful way to identify, sequence, and prioritize the necessary actions. Could staff comment if a similar exercise has been done for other countries before? We encourage the authorities to strengthen the AML/CFT framework and enforcement, in line with the recommendations of the ongoing assessment against the FATF standard.

The challenging financial situation of the Malian electricity company (EDM-SA) needs to be urgently addressed. We welcome that the authorities are leveraging the technical expertise and financial support of the World Bank on this matter. We welcome the intention to revise the tariff structure and bring electricity prices in line with the cost of generation, while protecting the most vulnerable customers. This, together with an improved framework for governance, should gradually eliminate the reliance on budget subsidies and the risk EDM-SA poses for Mali's fiscal position.

Given the fragile situation of Mali, we recognize the need for substantial capacity development from the Fund and other partners. We particularly welcome the Annex II on Capacity Building Framework Strategy.

It provides an excellent overview of policy priorities, assesses past experience and identifies areas where progress was more difficult, sets TA priorities for the future, as well as identifies risks to TA delivery. We would welcome if such an annex would become a standard feature for country reports that are heavily reliant on Fund TA, as it provides the Board with the necessary information to assess how the TA strategy is linked with program priorities and Fund surveillance more generally.

Mr. Chikada and Ms. Mori submitted the following statement:

We thank staff for a comprehensive papers and Mr. Raghani and Mr. Diakite for their informative buff statement. It is encouraging that macroeconomic stability was broadly maintained notwithstanding the challenging security environment, and the economic outlook is broadly positive. Taking this opportunity, Mali needs to continue their reform efforts in the face of downside risks such as further deterioration of the security situation, commodity price shock, and climate change.

Given the commitment from the new administration to program implementation and the Fund's role to catalyze other donor's financing especially from the World Bank, we support the authorities' request for a three-year ECF arrangement. Considering the fragility of the country, we welcome that the program initially focused on the short-term objective of revenue increase, EDM-SA restructuring and protecting priority spending. The Fund's TAs would play important role in the program implementation by building institutional capacity. As we broadly agree with the thrust of the staff's appraisal, we will limit our comments to the following points:

Fiscal Policy

Revenue mobilization should be strengthened to maintain and enhance growth-promoting investment and priority social spending. It is disappointing and somewhat puzzling that revenue collection contracted sharply in 2018 despite Mali's relatively strong economic performance. While noting the corrective measures were taken by the authorities and internal audit of tax administration and customs with a support from the Fund, tax revenue correction is still underperforming compared to 2019 budget. In this regard, could staff elaborate more on the tax administration aspect that affected the revenue decline in 2018? Also, we would like to hear staff's view on the feasibility of achieving revenue target of 2019 supplemental budget.

Going forward, we encourage the authorities to respect the WAEMU convergence criterion for the overall fiscal deficit of 3 percent by improving tax administration and the efficiency of customs as well as reviewing tax policies.

We agree with staff and authorities that greater spending efficiency is needed in the context of limited domestic and external resources. In this light, PFM reforms, subsidies rationalization, implementation of 2017 PIMA recommendations and the expansion of the scope of Treasury Single Account need to be pursued.

EDM-SA Reform

The reform of loss-making state-owned electricity company (EDM-SA) is indispensable to support economic activities of the country, and reduce contingent liability to the government. We encourage the authorities to continue to work with the World Bank and develop and implement a multipronged reform strategy. We note that staff suggest burden sharing options with commercial creditor banks. In this context, we would like to know the possible impact of the financial restructuring of EDM-SA on the banking sector.

Structural Reforms

Strengthening business environment, improving governance and combatting corruption are crucial to achieve sustainable and inclusive growth. We welcome the development of a new national development strategy (CREDD) for 2019-2023 which aims at achieving economic growth through a private-sector led structural transformation of economy. However, the inconsistency of the CREDD's macroeconomic framework with WAEMU criteria and program baseline is a source of concern from a viewpoint of debt sustainability as shown in the customized scenario of DSA. We would like to hear if staff discussed this inconsistency during the mission and, if it is the case, to what extent the authorities has intention to review the macroeconomic framework of CREDD in the future.

Mr. Inderbinen and Ms. Wehrle submitted the following statement:

We support the three-year arrangement under the Extended Credit Facility. The program will help support Mali on its way to greater economic and political stability. It bolsters the new government's broad reform agenda and appears well-targeted and balanced over the short and medium-term. We

take note that the overall risk of debt distress, including from domestic debt, remains moderate, and that the country's capacity to repay the Fund appears largely adequate. Further reassurances come from Mali's access to the reserves of the BCEAO, whose safeguards assessment was recently completed.

In a context of rising insecurity, the authorities should remain firmly committed to macroeconomic stability and keeping the program on track. The new Strategy Framework for Economic Recovery and Sustainable Development (2019-2023) promises to reinforce program ownership. The authorities should, as demonstrated largely during the previous Fund arrangement, continue to commit to sound policies in meeting program targets and indicators. Stability remains a key precondition for an enabling business environment and an improved access to finance. With online banking and mobile money coverage still weak, effective and trustworthy banking services across the country are needed to develop business activity.

Restoring revenue performance with the aim of meeting the WAEMU fiscal deficit target is a key priority. Important challenges with regard to tax collection remain, given significant revenue shortfalls and increased security risks. The large-scale introduction of electronic tax paying systems following the current pilot would be an important step, also to improve transparency. Tax reforms should focus on effective and comprehensive taxation of the key sectors, such as mining. We also welcome the completion of the audits of tax administration and customs, a prior action under this program, and would welcome more details on their findings and the intended follow-up. We believe that further measures are needed to recover unpaid invoices from clients in the energy sector's restructuring plans. Furthermore, we encourage the authorities to make use of other external financing opportunities, given that the main purpose of the Fund arrangement is to be catalytic.

More needs to be done to tackle low administrative capacity and governance challenges. While we welcome the measures to effectively prosecute corruption cases, only a very small share of discovered fraud cases made public by the Bureau de Vérificateur General (BVG) are effectively being prosecuted, and an even smaller share of the misused funds has actually been recovered. The penal framework should be reviewed and implemented. The engagement of the Coordination body of development donors (GEC, Groupe Exécutif de la Coopération) in Mali is welcome. Lastly, we look forward to the findings of the governance diagnostic mission and take note of the authorities' willingness to address the main issues highlighted by the mission in future program reviews.

Mr. Saraiva, Ms. Florestal and Mr. Nithder Pierre submitted the following statement:

We thank staff for the reports, as well as Mr. Raghani and Mr. Diakite for their constructive statement. Under the ECF that recently expired, important results have been achieved in maintaining macro stability and in tackling some key structural impediments to sustainable and inclusive growth. Success in the economic agenda occurred in spite of numerous challenges, including a security crisis and institutional capacity limitations. Mali seems to be in course to maintaining the path of robust growth with sustained per capita increases despite the vulnerabilities associated with security issues, the structural reliance on mining and agriculture, and persistent social tensions and fragility. Inflation remains subdued below the WAEMU convergence criterion. Against this background we are happy to support the Malian authorities' request for another three-year ECF.

We are encouraged by the commendable results obtained under the previous ECF, the strong traction of Fund advice and the authorities' determination to pursue the structural reform agenda. The Malian Authorities' resolute determination and continuous use of the Strategic Framework for Economic Recovery and Sustainable Development (CREDD) as a guidepost for reforms are, in our view, prominent factors in recent achievements. That said, downside risks have not receded. The high probability of intensification of security risks makes the implementation of the new and ambitious ECF program particularly challenging. Promoting inclusive growth and creating fiscal space for social programs could, as suggested in the staff report, be instrumental in quelling those risks.

Revenue mobilization remains a key challenge and needs to be tackled resolutely. The disappointing performance in tax collection in 2018 is a major reason for concern and needs to be clearly understood and promptly reverted. In this regard, the improvements registered at the beginning of 2019 along with the Malian authorities' commitment to continue strengthening the tax administration and customs as well as improving financial management are encouraging but need to be further pursued. Maintaining the emphasis on achieving the WAEMU overall deficit convergence criterion through the strengthening of the revenue administration and the enhancement of spending efficiency including by reducing transfers and subsidies to the state-owned electricity company, EDM, will be critical to the program's success. In particular, could staff estimate the potential tax revenue associated with measures on land and property tax, and informal sector taxation?

Keeping the country on the growth trajectory in a sustainable manner and strengthening its economic resilience to commodity price and weather shocks can only be achieved through significant economic diversification. Hence, we welcome the inclusion in the requested ECF program of key structural reforms to diversify exports and encourage private sector initiatives. We underscore those seeking to promote financial inclusion (e.g. through SMEs), improve governance and combat corruption including with the support of the governance diagnostic to be undertaken by the IMF in early 2020. Nonetheless, one should keep in mind that the impact of these structural measures may remain limited in the short run due to the uncertainty looming with the increasing security risks.

Timely delivery of the important support projected from the international community is of the essence. Budget-support grants and project financing are paramount to the success of the program given its architecture and current domestic resource constraints. Accordingly, the role of the World Bank, in particular, may be critical.

We welcome the Fund's support to capacity development and reaffirm the importance of authorities remaining on the driver's seat, especially in choosing the timing and sequencing of recommended measures. The staff report notes that, despite an overall good implementation record, progress has been more difficult in modernizing tax administration and improving its quality. Advances have been hampered by issues related to human resource management and the system of incentives for tax and customs inspectors. Could staff expand on this issue of incentives and how the authorities are planning to cope with it?

Mr. Mouminah, Mr. Alkhareif and Mr. Rawah submitted the following statement:

We thank staff for a well-focused report and Mr. Raghani and Mr. Diakite for their helpful buff statement. We are in broad agreement with staff's analysis and policy recommendations and would limit our remarks to a few issues.

We support the authorities' request for a three-year arrangement under the ECF. While the previous five-year ECF arrangement that expired in 2018 helped in achieving macroeconomic stability and other important outcomes, Mali continues to face significant challenges, due in part to domestic factors, in addition to large infrastructure gaps including in energy and transportation. Also, while the economic outlook remains positive, there are important downside risks. Against this background, we welcome the focus of the new

ECF arrangement on supporting the authorities' new development strategy (CREDD) for strong and inclusive growth through job creation, pursuing economic diversification, and strengthening economic resilience.

We see merit in the envisaged fiscal framework, which should help in improving the fiscal position, among others. In particular, we welcome the authorities' corrective measures to strengthen revenue mobilization, including through the various efforts to improve tax administration. Indeed, it is important that the authorities sustain their domestic revenue mobilization efforts to ensure the achievement of the revenue targets of the program. This, along with the authorities' planned efforts to enhance spending efficiency and improving PFM, would be critical in creating space for growth-promoting investments and priority social spending.

Finally, we welcome the authorities' structural reform agenda. In particular, we are encouraged to note the authorities' joint work with the World Bank in developing a multipronged reform strategy for the energy sector, which would help in improving financial viability of the state-owned electricity company (EDM-SA) and support the ongoing economic activity and development in the country. We also welcome the authorities' various efforts to strengthen the business environment, and to improve governance and combat corruption. Here, we take note of the planned joint FAD-LEG mission in early 2020 to assist the authorities in conducting a governance diagnostic and developing a plan of action to address governance vulnerabilities and tackle corruption.

With these remarks, we wish the authorities further success.

Mr. Kaya and Mr. Bayar submitted the following statement:

We thank staff for the informative report, and Messrs. Raghani and Diakite for their helpful buff statement. Against the backdrop of a challenging security environment, the Malian authorities have registered significant progress in restoring macroeconomic stability and fostering growth. Nonetheless, the economic outlook in Mali is subject to significant risks, emanating particularly from increasing instability and interethnic violence, as well as potential shocks to the terms of trade. The reversal of the revenue mobilization gains of the last Extended Credit Facility (ECF) in 2018 not only endangers fiscal and debt sustainability, but also limits the narrow fiscal room to address daunting developmental pre-requisites. We see the new ECF arrangement as an opportunity for the authorities to put the macroeconomic and structural policies back on track, while at the same time catalyzing the

necessary financing for the authorities' development strategy. In this respect, we would like to support the request for a new, three-year arrangement under the ECF. We share the thrust of the staff appraisal and policy recommendations, and would like to provide the following comments for emphasis.

Retrenching fiscal discipline, particularly through domestic revenue mobilization, appropriately lies at the core of the new program. While it is important that Mali respects the WAEMU convergence criterion of 3 percent of GDP for the overall fiscal deficit, it is also crucial to refrain from spending measures that unduly restrict growth-enhancing capital expenditures, as well as basic poverty reduction and social programs. We therefore support the new ECF's emphasis on revenue-side measures and are encouraged by the initial positive signs that the authorities' efforts in this field are bearing fruit. We also support the envisaged fiscal buffer in the program (i.e. ½ percent of GDP), which should provide the authorities with some room to protect priority spending. We welcome the finalized audit on revenue underperformance in 2018 and encourage the authorities to implement the corrective measures in a steadfast manner. Efforts in this regard should focus on improving the tax and customs administrations, rationalizing tax exemptions, a more systematic implementation of the automatic fuel price adjustment mechanism, and updating the mining and investment codes. On the expenditure side, we are encouraged by the authorities' steps to strengthen the project selection and execution processes, based on the recommendations of the 2017 Public Investment Management Assessment. We take positive note of the continued expansion of the scope of the Treasury Single Account.

Reforming the state electricity company (EDM-SA) is a critical priority to ensure the security of the energy supply, while containing quasi-fiscal risks. We welcome the multi-pronged strategy the authorities are devising together with the World Bank to reform the state's role in the energy sector. We concur that the efforts in the short term should prioritize the financial viability of EDM-SA, including through tariff adjustments, improved collection efforts, and the restructuring of short-term commercial debt. We underscore the importance of putting targeted support mechanisms in place to protect the most vulnerable. However, we worry that given significant capacity constraints, devising an accurately targeted support mechanism could be an elusive endeavor. Could staff elaborate on some of the measures taken in this regard? We also agree that the medium-term efforts should aim at reducing the cost of electricity provision by EDM-SA, which requires a gradual transition away from high-cost, fuel-based generation. Nevertheless, we are not convinced that imported electricity can provide a meaningful and

durable solution to the supply-side challenges in the Malian electricity sector and rather, only provide a temporary relief until a reliable, cost-effective, and environmentally sustainable generation capacity is established. Could staff explain whether the restructuring strategy supported by the World Bank envisages sufficient investments in electricity generation capacity?

Further progress in fostering transparency in public financial management and addressing governance weaknesses is necessary for sustainable and inclusive growth. We welcome the authorities' commitment in this regard, and encourage them to enhance their efforts including through strengthening the anti-corruption and anti-money laundering frameworks in order to prevent, detect, investigate, and prosecute acts of corruption and the related proceeds. Improving the asset declaration regime in line with the authorities' commitments taken under the United Nations Convention against Corruption, and addressing the recommendations of the ongoing AML-CFT assessment against the Financial Action Task Force standards remain crucial. We take positive note of the plans to enhance the coordination between the anti-corruption agencies, and underscore the importance of providing these entities with the proper power and resources to carry out their mandate. We support continued Fund technical assistance in this field.

With these remarks, we wish the authorities success in their policy and reform endeavors.

Mr. Siriwardana and Mr. Goyal submitted the following statement:

We thank the staff for comprehensive reports and Mr. Raghani and Mr. Diakite for their insightful buff Statement. We noted that the 5-year ECF programme completed in December 2018 has been successful in bringing about macro stability and other desirable results despite Mali facing a challenging security environment. On average, there has been healthy income growth exceeding 5 percent, current account deficit narrowed considerably, and banking sector stability indicators in particular non-performing loans witnessed improvement. Nonetheless, there are areas where progress has been slower than expected.

During 2018, revenue fell short of the targeted level as tax revenue contracted by 3.4 percent and non-tax revenue were lower by 0.8 percent over the preceding year. Thus, gains made during the previous four years period got reversed. We note with concerns the continued fragile financial condition of the government electricity company EDM-SA. Its unviable operations with inadequate user charges constitute a significant threat to Mali's fiscal position

and sustainability. Other areas where progress has remained mixed include structural reforms and poverty reduction programmes.

However, we are encouraged by authorities' commitment to implement definite steps supported by the IMF mission to bring about fiscal consolidation and revenue growth back on the desired path. Steps envisioning organizational restructuring, strengthening of human resource management, better management information systems (MIS), electronic filing and payment for large enterprises and automation of custom processes should bring about effective monitoring and control and would strengthen governance and help in reducing corruption. Regarding EDM-SA, Government has envisaged a strategy that involves streamlining the tariffs and reduction in operational costs; recovery of arrears and additional Government transfers to EDM-SA. The plan also involves contracting syndicated loans from the international market, which would be partially guaranteed by the World Bank. We also acknowledge that authorities are actively engaged in implementing a new programme CREDD that is focusing on enhancing fiscal space, strengthening the business environment, capacity development, and combating corruption. Significantly overall spending pattern would have more allocation toward security, food security, health, and education.

These efforts seem to be yielding results as there is an improvement in the latest results of the first semester of 2019. Outlook for overall macroeconomic fundamentals continues to be encouraging with GDP projected to grow at about 5 percent, and inflation expected to stay benign. However, we do recognize the persistence of critical downside risks arising from security concerns and the possibility of worsening of terms of trade.

Overall the success of Government plans is critically dependent upon two aspects. First, the success of plans to revive EDM-SA and secondly improvement in security situation – failure, in either case, can seriously jeopardize the expected recovery. We would welcome comments from the staff regarding the probability that the Government would succeed in raising power tariff adequately and would be able to make the additional transfer to EDM-SA given limited fiscal space. Similarly, whether Government spending would be strictly aligned to its objective of inclusive growth and poverty reduction, which are critical to bringing about social harmony and desired security environment.

As per staff assessment, debt burden indicators are within the sustainable range as per baseline scenario. We agree with the staff assessment that improvement in tax administration, domestic revenue, and efforts to

diversify exports are critical for continued debt sustainability. Notably, the baseline scenario assumes continued fiscal balance at 3 percent of GDP while CREDD envisages a steep rise in fiscal balance from 2021. So higher fiscal deficit and widening current account deficit, which appear inevitable do not suggest that debt burden indicator would stay in a desirable range. Staff may like to elaborate on their conclusions regarding debt sustainability.

7. Overall, we believe that authorities would require continued support from the Fund to carry forward the reform process and sustain economic activity, and therefore, we support authorities request for extended financing facility for next three years.

The Acting Chair (Mr. Zhang) made the following statement:

Mali's previous arrangement with the Fund expired in December 2018, and since then, Mali has made significant progress toward achieving its economic and social objectives under the Fund-supported program. On the other hand, several downside risks remain, and the new proposed Extended Credit Facility (ECF) arrangement aims to help Mali to sustain the progress made so far, and support the authorities' development strategy for strong and inclusive growth. Directors' gray statements noted that in the short term, priority needs to be given to increase revenue collections to enable development spending and reform in particular the energy sector. Over the medium term, it will be important to focus on expanding the fiscal space for productive investment and priority social spending, enhancing the business environment, improving governance, combating corruption, and sustaining capacity development.

The staff representative from the African Department (Ms. Yontcheva), in response to questions and comments from Executive Directors, made the following statement:¹

I would like to thank Directors for their insightful comments and questions. We have provided answers to the more technical questions, but I would like to brief the Board on the status of the two prior actions and also elaborate on a few remaining issues, namely the revenue shortfall, the outcome of the audits of the customs and tax administration, and also on the authorities' development strategy, the Strategic Framework for Economic Recovery and Sustainable Development (CREDD).

¹ Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

First, concerning the prior actions, both have been met. As Mr. Raghani mentioned in his buff statement, a supplementary budget law reflecting the agreed policy packages to meet the 2019 fiscal target, which is aligned with our macroeconomic framework, was submitted to parliament on July 29, and then the audits of the tax and custom administration were completed by August 15.

Concerning the issues of revenue administration that several Directors were interested in, let me come back to 2018. In 2018, revenue deteriorated sharply across all types and all collection agencies. The authorities recognized that there is a need for major improvement in revenue administration, and they remain determined to reach the revenue target for 2019. To do this, they requested technical assistance (TA) from the Fiscal Affairs Department (FAD) to better understand the underperformance of the various revenue sources and identify concrete measures that could be implemented as soon as possible that would have an immediate and positive effect on revenue collection. We agreed that the successful turnaround in revenue performance by both the tax and the custom administration would be needed for discussion on a new ECF to commence. Estimates of revenue performance for the first part of 2019 point to a significant turnaround, in particular for tax administration. Nonetheless, further reforms need to be done, and the authorities therefore conducted this in-depth audit of both tax and customs with the help of FAD. Those audits were completed on time, and let me describe the result of those audits, as requested by several Directors.

Those internal audits highlighted the progress made by the tax administration and custom in tackling the large revenue shortfall and the implementation of some of the recommendations by FAD. In particular, the audit of the tax administration focused on the performance of several of the offices and how to turn them around. They identified a set of actions that they should take to improve the outcomes, including, increasing the number of officials or retraining them in dedicated software.

The audit of customs identified the main sources of inefficiency and the presence of loopholes in the application of tariffs that contributed to the 2019 shortfall. The audit identified actions to be taken, including more reliance on electronic documentation of goods in transit to reduce the discretionary actions by local customs officers, and improving the exchange of information with other administrations, in particular between the tax and the customs agencies. Several of those measures were also benchmarked in our program, so this is an issue that we will follow.

Turning to the authorities' development strategies, several Directors noted that the CREDD macroeconomic framework departs from the West African Economic and Monetary Union (WAEMU) deficit criteria and inquired about the implication—what it means in terms of reaching poverty reduction targets and also in terms of debt sustainability. The CREDD is an ambitious development program. The significantly higher deficit reflects the large-scale investment projects that are in the CREDD, and those large-scale investment projects lead to higher expenditure than in the program, and they also highlight the challenge for low-income countries (LICs) to reach the development target while at the same time respecting fiscal sustainability.

In addition, Mali faces security challenges which translated into a steady increase in security-related expenditures that are also crowding out other current and capital spending. To address this issue, the program supports the authorities' objectives by first improving on domestic revenue mobilization, also promoting public financial management (PFM) reforms that will ensure that expenditure efficiency increases, and by catalyzing international support. Obviously, additional budget support would help create fiscal space.

Regarding the debt sustainability concerns that were flagged, the authorities have proved their commitment to the WAEMU criteria. They are anchoring their policies and the program on the WAEMU deficit. Respecting these criteria will preserve debt sustainability. The Debt Sustainability Analysis (DSA) included an alternative scenario where additional security outlays led to a higher deficit, but even in this scenario, the risk of debt distress remains moderate. I will pass the floor to my colleague from the Strategy, Policy, and Review Department (SPR) to address the question on governance.

The staff representative from the Strategy, Policy, and Review Department (Ms. Gonzalez), in response to questions and comments from Executive Directors, made the following statement:

I would like to answer the question from Mr. Ostros referring to the joint FAD and Legal Department (LEG) governance diagnostic and whether similar exercises have been done for other countries. I would first point out that in the context of the framework for enhanced engagement on governance issues, the support for country teams and capacity development for country authorities have been stepped up. In this context, joint diagnostic missions from LEG and FAD have already been conducted in Peru, Equatorial Guinea, the Republic of Congo, and Mozambique, and one is in the process of being

conducted in Zimbabwe. In addition to that, there are other diagnostic missions that have been completed by a single department. They have not been joint but there are some more.

Ms. Riach made the following statement:

Let me start by thanking staff for the useful papers and Mr. Raghani and Mr. Diakite for the helpful buff statement, and also I would like to thank staff for their introductory remarks this morning, in particular the additional information provided on revenue collection, which is reassuring. This will clearly continue to be an important and challenging issue, so we welcome the priority being given to it by the authorities and the support provided by FAD.

We commend the authorities for their commitment to support macroeconomic stability and their development agenda, and we welcome the progress that has been made to date, including under the previous Fund program. We support the request for a three-year ECF. We welcome the short-term focus on revenue collection and energy sector reform. These are urgent issues that risk derailing the authorities' development strategy and therefore need to be addressed urgently. A staggered approach seems a sensible program design for a fragile state such as Mali.

In the medium term, we hope that this ECF will help unlock structural reforms that have proven difficult under previous Fund programs. In particular, we emphasize the economic aspects of building stability and implementing the peace agreement, for example, the decentralization program. Like Mr. de Villeroché, we encourage the authorities to focus on implementation of measures targeted at poverty reduction. As other Directors have requested, we would like to see more concrete measures on governance and corruption.

We were surprised not to see more discussion of climate change in the papers given Mali's high level of vulnerability. We said in previous Board discussions that we believe that the Fund's efforts on climate must include slower onset climate risks, as well as short-term disaster resilience. Comments from staff would be welcome.

We thank staff for the helpful annex on the capacity building strategy, which gives a very clear line of sight between planned activities, measurable milestones, and program objectives. This will be key to ensuring long-lasting results. We encourage staff to work closely with development partners,

including the World Bank and the Sahel Alliance, to support a coordinated reform effort in Mali.

Mr. Inderbinen made the following statement:

We thank staff for the report and also for the elaboration on the question we had on the tax and the audit measures, and we are also grateful to Mr. Raghani and Mr. Diakite for the good buff statement.

We support the ECF arrangement for Mali, and we are confident that the program will help support the authorities' reform and development agenda, which is being implemented against the backdrop of adverse exogenous factors.

Improvement of the fiscal position will be critical, and we welcome that this is a centerpiece of the arrangement. We welcome the recognition both in the Letter of Intent and in the buff statement of the need for major improvements in revenue administration and tax compliance, and we do take good note of the measures aimed at improving revenue collection and expenditure efficiency in the program.

This said, we encourage the authorities to keep the fiscal strategy in line with the WAEMU convergence criteria over the medium term, and we did find the staff's comments on this matter reassuring.

On debt, we support Ms. Pollard's and Mr. Shenai's call to broaden coverage given the significance of guarantees extended to state-owned enterprises (SOEs) and the fact that the contingent liability test and its calibration in the DSA are only a default approximation. On governance, like others, we look forward to the results of the envisaged diagnostic exercise, and we take good note of the commitment of the authorities and of staff to implement additional measures to improve governance and fight corruption based on the result of the exercise in the course of further program reviews.

Finally, on the financial sector, we note in staff's written answers to Directors' questions that all banks currently comply with regulatory requirements, but there is a section in the memorandum attached to the Letter of Intent that mentions plans to remove impaired assets from banks' balance sheets to "ensure compliance with prudential policy in effect within the union." We were wondering how this relates to possible differences in regulatory requirements at the national and at the WAEMU level. We also

wonder who is responsible for enforcing compliance with these regulations. I was wondering whether staff could comment on that.

Mr. Rozan made the following statement:

I thank staff for the well-written report and Mr. Raghani and Mr. Diakite for the buff statement. As we said in our gray statement, we fully support the authorities' request for the three-year ECF and wanted to make a few comments for emphasis.

First, and maybe looking backward, we wanted to emphasize how useful the Fund program has proven to be in stabilizing the economy despite a challenging situation in a difficult environment. In a fragile state like Mali, a Fund-supported program results in much more predictability for the donor community, and we acknowledge that given the challenge ahead, a flexible approach will probably be needed in the implementation. In this regard, we very much appreciate the Fund's commitment to Mali, which will face exogenous shocks and security challenge risks in the future. We particularly appreciate the annex on TA, which will be a significant point of emphasis for us in the years to come. The annex was well drafted and clearly showed us the different milestones and objectives.

Second, regarding the fiscal issue, we welcome the focus on domestic resource mobilization (DRM) and on PFM aimed toward enlarging the tax base, rationalizing the tax exemption. Addressing base erosion and profit shifting (BEPS) issues in the mining sector is important, and the buff statement was very helpful in this regard, and we welcome the authorities' commitment to address these issues. Spending efficiency will also be important, and the implementation of the 2017 Public Investment Management Assessment (PIMA) exercise will be important to help enhance the quality of infrastructure. As Ms. Riach said, we hope that a strong focus on social issues can be implemented throughout the duration of the program given the significant challenges.

Finally, I have a note of caution on climate aspects. This region faces significant shocks in the future, and as we will discuss Micronesia Climate Change Policy Assessment (CCPA), maybe there is scope to extend the analysis to countries facing such large shocks in the future.

Ms. Levonian made the following statement:

I thank staff for the report, written responses to questions, and your oral responses this morning. Let me also thank Mr. Raghani and Mr. Diakite for their helpful buff statement. We issued a gray statement in support of the request, so I will just raise four points for emphasis.

First, Mali has made good progress in strengthening the macroeconomic framework amid a challenging security and social environment. Growth remains solid. Inflation is contained, and public debt moderated. Advances on the social front, however, remain slow, underscoring the urgent need for greater focus on development spending to close infrastructure gaps and improve social outcomes, including reducing gender inequality and poverty.

Second, consistent with Mr. Rozan and other colleagues, key to achieving these goals will be greater spending efficiency combined with stronger revenue mobilization efforts. On the former, Mali should act swiftly to reduce transfers and subsidies, including the state-owned electricity entity, strengthen the public investment management framework, and broaden the scope of the treasury single account.

Regarding resource mobilization, we applaud the reversal in revenue underperformance so far this year and hope this trend will continue. The results of the internal audit of the tax department should provide a solid basis for the authorities to proceed to safeguard revenues. We wondered whether staff will consider establishing benchmarks. I was wondering if staff could elaborate on benchmarks or conditionality on implementing key recommendations from the audit for upcoming reviews.

Third, one of the key recommendations from the Independent Evaluation Office's (IEO) evaluation of the Fund's engagement with fragile states, which was further reinforced in the most recent Review of Conditionality and supported by the Board, is for the Fund to enhance its capacity development efforts with these states, and Mali has significant development challenges. They will need considerable technical support, even beyond the life of the ECF, to effectively implement their ambitious reform agenda. As this chair remains a strong proponent of robust TA support appropriately tailored to country circumstances, particularly for the more vulnerable members, we are pleased to see revenue administration and PFM at the forefront of the capacity development strategy. We encourage staff to

continue to evaluate the strategy and to be flexible to adjust in line with the authorities' progress and requirements.

Finally, I would like to echo Ms. Riach's comments on governance and corruption. With that, we wish the authorities great success toward the program objectives and in advancing their efforts to exit fragility.

Ms. Pollard made the following statement:

Let me begin by thanking Mr. Raghani and Mr. Diakite for their buff statement. We agree that the authorities have made significant progress under Fund programs, notwithstanding the challenges that remain, and I appreciate staff's work in this area and the comments this morning, which were very helpful in answering several of the questions that we had.

I also want to echo other chairs on welcoming Annex II on capacity development. We found that incredibly helpful, and as Ms. Levonian just said, it is a good framework for moving forward with TA for Mali. I also thought that Annex III on the economic impact of the security situation was quite insightful and very helpful in countries like Mali where security issues are so critical. On the fiscal issues, I fully agree with others that DRM is key, as is greater spending efficiency. But we cannot ignore the fact that security costs have increased and are likely to remain high for a country which already has limited ability to raise revenues. So I found quite interesting the comment in the report that the WAEMU authorities are looking at whether to adjust the convergence criteria to take into account security spending, which is an incredibly important and reasonable thing to do, and was wondering if there was any update on those discussions. We would probably all agree that the 9 percent deficit that is listed in the table under the CREDD is too high, but given the security situation, I also think that 3 percent may not be the appropriate level for a country like Mali.

Second, on poverty and social development, I fully support the comments made by Ms. Riach, Mr. Rozan, and Ms. Levonian, that this needs to be a critical part of the program, and perhaps the program should incorporate more specifics on how the authorities can help improve human development in the context of their own development program through the CREDD. On governance, I want to echo what other chairs have said on the importance of addressing weak governance and strengthening anti-corruption.

Finally, on the financial sector, I am interested in the question that Mr. Inderbinen raised about the division of responsibility between the regional

and national authorities and who is ultimately responsible for ensuring compliance.

Mr. Obiora made the following statement:

Quoting from the first paragraph of the report, Mali is a fragile, low-income country, struggling with insurgency, terrorism, and social tensions. The authorities do not have full control of large swaths of the country, and incidences of inter-ethnic violence are frequent. Yet, our staff leave family, friends, and colleagues behind to travel there for several weeks on mission. It is usually part of our speaking notes to thank staff for their work, but this one comes from a special place, so thank you very much.

On the issues raised in the report, we would like to first note that the authorities have made good progress on the program that expired in December of 2018. Even under difficult circumstances, average growth exceeded 5 percent, tax revenue rose for the first four years, and some improvements were recorded in poverty reduction and social conditions. It is on the basis of these outcomes, as well as strong assurances of continued commitment of further reforms, highlighted in the buff statement by Mr. Raghani and Mr. Diakite, that we fully support the authorities' request for a new program.

We recognize that Mali has been on several Fund programs, but they, too, have dealt with several unanticipated shocks, so it is critical that we do not turn our backs on them at this time. We believe that a new ECF will provide the authorities with an opportunity to address major economic challenges and improve the gains made from previous programs.

We agree with Directors, including Mr. Merk, Mr. Ostros, Mr. Chikada, and Ms. Levonian, on the need to urgently address the financial situation at the state-owned *Energie du Mali SA* (EDM-SA) to support economic activities. We welcome the authorities' effort to reform the energy sector, including concerted efforts to liaise with the World Bank to implement the reform strategy.

Furthermore, like Mr. Ostros and Mr. Saraiva, we see merit in the provision of substantial capacity development from the Fund and other partners given on-the-ground limited capacity. We welcome the authorities' openness to TA and urge them to ensure the well-sequenced implementation of the recommended measures. We wish the Malian authorities success in the implementation of the new program.

Mr. Saraiva made the following statement:

I thank Mr. Raghani and Mr. Diakite for their useful buff statement. The previous two speakers, Ms. Pollard and Mr. Obiora, made the same points I wanted to make, but I will be brief.

The first thing I wanted to highlight is exactly the issue that Mr. Obiora raised. Ms. Yontcheva and the whole team deserve praise from this Board for the continuous engagement under challenging circumstances on the ground. Thank you very much for the work you have done. I take this opportunity also to commend the Malian authorities for the success in implementing the previous ECF, and we are in full support of this request for a new ECF-supported program.

The other issue that I wanted to touch upon is the one that Ms. Pollard has eloquently touched upon, as well as several other Directors, and it regards the importance of reversing the situation in terms of revenue mobilization. It is still not completely clear to me the reasons behind the shortfall in revenue in 2018. If I understood well what Ms. Yontcheva said, it is mostly related to HR issues on tax administration and maybe some inefficiencies and loopholes in customs, but yet it is not clear what triggered it. Is it related to the security situation? Is there any issue regarding lack of willingness to pay taxes or collect taxes? It is still a matter that I have some doubts about, and it raises the need to focus on this issue as the program moves forward. I join other colleagues, such as Ms. Riach, Mr. Rozan, Ms. Levonian, Ms. Pollard and others, in noting the importance of capacity development activities. The information that was given in the annex to the report was very good. I notice that there is a long-term resident advisor on treasury issues to help the implementation of the PIMA advice. I wonder if there is scope to have a long-term resident advisor to support the changes and the improvements in tax and customs administration, as this is a major issue as well, especially because we see this hike in expenditures as being related to military expenses and it is critical to keep revenues flowing at a proper pace. To start with, revenue to GDP was already below the 20 percent benchmark that we had for LICs, so it would be important to provide the proper focus on this. I wanted to reinforce what other Directors have said and wish all the success for the Malian authorities.

Ms. Mahasandana made the following statement:

We join the other Directors to thank the staff for the comprehensive paper and for the responses to our questions. We also thank Mr. Raghani and

Mr. Diakite for their insightful buff statement. We commend the authorities for their remarkable achievements amidst difficulties and circumstances under the previous Fund-supported program. Nonetheless, we also note that various economic challenges ahead remain. Thus, we support the authorities' request for the new ECF arrangement to help their efforts in tackling the remaining structural challenges to obtain strong, sustainable, and inclusive growth. We issued a gray statement, so we will limit our comments to two additional points.

First, in the light of the recent developments, we share the same concern with Mr. Villar and Mr. Cartagena about Mali's human capital development. As mentioned in the staff report, Mali's human development indicators are among the lowest in the world. We have learned from the staff response about Mali's strategy on the CREDD and also the role of the new ECF to improve the human capital development. Human capital plays a crucial role in long-term economic growth, and we encourage staff to ensure that the new program design would support the authorities' efforts in this area. We also urge staff to closely monitor the implementation phase of this issue.

Second, we want to highlight that the authorities' strong commitment and ownership are key to the success of the program's implementation. In this regard, the Fund could also play an essential role in enhanced the authorities' commitment. Hence, staff needs to have a comprehensive understanding about the country's situation and specific characteristics and undertake close engagement with the authorities. Based on the previous experience, the implementation of the Fund-supported program in Mali was broadly successful. However, we note that the progress on the structural benchmarks has been slower than expected. We encourage the staff to step up support to the authorities to minimize this gap.

Mr. Spadafora made the following statement:

I would like to thank staff for the very good work in difficult circumstances, and we are very supportive of the request. We recognize the incredibly strong achievements made by the authorities under difficult circumstances, in particular the security situation, so we are happy to support their request.

On the revenue shortfall, we asked a question in our gray statement, and building on what Mr. Saraiva just said, it is not very clear what are the reasons underlying this sudden shortfall, because it comes after four years of increasing revenues, so all the factors that staff is listing that can account for

this shortfall could have played out in the previous years. We are reassured by the fact that there are signs that revenues are recovering and that the authorities are implementing the correct measures, but the reasons remain unclear, so I look forward to further elaboration from the staff.

Finally, I have a question on footnote 10 on the criteria on the ceiling of new external debt, which is an indicative target and is supposed to become a performance criteria. I wonder what is behind this prospective change.

Mr. Merk made the following statement:

We thank staff for the informative set of reports. We also thank Mr. Raghani and Mr. Diakite for their helpful buff statement. We are willing to consent to the authorities' request for another ECF arrangement with a view to the catalytic nature of the arrangement. However, we note that downside risks continue to exist, and the necessary economic adjustment remains incomplete. Therefore, strengthening revenue remains a key priority to bolster fiscal sustainability and create room for productive public investment while protecting social spending. The authorities' commitment to corrective actions to quickly and fully reverse the recent plunge in revenues needs to be followed by stepped-up efforts on fiscal-structural reforms.

Like other chairs, we strongly encourage the authorities to take decisive actions to fight corruption and enhance governance and transparency. Progress in this area will be also crucial to set the stage for more vigorous, inclusive, and formal private business activity.

Mr. Ostros made the following statement:

I thank the staff for the excellent work in difficult circumstances. We are very supportive of this three-year ECF arrangement for Mali and also supportive to the disbursement of the first tranche. I have issued a gray statement where I have highlighted the most important issues.

I would like to highlight specifically Annex II, which other Directors also have highlighted, because we have had numerous discussions in the Board where we have been somewhat critical of other reports that do not provide the information we need on TA and capacity development. So it is only fair to say that here we have a very good setup where we can assess our activities in the capacity development field, and I would like the Secretary's Department (SEC) and SPR to use this as a model for other program reports for countries that receive a lot of TA, because this is critical in order to have a

constructive Board discussion. The annex also highlights the risks of TA. It is very good. It gives us a basis for a deeper discussion, and I would like to underline that this is a very good example.

The staff representative from the African Department (Ms. Yontcheva), in response to further questions and comments from Executive Directors, made the following additional statement:

We thank Directors for their insightful comments. We are duly noting the risk on the governance and climate change and the importance that the Board attaches to those issues. Let me maybe address a few technical questions. Let us start with the financial sector and the balance of responsibilities. The financial sector supervisor is the banking commission, and this is a regional institution, so the essential role of a supervisor is at the regional level. When it comes to the decision to close a bank, that will be done in collaboration with the national authorities. It is a dual role, but the primary responsibility is at the regional level. The rules are the same for every country, and all the region has been moving to Basel II and III, so the rules are the same for the country. More specifically, to clarify what was in the report in the Memorandum of Economic and Financial Policies (MEFP), the capital adequacy ratio is fine for all banks. Where there would be scope for improvement is on non-operating fixed assets. Some banks would need to reduce those. However, it just happens that in Basel II and III, those non-operating fixed assets are deducted from capital. We can exchange more if you want on the technical issue, but this is why we do not consider that all Malian banks are respecting the Basel II and III criteria.

Otherwise, more globally on WAEMU rules, several WAEMU countries are facing security issues. Mali has been under tremendous stress from security challenges since 2012, but very unfortunately, the terrorist attacks have been spreading throughout the region, which is why the discussions are going to be done at the regional level, as well as the discussion of the potential flexibility for some of the members. When we were on mission, the Malian authorities indicated that with regard to the discussion on the ceiling, they are very committed of respecting the WAEMU criteria, but if there was to be a relaxation of that ceiling, they would want this to be a regional decision. Obviously the challenges that those countries are facing could be alleviated by additional international support.

Mr. Inderbinen made the following statement:

I appreciate those elaborations on the specific question of the financial sector and the responsibilities. The primary responsibility will be at the regional level and with the regional supervisory authority. If I look again at paragraph 28 in the MEFP, it is stated that the government does plan to provide assistance to the financial system in the process of removing these non-operating assets that staff mentioned. I was just wondering how this might be reflected in program design. Is this financial assistance that the government is envisaging in this case, or is it more TA in the process of introducing the instruments that are mentioned in the paragraph? How would this specifically relate to program design?

The staff representative from the African Department (Ms. Yontcheva) responded that the TA was focused on legislative assistance because those non-operating assets had de facto already been deducted from the capital, which was why staff did not consider the capital adequacy ratio to be acceptable. However, the solution was a matter of cleaning the books.

Mr. Raghani made the following concluding remarks:

I would like to thank Directors for their support to a new ECF arrangement with Mali and for their valuable advice on policy, which I will accurately convey to my Malian authorities. I would also like to thank Ms. Yontcheva, the mission chief, and her team, for the constructive policy dialogue with the authorities, as well as for the comprehensive answers to questions raised by Directors.

The Malian authorities are strongly committed to pursue their reform effort to further strengthen macroeconomic stability and achieve sustainable high growth to improve the living standards of the population. As noted by many Directors, Mali is a fragile state facing important development challenges, and remains vulnerable to terms-of-trade and weather-related shocks. Like many countries in the region, Mali continues to carry the heavy burden of military and security expenditures needed to face the terrorist threats in the region, which claim a significant portion of public expenditures.

Maintaining security has become a key macrocritical issue in the Sahel countries, and the Fund should be increasingly attentive to security-related challenges and policy implications for these vulnerable countries.

Let me now turn to some of the specific issues raised by Directors. On fiscal policy, I take note of Directors' emphasis on enhancing DRM to increase fiscal space for priority investment and social spending and to increase resilience to shocks. This is well shared by my authorities, and I would like to reassure the Board of their determination to take strong measures to address the revenue underperformance experienced in 2018 at the tax and customs administrations. In this regard, the authorities' priorities include broadening the tax base, improving the managing of tax declarations, and strengthening collections, facilitating information sharing between the tax and custom administrations, promoting electronic filing and payment of tax and duties, and fighting fraud and smuggling. As noted by Directors, the authorities made noticeable progress in this area over the past six months and their efforts will be pursued.

The authorities will also continue reinforcing PFM including by implementing the treasury single account, enhancing the efficiency of public investment, and strengthening the legal framework for public-private partnerships to minimize friction.

On debt sustainability, another area which Directors have stressed, the authorities have committed to preserve this objective. The authorities will continue their efforts to strengthen public debt management and rely primarily on grants and concessional financing.

Regarding structural reforms, the Malian authorities are mindful that a vibrant private sector is essential for reducing poverty, raising the living standards of the population, and improving long-term economic prospects. In this regard, they will continue to implement required reforms to advance economic diversification, promote mobile banking, enhance access to financial services, address gender and governance issues, and foster a more conducive business climate. Restructuring the electricity company, EDM, is a key priority in this regard, and the authorities fully share the need to bring EDM on a path to cost recovery and to enable reliably supplied electricity, which is necessary to support economic competitiveness while meeting its own financial obligations.

We welcome the Fund TA to Mali in several areas. To conclude, I would like to thank Directors for their support and reiterate the determination of my Malian authorities to successfully implement the new ECF program.

The following summing up was issued:

Executive Directors welcomed the progress made by Mali under the previous Fund-supported arrangement despite difficult circumstances. However, they noted that downside risks remain, including those arising from the security situation, potential shocks to the terms of trade, and adverse weather conditions. Directors emphasized that continued strong commitment to the objectives of the new Fund-supported program under the Extended Credit Facility would be critical to help sustain macroeconomic stability and support the authorities' development strategy (CREDD) for strong and inclusive growth.

Directors considered that an improvement in domestic revenue mobilization would be critical for expanding fiscal space for productive investment and priority social spending. They encouraged the authorities to enhance fiscal policy discipline in line with the WAEMU convergence criterion and persevere in their efforts to strengthen tax policy and revenue administration reforms.

Directors underscored the importance of greater spending efficiency and improving public financial management, including through better selection, execution, and management of public investment projects, as well as rationalization of subsidies. Cash management also needs to be strengthened, especially by better integrating disbursements from donors and expanding the scope of the Single Treasury Account.

Given the economic importance of the state-owned electricity company (EDM-SA), Directors saw need for a multi-pronged reform strategy, especially by giving priority to strengthening the financial situation of the company and eliminating the need for subsidies. They encouraged the authorities to seek participation from commercial banks in the financial restructuring of EDM-SA. Directors also highlighted the importance of preserving debt sustainability.

Directors stressed that strengthening the business environment, promoting good governance, combatting corruption, and diversifying the economy will be necessary for sustainable and inclusive growth. They called for further efforts to enhance the AML/CFT regime, and agreed that the forthcoming governance diagnostic report would help address vulnerabilities and inform future program design. They welcomed efforts to increase financial inclusion and narrow the gender gap, including through direct measures to economically empower women. Noting Mali's limited domestic

technical capacity, Directors saw need for continued technical assistance from the Fund and development partners.

The Executive Board took the following decision:

Mali—Request for a Three-Year Arrangement Under the Extended Credit Facility

1. Mali has requested a three-year arrangement under the Extended Credit Facility in an amount equivalent to SDR 139.95 million.
2. The Fund approves the arrangement set forth in EBS/19/78 and decides that Mali may request the first disbursement under the arrangement, on the condition that the information provided by Mali on the implementation of the measures specified as prior actions in Table 2 of the Memorandum of Economic and Financial Policies attached to the letter from the Prime Minister and Minister of Economy and Finance, dated August 09, 2019, is accurate. (EBS/19/78, 8/13/19).

Decision No.16582-(19/73), adopted
August 28, 2019

APPROVAL: May 27, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Fiscal policy and debt sustainability

1. *Although staff's baseline indicates Mali will meet the WAEMU's 3 percent fiscal deficit criterion through 2023, the baseline scenario in the authorities' CREDD shows a deficit above 9 percent by 2023. We recognize that the WAEMU authorities are considering factoring security costs into their deficit criteria. Can staff provide their views on this issue and whether the authorities can meet the objectives of the CREDD with smaller deficits?*
 - Staff will respond to this question during the Board meeting.
2. *We are concerned about the authorities' intention to boost deficits well beyond WAEMU targets after 2020. In this regard, could staff provide further comments on the large discrepancies between the authorities' plans under CREDD and staff's baseline?*
 - Staff will respond to this question during the Board meeting.
3. *The inconsistency of the CREDD's macroeconomic framework with WAEMU criteria and program baseline is a source of concern from a viewpoint of debt sustainability as shown in the customized scenario of DSA. We would like to hear if staff discussed this inconsistency during the mission and, if it is the case, to what extent the authorities has intention to review the macroeconomic framework of CREDD in the future.*
 - Staff will respond to this question during the Board meeting.
4. *Notably, the baseline scenario assumes continued fiscal balance at 3 percent of GDP while CREDD envisages a steep rise in fiscal balance from 2021. So higher fiscal deficit and widening current account deficit, which appear inevitable do not suggest that debt burden indicator would stay in a desirable range. Staff may like to elaborate on their conclusions regarding debt sustainability.*
 - Staff will respond to this question during the Board meeting.

5. ***As fiscal deficit will be significantly cut and maintained at 3 percent of GDP over the medium term, could staff elaborate on the economic impact including the poverty reduction under the new scenario compared to the original CREDD plan?***
 - The projected fiscal deficit over the medium term (3 percent of GDP per year) remains similar to the average fiscal deficit for 2013-18 (3.1 percent of GDP per year). The ECF-supported arrangement emphasizes structural reforms to increase fiscal space (from fiscal measures to improving business climate to foster job creation) while complying with the convergence criterion on the fiscal deficit.
6. ***Further staff comments about the scope of CREDD and ECF's role to improve the weak human development indicators will be welcomed.***
 - The authorities view human capital development as a key ingredient of their economic development strategy and it is one of the main pillars of the new 2019-23 CREDD. They expect to achieve this objective by further investing in education (including working towards gradually reopening schools in terrorism-hit Central and Northern Mali) and health sectors, expanding social safety nets, and closing gender gaps. The new ECF support this objective through the envisaged implementation of policies to create further fiscal space for restoring the State presence in Central and Northern Mali and investing in social sectors and infrastructure.
7. ***We also note that trimming down the fiscal deficit in 2021 onwards would barely affect the economic growth and the external position (Table on the Box 1 Vs Text Table 1). Could staff comment on this?***
 - The CREDD provides a comprehensive framework for improving human development indicators but the proposed framework did not impact potential growth.
8. ***While we commend the authorities for the consolidation efforts and ensuring limits on the pass-through costs from large international fuel price increases to domestic prices, could staff elaborate on the sustainability of cutting non-priority spending when international prices continue increasing over a longer period.***
 - The Malian fuel price mechanism allows the smoothing of the pass-through of international oil prices over the medium term. In the short term, when prices are rising there is a cost to public finances in terms of tax expenditure, and this is the reason for cutting non-priority spending. Staff regards these cuts as temporary, as the mechanism allows the pass-through of increasing oil prices in the medium to long-run.

9. *With regards to the fuel tax revenue, we note the authorities' decision to implement the oil price mechanism to limit the pass-through of international to domestic prices. Considering that this policy option can be costly for the budget if the oil prices are on the upward trend, we welcome staff's comment on the medium-term strategy well fitted to the Mali's situation.*

- See response to question 8.

10. *Could staff elaborate further on the envisaged changes to the oil price mechanism and the expected timing of implementation of those changes?*

- The authorities do not envisage any change in the current mechanism.

11. *Also, could it provide an estimate of total tax expenditures in Mali, as well as of the possible fiscal impact of the tax policy (as opposed to the tax administration) measures being considered?*

- Tax expenditures amounted to about 2.5 percent of GDP in 2018, in addition to the VAT exemptions granted to mining companies. The authorities have taken actions to curb tax exemptions by requiring approval of new exemptions by the council of Ministers, and more recently by proposing a new mining code that limits the scope for tax exemptions. Tax policy measures are still being developed with FAD assistance and their expected outcome is difficult to quantify at this stage.

12. *Could staff share the first results of the internal audit of the tax administration and customs which should have been concluded by August 15?*

- Staff will respond to this question during the Board meeting.

13. *Staff comments on the preliminary results of the audits of tax administration and customs will be welcomed. Are they achieving the targeted results? Are the measures effective in addressing the weakness noted in the tax and customs administration in the 2018 revenue collection?*

- Staff will respond to this question during the Board meeting.

14. *Can staff elaborate on the outcome of the audit and on possible corrective measures following from the audit?*

- Staff will respond to this question during the Board meeting.

15. *We also welcome the completion of the audits of tax administration and customs, a prior action under this program, and would welcome more details on their findings and the intended follow-up.*
- Staff will respond to this question during the Board meeting.
16. *The report highlights the importance of improving collaboration between tax administration and customs. Has the possibility of creating a single entity integrating both administrations been considered?*
- The authorities are not considering merging tax administration and customs into a single revenue administration.
17. *We ask staff to further elaborate on the timing of the revenue shortfall.*
- The revenue shortfall was identified around mid-year 2018 and intensified in the second half of the year.
18. *While noting the corrective measures were taken by the authorities and internal audit of tax administration and customs with a support from the Fund, tax revenue correction is still underperforming compared to 2019 budget. In this regard, could staff elaborate more on the tax administration aspect that affected the revenue decline in 2018?*
- Staff will respond to this question during the Board meeting.
19. *We would like to hear staff's view on the feasibility of achieving revenue target of 2019 supplemental budget.*
- Based on evidence of revenue collection for the first half of 2019, the authorities are on track to meet the revenue target of the program.
20. *In particular, could staff estimate the potential tax revenue associated with measures on land and property tax, and informal sector taxation?*
- Tax policy measures are still being developed with FAD technical assistance and at this stage it is too early to quantify their expected outcome.
21. *We wonder whether the envisaged decentralization is feasible and how the process of decentralization would interact with the efforts to improve the efficiency of public finances. Staff comments are welcome.*

- In principle there is no contradiction between decentralization and the effort to improve the efficiency of the public administration. In Mali, decentralization is a condition for the peace agreement and the timing is linked to the peace process. The pace of decentralization also hinges on capacity building at the local level.
22. ***Whether Government spending would be strictly aligned to its objective of inclusive growth and poverty reduction, which are critical to bringing about social harmony and desired security environment.***
- The government is fully committed to aligning public spending to the inclusive growth and poverty reduction objectives of its development strategy.
23. ***We would have appreciated more information on the terms of the Abu Dhabi Development Fund loan signed in July 2019. While staff included this loan in their debt sustainability analysis, could staff provide further details on the concessionality of this loan?***
- The Abu Dhabi Development Fund loan is a near-concessional loan with a grant element of 32.70 percent (using the standard discount rate of 5 percent).
24. ***Regarding the possibility of the reprofiling of the domestic and regional debt, could staff precise the modalities of the potential operation of the budgetary loan and policy-based guarantee operation, and whether a comparison of cost/advantage between using the IDA allocation as a loan and as a guarantee has been made?***
- Preliminary estimates from the World Bank's Policy-based guarantee experts indicate that Mali could contract a ten-year syndicated loan at an interest of about 5 percent on the international market. The proceeds are expected to be about ten times the forgone IDA allocation required for such an operation. The opportunity cost was discussed with the World Bank, as well as the authorities during the mission. Staff emphasized the need for caution in designing the reprofiling operation and encouraged the authorities to request IMF TA on sovereign debt reprofiling, which is planned for later this year.
25. ***In this light, we appreciate staff's assessment on the current fiscal risks arising from contingent liabilities in Mali. Staff recommendations on risk mitigation are welcome.***
- The fiscal risks arising from contingent liabilities are captured in the DSA by the contingent liabilities stress test. The calibrated impact of the contingent liabilities in the DSA is 8.3 percent of GDP of which 2 percent are from SOEs, 1.3 percent from PPPs and 5 percent from financial crisis. The current contingent liability risks in Mali

arise from fiscal risks posed by deteriorating financial situation of SOEs (mainly EDM-SA). To mitigate the fiscal risk of contingent liabilities, it is crucial to strengthen the identification, monitoring, and management of fiscal risks arising from the largest SOEs.

26. *We wonder if the plan for the syndicated loans in the international market on commercial terms is desirable. Even though the principal is guaranteed by the World Bank and the African Trade Insurance Agency, the burden from interest payments could still weigh on the budget in the future. We would appreciate staff's comment.*

- Preliminary estimates of the terms of Mali's debt reprofiling operation supported by a policy-based guarantee (PBG) indicate that Mali could contract a ten-year syndicated loan at an interest of about 5 percent on the international market. The syndicated loan would reduce interest cost and rollover risk, inject liquidity in the domestic/regional banking sector and help to increase the WAEMU foreign exchange reserves at the time of the transaction. On the other hand, the operation involves the costs of foregone IDA financing. The authorities have requested technical assistance from MCM.

27. *We have some reservations on the suggested innovative financing schemes involving the private sector including PPPs to complement the budget, given its potential fiscal risks and the country's capacity constraints. Staff's view would be welcome.*

- Staff shares the concern that, while the reliance on PPP can reduce government borrowing, it may give rise to significant fiscal risks and contingent liabilities. Building on FAD's 2017 PIMA mission and 2018 TA mission on the identification and management of fiscal risks, staff thus reiterated the need to closely evaluate, monitor and report PPP-related fiscal risks and to strengthen PPP management capacity, including through improving the transparency and availability of PPP-related information and strengthening the institutional framework and rules governing the award, implementation, oversight, and regulation of PPPs.

SOEs

28. *We welcome staff comments on how the authorities' plan to contribute to the reduction of the EDM-SA's stock of arrears through additional transfers would affect debt sustainability over time.*

- These additional transfers would not materially affect Mali's debt sustainability over time as the authorities are committed to complying with the WAEMU convergence

criterion related to the fiscal deficit. In addition, ongoing structural reforms are expected to reduce the structural gap between the sale of electricity and the cost of service.

29. *Does staff expect the authorities to seek PV writedowns or a refinancing of EDM-SA debt on more favorable terms?*

- The expectation is both for a renegotiation of the terms of the local commercial bank loans and a rollover of the short-term debt via a syndicated loan under more favorable market terms.

30. *Further comments about the pressures to the fiscal forecast arisen from the public energy enterprise and of the feasibility of the policies that authorities are/will take in this regard will be welcomed, as well as comments on the outcome of the strategy with the World Bank and the effectiveness of the authorities' measures to address the fiscal exposure derived from EDM.*

- The authorities are committed to implementing structural reforms designed by the World Bank (as part of the World Bank DPO). The plan aims to address the structural gap between the sale of electricity and the cost of service as well as the balance sheet of the company. Reducing the gap and improving the quality of the balance sheet will gradually reduce fiscal pressure and exposure. The current expectation is for the energy company to be on a sustainable financial path with a gradual elimination of government subsidies by 2021.

31. *We would welcome comments from the staff regarding the probability that the Government would succeed in raising power tariff adequately and would be able to make the additional transfer to EDM-SA given limited fiscal space.*

- The authorities recently increased medium-voltage electricity tariff (tariffs for industrial customers) which is a World Bank conditionality for the DPO. Further increase in electricity tariffs will be mindful of protecting the poor. The government is committed to make the planned transfer to EDM-SA as the authorities want to avoid further increases in arrears that could potentially jeopardize the reform agenda of the company and in turn eventually yield higher fiscal costs.

32. *We also welcome the authorities plan to revise the electricity tariff structure; however, we take note of the plan to maintain a "social tariff" to protect the most vulnerable segments of the population. Could staff elaborate on the trade-offs between this approach and providing direct and targeted help for low-income families via Mali's social safety programs?*

- The “social tariff” targets customers by consumption rather than income but the subsidies price concerns only consumers that consume very few kWh per month (less than 100kWh per month at 5 amp or the consumption of a medium size fridge); these are typically the poorer households. Therefore, the tariff comes close to a targeted subsidy. Direct cash transfers to the poor and vulnerable households would be difficult to implement
33. *We underscore the importance of putting targeted support mechanisms in place to protect the most vulnerable. However, we worry that given significant capacity constraints, devising an accurately targeted support mechanism could be an elusive endeavor. Could staff elaborate on some of the measures taken in this regard?*
- The planned tariff increases will not concern the social tariff benefitting the poorer households
34. *Could staff explain whether the restructuring strategy supported by the World Bank envisages sufficient investments in electricity generation capacity?*
- The World Bank-supported strategy is multi-pronged and focuses on shifting away from expensive fuel-generated electricity to imports from surplus countries in the region. In the short-term, EDM will increase its supply from Cote d’Ivoire using the interconnection capacity in place. In the medium term, the World Bank is financing a larger investment plan which will increase regional interconnectivity. In addition, electricity generation via solar panels is also part of the medium-term strategy.

Financial sector

35. *With Table 5 of the report indicating a loan-deposit ratio of about 97 percent, NPLs at 12.2 percent, low loan provisioning, and credit distribution concentrated in only three sectors, we are concerned that the financial system’s stability could unravel rapidly, and welcome staff comments on these observations.*
- While the transition to Basel II/III is still ongoing, Malian banks appear to be appropriately capitalized. All banks comply with the regulatory requirement on the capital adequacy ratio and NPLs are now on a declining trend (from about 16.8 percent of total loans in March 2017 and March 2018 to 12.2 percent in March 2019). The sectoral distribution of credits reflects business opportunities in the secondary and tertiary sectors from the Bamako area and to a lesser extent the Center of Mali as well as the perceived risk in providing credits.
36. *We would also appreciate an explanation for the drivers of banking sector credit particularly as the report indicates a significant expansion of credit to the economy*

between 2018 and 2019 from 0.4 percent to 9.0 percent. Could this spike in credit growth also boost NPLs and affect the stability of the banking system?

- Credit growth of only 0.4 percent in 2018 was unusually low because of cuts in public capital spending and the uncertainty amid the presidential election. In staff's view, private sector credit growth of 9 percent, as projected for 2019, is appropriate as it would leave credit stable relative to GDP.
- 37. *We note that staff suggest burden sharing options with commercial creditor banks. In this context, we would like to know the possible impact of the financial restructuring of EDM-SA on the banking sector.***
- While the impact will depend on the terms and the extent of which short-term loans would be refinanced by the Malian banking sector (as opposed to other external sources), staff do not expect a sizable impact on the financial soundness indicators of the banking sector.

Structural reforms

38. *We would appreciate if staff could elaborate on the grand strategy as well as the progress to diversify the Malian economy.*

- Economic diversification is a key part of the authorities' drive towards structural economic transformation. Their strategy to achieve this objective includes notably raising the competitiveness of the economy through gradually implementing major investments in high-priority infrastructure (roads, energy, railways, airports), and creating an enabling environment for the development of value chains through greater industrial transformation of domestic products (agricultural, mining, etc.). Various government agencies have already been established to promote key manufacturing sectors, such as the agrobusiness industry and the textile industry.

39. *With an extreme poverty rate still at 42.7 percent we would welcome more details as to how the new ECF will contribute in this field.*

- The ECF-supported program is designed to increase and enhance priority social spending (including through an indicative floor on social spending) while also supporting inclusive growth.

40. *Like Mr. de Villeroché, Ms. Albert, and Mr. Rozan, we would appreciate staff's comments on how the ECF will contribute to poverty reduction.*

- See response to question 38.

41. *Could staff also elaborate on the policies envisaged in the new CREDD to better protect the environment and strengthen resilience to climate change?*

- The authorities' strategy to better protect the environment and strengthen resilience in climate change revolve mainly around: (i) fighting against desertification and natural resources deterioration, including through promoting environment-friendly production technologies and consumption habits, the preservation of the biodiversity and the development of integrated management of water resources; and (ii) strengthening capacity to prevent and manage risks and natural disasters, and improving population resilience through education, training, sensitization and research.

42. *The joint FAD-LEG governance diagnostic planned for early next year sounds like a helpful way to identify, sequence, and prioritize the necessary actions. Could staff comment if a similar exercise has been done for other countries before?*

- Staff will respond to this question during the Board meeting.

Capacity Development

43. *Advances have been hampered by issues related to human resource management and the system of incentives for tax and customs inspectors. Could staff expand on this issue of incentives and how the authorities are planning to cope with it?*

- The rewards of officials in the public administration are mainly based on years of service rather than performance. The TA mission on revenue administration, conducted on March 2019, recommended the Malian authorities to increase the importance of performance and actual competences in the evaluation of officials for their internal career advances.

44. *We wonder whether the planned debt management TA will also focus on broadening the coverage of public debt to include guarantees and SOE debt?*

- The terms of reference for the upcoming TA on public debt management (tentatively Fall 2019) are still under discussion. At the authorities' request, the primary focus is on reducing rollover risk in Mali's debt portfolio and preparing the use of the World Bank's Policy-based guarantee.

Program related issues

45. *To this end, we agree with staff's recommendation to continue to pursue concessional financing, however we note the absence of a criterion on non-concessional borrowing, staff comments are welcome.*
- In line with the Fund's debt limit policy and Mali's status as a country with adequate debt recording and monitoring capacity and a moderate risk of debt distress, the program ceiling on external borrowing is framed as a ceiling on overall (concessional and non-concessional) new external borrowing in present value (PV) terms.
46. *Regarding the program conditionality, we take note of the ceiling on new external debt contracted or guaranteed by the government. Does this mean that the authorities are no longer allowed to borrow new external debt, except for those loans that are guaranteed by the World Bank for the purpose of reprofiling domestic debt during the program? Staff's clarification would be welcome.*
- The conditionality on external borrowing sets a ceiling on overall external borrowing in present value (PV) terms.
47. *Could staff set out the authorities' plans to ensure a high level of reception and implementation of Fund advice over the course of this program, especially with regard to necessary (and partly long overdue) structural reforms?*
- As strong program ownership is always critical to a program success, the new ECF is anchored on the authorities' new development strategy (CREDD 2019-23). The government is committed to the success of the program, as reflected in its adoption of 2019 supplementary budget in line with the program parameters. The conduct of the audits of the tax administration and customs also reflects their commitment to bringing back revenue mobilization to desired levels and achieving the program objectives. The authorities' commitment to mutually-agreed timelines for the delivery of TA in various segments of public finances is also a good step towards ensuring some continued progress in the implementation of most structural benchmarks drawn upon from past TA reports.
48. *We also trust that prior actions have been met, including the submission of the supplementary budget based on a fiscal deficit target of 2.5 percent of GDP. Could staff please elaborate more on that?*
- Both prior actions were met in a timely fashion.

49. *Could staff provide an assessment of the authorities' progress with implementing the prior actions: to finalize the audits of tax administration and customs, and to prepare and submit to parliament a supplementary budget?*

- Both prior actions were met in a timely fashion

50. *Decisive action is also necessary to fight corruption and enhance governance and transparency. We understand that structural reforms in the aforementioned areas are rather among the ECF's medium term goals. Could staff already provide an outlook on potential structural benchmarks and the intended timeframe for their completion?*

- Future structural benchmarks addressing governance issues will be based on the forthcoming IMF governance diagnostic assessment to address governance vulnerability and tackle corruption. It is likely these structural benchmarks will focus on improving enforcement and compliance, upgrading legislative and regulatory frameworks, and promoting greater transparency and public accountability.