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August 16, 1983

To: Members of the Executive Board
From: The Acting Secretary
Subject: Mali - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Mali, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 26.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Sacerdoti, ext. 74187.

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INTERNATIONAL MONETARY FUND

MALI

Staff Report for the 1983 Article IV Consultation

Prepared by the African Department and the Exchange
and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal,
and Treasurer's Department)

Approved by Rattan J. Bhatia and S. Kanesa-Thanan

August 15, 1983

I. Introduction

The 1983 Article IV consultation discussions with Mali were held in Bamako during the period May 30-June 16, 1983. The Malian representatives included General A. B. Diarra, Minister of State in charge of Equipment; Mr. O. Coulibaly, Minister of State in charge of Economy and Plan; Mr. D. Keita, Minister of Finance; Mr. M. Diallo, Minister of Rural Development; Mr. M. Ag Hamani, Minister of Planning, Colonel Sekou Ly, Minister of Education; Mr. B. Doucouré, Minister of State Enterprises; Mr. M. Keita, Minister of Labor and Civil Service; and other senior officials of ministries and agencies concerned with economic and financial matters, including the Central Bank. The staff representatives were Messrs. Ch. A. François (head), E. Sacerdoti, P. Marciniak and Mrs. L. Schmitz (all AFR), and Mrs. Straver-Postic (secretary-AFR). The mission was assisted by Mr. R. Daumont, Fund resident representative in Bamako. In conducting the consultation, close cooperation was maintained with a parallel World Bank mission, which was conducting a review of an important technical assistance and training project covering key institutions responsible for economic management, personnel, and public enterprises and was discussing rehabilitation programs for public enterprises and rural development agencies.

The consultation discussions provided the opportunity to carry out a full review of the stand-by arrangement approved by the Executive Board on May 21, 1982 (EBS/82/68), which expired in May 1983. A mid-term review of the program was conducted by the Executive Board on February 25, 1983, on the basis of EBS/83/25. Concurrently, discussions were held with the Malian authorities on a stabilization program that could be supported by a new stand-by arrangement covering an

18-month period starting from the latter part of 1983. The Malian authorities are expected to present a request for a stand-by arrangement in the near future.

The last Article IV consultation discussions with Mali were held in Bamako during the periods April 27-May 14 and September 10-16, 1981. The staff report (SM/81/206) and the report on recent economic developments (SM/81/216) were considered by the Executive Board on November 16, 1981. Mali continues to avail itself of the transitional arrangements of Article XIV. Summaries of Mali's relations with the Fund and the World Bank are provided in Appendices II and III.

II. Economic Background

During the period 1972-80, Mali experienced an increasingly difficult economic and financial situation. Because of recurrent drought conditions and weak economic management, mainly in the government-controlled agricultural and industrial sectors, the economy registered slow and erratic growth, averaging 3 per cent annually, with most of the expansion in the tertiary sector. Although the investment ratio increased substantially during the period to 18 percent of GDP in 1980, the rate of growth in the productive sectors remained low because of inadequate supporting policies. Most of the investment was financed with foreign concessional loans and grants, as the savings ratio was negative throughout the period. Public finance deteriorated, causing acute financing difficulties, as weak tax performance was accompanied by a rapid expansion in expenditures, mainly for education and personnel. With credit policy becoming tighter after 1978, the Government and public enterprises accumulated large internal and external payments arrears, which undermined the confidence in the public sector and led to major disruptions in the country's official payments mechanism through the Treasury and the Post Office. The current account deficit widened, and, as Mali encountered difficulties in mobilizing external budgetary assistance, the overall balance of payments deficit rose to 2.5 percent of GDP in 1980.

Since 1980 the Malian authorities have become increasingly convinced that the severe economic and financial difficulties of the country could be corrected only through comprehensive reforms in all sectors of the economy, especially in public finance, state enterprises, and agriculture. Initial steps to stimulate production and rehabilitate public finances were taken in 1980 and 1981. They included a sharp increase in producer prices for agricultural products, a considerable tightening of tax administration, a reform of the education system, a freeze on wages and salaries, increases in retail prices for basic consumer goods and petroleum products, and a continued strict credit policy. However, as a result of unfavorable climatic conditions, GDP in real terms declined by about 1.2 percent in 1980 and 2.4 percent in 1981, and the food price index, the only one available

in Mali, rose by 20 percent in 1980 and by 13 percent in 1981. In 1981 the external current account deficit, excluding official transfers, rose to 23 percent of GDP; official transfers and budgetary and project aid, although large, remained short of the current deficit, and the overall balance of payments recorded a deficit of about 3.5 percent of GDP, which was financed by drawings on the operations account with the French Treasury and by a further accumulation of arrears. At end-1981 total domestic and external payments arrears of the public sector amounted to MF 57 billion (equivalent to 9 percent of GDP), of which MF 42 billion represented arrears to be repaid by cash settlement and MF 15 billion represented external obligations subject to renegotiations.

III. Performance Under the 1982 Financial Program

Negotiations for an economic and financial program supported by Fund resources started in 1981 and were completed in early 1982. On May 21, 1982 the Executive Board approved a one-year stand-by arrangement in the amount of SDR 30.5 million, equivalent to 75 percent of Mali's quota. The objective of the program was to strengthen the restructuring policies in which the authorities were already engaged, focusing on a reduction of the fiscal imbalances, an improvement in the performance of state enterprises, a reduction in pricing and marketing distortions in the agricultural field, a strengthening of the country's payments system, and a substantial reduction in domestic and external arrears of the public sector. Parallel to the Fund-supported program, Mali was to receive technical assistance from the World Bank directed at improving cereal marketing and at providing analysis and policy recommendations for the restructuring of public enterprises and rural development agencies. It was expected that during the program period Mali would enter into the West African Monetary Union (WAMU) and that in this connection it would benefit from a consolidation of the external debt incurred under the operations account with the French Treasury and receive financial assistance on concessional terms from France to strengthen the financial position of the banking system and the principal public enterprises. Although all the technical aspects of the negotiations have been completed, the entry has been delayed because of difficulties of a political nature, but it remains under active consideration.

The performance under the program, which expired in May 1983, was broadly satisfactory, and Mali met all the performance criteria, thus enabling it to make all the envisaged purchases (Table 1). The financial objectives set for 1982 with regard to public finance, credit, the balance of payments, and the reductions of arrears were attained. Furthermore, important steps were carried out in attenuating distortions in agriculture through adjustments in official producer and retail prices and marketing liberalization; some initial measures were taken to improve performance of public enterprises; and fiscal management

Table 1. Mali: Quantitative Performance Criteria and
Quantitative Targets, 1982/83 1/

(In billions of Mali francs; end of period)

	1982			May 1983
	June (Performance criteria)	Sept.	Dec.	(End of program target)
Net bank credit to Government				
Ceiling	129.4	135.3	139.7	--
Actual	122.1	128.5	130.6	...
Bank credit to the economy				
Upper limit <u>2/</u>	188.5	187.1	205.3 <u>3/</u>	--
Lower limit <u>4/</u>	186.5	184.1	200.8 <u>3/</u>	--
Actual	185.7	181.0	190.0	...
Reduction of payments arrears <u>5/</u> (cumulative)				
Total				
Minimum objective	4.0	7.3	10.6	13.9
Actual	6.7	11.5	13.8	19.3
External				
Minimum objective	2.4	4.2	6.0	8.1
Actual	2.4	5.1	6.3	7.9
New external borrowing <u>6/</u>				
Ceiling	--	--	--	--
Actual	--	--	--	--

1/ As defined in EBS/82/68, page 55, and Attachment C, page 49.

2/ The upper limits constitute the quantitative performance criteria.

3/ Established during the review mission in November 1982.

4/ If the lower limits are exceeded, the Malian authorities will consult with the Managing Director as indicated in EBS/82/68, Attachment C, page 50.

5/ Relates exclusively to reduction of payment arrears through cash settlements, as defined in EBS/82/68, Attachment C, page 45.

6/ Nonconcessional loans contracted or guaranteed by the Government with initial maturities of 1 to less than 12 years.

was reinforced at the Ministry of Finance. Delays were, however, encountered in carrying out the process of rehabilitating the public enterprise system, and, although personnel expenditure growth was contained, only limited progress was made in formulating an effective recruitment policy. The authorities are aware of the need to implement additional comprehensive reforms in these areas, and have prepared new measures during 1983, which will constitute the main elements of a possible program for the years 1983 and 1984.

Economic developments in 1982 were broadly favorable. As a result of favorable climatic conditions, cereal production increased substantially, leading to growth in real GDP of about 4.4 percent after two years of decline (Table 2). The abundant crops contributed to a decline in inflation; the index of foodstuff prices rose by only 3.7 percent in 1982, compared with 12.7 percent in 1981. With the start of the new development plan, investment remained at a high level, close to 17 percent of GDP. With a slowing-down of the rate of increase in consumption resulting from an austere incomes policy in the public sector, the savings ratio appears to have improved, although a precise measure of this improvement is difficult to obtain.

In the agricultural sector, the authorities have introduced a number of policy changes and reforms which have already had and will have further beneficial effects on production and trade. The most important measures are: (a) the further large increase in administered producer prices for crops, partly to offset increases in prices for fertilizers and pesticides; and (b) the substantial liberalization of cereal marketing in early 1982, with the parallel reduction in the cereal marketing monopoly's (OPAM) responsibilities. Other measures included the abolition of government control of groundnuts marketing, the liquidation of the farm input supply agency, and an in-depth review of the organization and finances of some 26 semiautonomous rural development agencies. The policy of gradually increasing producer prices to stimulate production and reduce the gap with those in neighboring countries was continued in 1982 and 1983; over the last three years, the producer prices have been increased by 36 percent for cotton, by 43 percent for millet, maize, and sorghum; and by 60 percent for paddy. The increase in official cereal retail prices introduced at the end of 1981 and in October 1982 (which amounted over the two years to 40 percent for millet/maize/sorghum and to 25 percent for rice) substantially reduced the gap between official and market prices, although for rice this gap still remains at about 30 percent. As the price actions were accompanied by substantial efforts to cut operating costs, the losses of the cereal marketing agency declined from MF 5.3 billion in the budget year ended August 1981 to MF 3.2 billion in 1982 and are forecast to fall to MF 2.8 billion in the year ending August 1983.

Table 2. Mali: Selected Economic and Financial Indicators, 1981-83

	1981 Actual	1982 Program	1982 Actual	1983 Forecast
	(Annual percentage changes, unless otherwise specified)			
National income and prices				
GDP at constant price	-2.4	4.0	4.4	2.0
GDP deflator	11.0	8.0	8.8	7.9
Food price index	12.7	12.0	3.7	6.5
National minimum wage	--	--	--	--
External sector				
Exports, f.o.b. (in SDRs)	-17.1	1.7	1.1	17.4
Imports, c.i.f. (in SDRs)	-13.2	-5.1	-9.0	3.3
Non-oil imports, c.i.f. (in SDRs)	-15.4	-5.3	-11.8	7.5
Export volume	-14.1	-0.1	0.7	15.0
Import volume	-20.3	-8.3	-9.5	1.1
Terms of trade	-11.4	-1.7	-0.1	-0.1
Nominal import-weighted effective exchange rate (depreciation -)	-3.3	-2.0	-3.9	-0.7
Central government budget				
Revenue (excluding grants)	19.8	14.2	7.8	8.4
Total expenditure	5.2	7.0	3.4	5.9
Money and credit				
Domestic credit	7.3	10.4	7.8	11.2
Credit to Government	(8.5)	(10.0)	(6.4)	(7.4)
Credit to economy	(6.5)	(9.6)	(8.8)	(13.9)
Money and quasi-money (M2)	5.8	10.9	8.6	15.0
Velocity (GDP relative to M2)	4.06	3.88	4.31	4.25
Interest rate <u>1/</u>	4.0	5.0	5.0	5.0
	(In percent of GDP)			
Consolidated government deficit <u>2/</u>				
Excluding grants	3.3	1.6	1.5	1.2
Including grants	2.0	0.5	1.2	0.4
Domestic bank financing (net)	0.8	1.9	1.2	1.3
Foreign borrowing (net)	0.8	0.1	1.9	1.2
Payments arrears (change) and other	0.4	-1.5	-1.9	-2.1
State enterprises' net operating losses	1.9	0.9	1.4	...
Gross domestic investment	17.2	20.7	16.7	17.2
Gross domestic savings	-5.4	0.8	-2.7	-1.9
Resource gap	-22.6	-19.9	-19.4	-19.1
Current account deficit				
Excluding official transfers	22.6	16.8 <u>3/</u>	17.4 <u>3/</u>	17.7 <u>3/</u>
Including official transfers	10.7	9.0 <u>3/</u>	8.4 <u>3/</u>	6.9 <u>3/</u>
External debt <u>4/</u>	87.3	110.3	101.5	109.1
Debt service ratio <u>5/</u>	4.1	9.2	4.6 <u>6/</u>	7.1 <u>6/</u>
Interest payments ratio <u>5/</u>	2.0	2.3	2.9 <u>6/</u>	3.9 <u>6/</u>
	(In millions of SDRs, unless otherwise specified)			
Overall balance of payments	-32.8	-13.2	-2.3	3.8
Gross official reserves (months of imports)	1/2	1/2	1/2	1/2
External payments arrears <u>7/</u>	30.4	21.7	18.9	9.0

Sources: Data provided by the Malian authorities; and staff estimates.

1/ Minimum rate for one-year small savings deposits. Rates on large deposits are free.

2/ Includes the operations of the Central Government, special funds, as well as extra-budgetary receipts and payments reflected in the Treasury accounts, but not operations of the rural development agencies, development expenditures financed directly by external aid, and interest charges to be refinanced or rescheduled.

3/ Excluding interest charges on the operations account to be consolidated, and other interest charges being rescheduled.

4/ Inclusive of Fund resources and the operations account.

5/ In percent of exports of goods and services and private transfers (net).

6/ Net of debt relief in the process of being obtained.

7/ Excluding payments arrears to be reduced through rescheduling.

Progress in the rehabilitation of the large state enterprise sector remained short of target. While the price and tariff increases envisaged in the program were adopted, delays were encountered in carrying out the planned privatization of nonstrategic companies and in restructuring the state export-import company (SOMIEX). For SOMIEX, although the program's envisaged scale-down of the activities of the company has been implemented, including the closure of retail stores, the reduction of the commodities to be marketed to only seven of essential consumption, and the reduction of the company's own transportation equipment, the financial and operational objectives of the restructuring have not been achieved because of weak management and the Government's reluctance to implement the large reduction in personnel associated with the closure of the retail stores (500 out of a total of 1,700 employees). The losses in the distribution activity of the company have continued to be substantial and have been financed by the large profits generated by cotton exports, so that SOMIEX did not increase its recourse to credit; it accumulated, however, arrears on tax payments.

With regard to the other main state companies, significant progress was achieved, on one hand, in improving the operational and financial performance of the electricity agency (EDM), as a result of tariff increases, completion of the hydroelectric plant at Selingué, and internal rehabilitation measures. Progress was also achieved in the performance of a large textile company. On the other hand, no major restructuring took place for the remaining major state companies, pending the completion of a comprehensive consultant report sponsored by the World Bank. The financial objective contained in the program of reducing the deficit of the 12 main state enterprises by 30 percent was not achieved. The 1982 deficit is estimated at MF 9.5 billion, compared with a 1981 deficit of MF 11 billion and a program objective of MF 5.8 billion.

With regard to public finance, the consolidated government deficit before grants, which includes the Central Government, special funds and extrabudgetary operations but excludes investment financed with external aid, declined, as envisaged in the program, from MF 19.5 billion, or 3.3 percent of GDP, in 1981 to MF 9.9 billion, or 1.5 percent of GDP, in 1982. This decline was brought about by a reduction in the central government deficit, a sharp decline in extrabudgetary outlays, and an increase in the surplus of the special funds. The deficit of the Central Government before grants declined, in line with program objectives, from MF 12.7 billion, or 2.1 percent of GDP, to MF 9.9 billion, or 1.5 percent of GDP in 1982. After the sharp increase in 1981, revenues increased by only 7.8 percent in 1982, compared with the 14 percent rate of expansion envisaged under the program. At the same time, expenditures were kept below the amount projected, as a result of efforts to limit certain personnel and other outlays. The growth in personnel expenditures was limited by the low number of graduates recruited in 1981 and 1982 because of the closure of most of

the schools of higher education in 1980/81. Important progress was made in strengthening the quality of financial management in the Treasury and the budget office of the Ministry of Finance so as to improve the month-by-month monitoring of the Treasury's financial position and the execution of the budget. Also, significant steps were taken in centralizing in the Ministry of Finance information on the performance of the special funds and in monitoring their operations. During 1982 and 1983, there were leakages in the use of the resources of the Reserve Fund established to provide needed liquidity to the Postal Checking System; in the first months of 1983 the authorities conducted a thorough review of the functioning of the Reserve Fund, as requested during the program's mid-term review, and repayments by the Treasury and the Post and Telecommunications Office (OPT) to the fund are in the process of being effected. However, the proper functioning of the *Postal Checking System continues to present problems, and additional corrective measures are presently being studied.*

A relatively large amount of domestic and external arrears of the public sector outstanding at the end of 1981 was to be reduced under the program by cash settlement. By end-1982 the domestic and external arrears had declined by more than the quantitative target contained in the program, owing to a higher level of external budgetary assistance than originally envisaged. The reduction of arrears by the end of the program period, which did not constitute a performance criterion, substantially exceeded the targeted amount; as a result, total arrears were reduced by MF 19.2 billion, from MF 42.3 billion outstanding at the end of December 1981 to MF 23.1 billion, compared with a program target of a reduction of MF 13.9 billion. With regard to the external obligations under renegotiations at the end of 1981 (MF 15.3 billion), which include interest charges on the operations account and small amounts related to external bilateral loans, understandings have been reached with creditor countries and institutions to postpone the payments of interest and principal until a final agreement is reached. The Malian representatives stated that, pending the conclusion of the renegotiations, there was some increase in the amount outstanding in 1982 and 1983 due to the accumulation of current maturities.

Credit expansion, both to the Government and to the economy, in 1982 remained below the program target; credit to the Government increased by 6.4 percent, compared to a 10 percent target, as a result of a substantial increase in government deposits at the Central Bank, reflecting higher-than-expected budgetary assistance. Credit to the economy remained below the lower limit envisaged under the program, as ordinary credit expanded by 13.6 percent and seasonal credit declined somewhat because of the delays in the financing of the large 1982/83 agricultural crop. Money and quasi-money grew by 8.6 percent, considerably less than the growth rate of nominal GDP (13.6 percent). Interest rates on bank deposits were increased in May 1982.

The balance of payments performance was broadly in line with program objectives; the current account deficit (excluding official grants) declined in absolute terms by more than the amount indicated in the program to SDR 180 million, equivalent to 19.3 percent of GDP, compared with a target deficit of SDR 190 million. Excluding interest on the operations account and other loans the consolidation of which is pending, the 1982 current deficit was SDR 162 million, or 17.4 percent of GDP; this ratio is slightly higher than the objective because of the large impact of the exchange rate depreciation on the GDP measures in SDRs. Despite a decline in official grants, the current account deficit, including official grants, declined from SDR 99 million, or 10.7 percent of GDP, in 1981 to SDR 78 million, or 8.4 percent of GDP, in 1982, compared with a deficit equivalent to 9 percent of GDP forecast under the program. As the improvement in the current account balance was accompanied by a sizable increase in concessional loans for both budgetary and project aid, the overall balance of payments was almost in equilibrium, compared with a deficit of SDR 32.8 million in 1981. Exports in terms of SDRs increased by 1.1 percent, versus a program forecast of 1.7 percent; export proceeds from cotton, the main export crop, declined by 4 percent, as production declined by 12 percent and export prices in terms of SDRs by 3.5 percent. This decline was more than offset by a large increase in livestock exports, estimated at about 8 percent. Imports declined by more than forecast in the program (9.0 percent versus 5.1 percent) because of lower than projected imports of manufactured goods.

The exchange rate, which remains pegged to the French franc at the rate of MF 100 = F 1, depreciated by 13 percent in terms of SDRs during 1982, more than envisaged in the program, and by a further 10 percent in the first six months of 1983; the trade-weighted effective exchange rate vis-à-vis the main exporters of manufactures depreciated by 3.9 percent in 1982 and by a further 3 percent during the first half of 1983. If imports of petroleum products, which are paid in U.S. dollars equivalent, are taken into account, the cumulative depreciation in 1982-83 amounts to 12 percent. The depreciation significantly improved the profitability of the export sector. Taking into account debt relief in the process of being obtained, the debt service ratio increased slightly to about 4.6 percent.

IV. Prospects for 1983

At the time of the mid-term review in December 1982, the growth of GDP was expected to be negative, as a result of unfavorable rain developments which it was feared might seriously affect the cereal crops and livestock. In the event, the drought damages were limited to the central area of the country, and total cereal production has declined only modestly. With cotton production increasing by 30 percent, as a result of larger acreage brought under cultivation, and a larger livestock offtake, overall GDP growth is forecast at 2 percent. The index

of foodstuff prices in the first 5 months of the year was 6 percent above the level in the corresponding period of 1982. Although the program only covered the calendar year 1982, during the mid-term review and the current discussions the authorities established indicative objectives for 1983, so as to ensure that progress achieved in 1982 in correcting financial imbalances would be continued. In this context, the consolidated government deficit was to be reduced to MF 9 billion; domestic credit expansion was to be limited to 13.5 percent; and the overall balance of payments was to be close to equilibrium.

V. Report on the Discussions

The consultation discussions were conducted in conjunction with discussions on a new economic and financial program for the latter part of 1983 and 1984 to be supported by the use of Fund resources. They focused on the structural measures to be adopted in the fields of agricultural policies, public enterprises, employment policies, and public finance. They also provided the opportunity for a discussion of the medium-term balance of payments outlook and the prospective debt service burden.

1. Structural policies

a. Agricultural policies

Mali has a large productive capacity in agriculture, both in the south and along the Niger river, which in the past has remained only partially utilized. The policy of the authorities aims at bringing the potential capacity to a full utilization. In addition to the increases in producer prices carried out in the recent past, major actions are under way to restructure the institutional framework; they include, in addition to the ongoing efforts to increase the efficiency of OPAM, the restructuring of the Office du Niger and of the 26 semiautonomous rural development agencies.

As a result of the large increases in producer prices in the period 1980-83, producer prices are now adequate for most of the crops. For paddy, the producer price is still below that in neighboring countries and the import parity price, reflecting the fact that a large part of production takes place in large irrigation developments, where the Government has to assume the maintenance cost of large investments. With regard to official cereal retail prices, which in the case of rice still remain considerably below free market prices, the authorities, while confirming their commitment to eliminate this gap over the medium term, do not intend to proceed to any adjustment for the crop year 1983/84 in view of the wage freeze in effect in the public sector. They argued during the discussions that an increase in the official price would force the Government to grant wage increases that would have an adverse financial impact on the budget and the public

enterprises exceeding the savings in OPAM's budget. In view of the substantial decline in real wages since 1980 (close to 20 percent) and the Government's commitment to freeze wages, the mission expressed understanding for the Government's position. At the same time, taking into account the need to reduce OPAM's losses, the mission suggested that a modification be introduced in the intervention policy of the agency, notably by selling part of the cereals at the ceiling price, which is now used only as an indicator to prompt intervention in the market. The precise modalities of the changes in intervention policy, together with the financial forecast for OPAM for the year ending August 1984, will be discussed in the context of the preparation of the financial program.

The Office du Niger is one of the largest irrigation schemes in Africa, with at present a potentially irrigable area of 58,000 hectares, of which 54,000 hectares are for paddy and about 4,000 hectares for sugar. This irrigated area could be expanded significantly to above 100,000 hectares with adequate investment, given its favorable natural position between two branches of the Niger river. However, at present only 40,000 hectares are actually cultivated. The productive infrastructure weakened considerably in the second half of the 1970's, as the irrigation network and industrial facilities deteriorated from lack of maintenance. With inadequate production incentives and extension services, paddy production which was about 90,000 tons in the mid-seventies, has in recent years been stationary at about 70,000 tons, and sugar production has declined sharply from the peak reached in 1978. In order to stem the deterioration in infrastructure, increase production, and start a comprehensive process of rehabilitation that should permit a considerable expansion in productive capacity over the medium term, the Malian authorities have embarked in 1982-83, with the assistance of the donor countries and the World Bank, on a restructuring process. Incentives for farmers have been improved by reducing the service charge to be paid to the Office per hectare of cultivated land in the less productive areas and through the increase in producer prices. The Office has started to tighten management and financial controls on its own operations and to improve the quality of extension services to farmers; with the assistance of donor countries, it plans to reorganize completely its internal management structure and to lay the basis for a resumption of new investments. While welcoming the adoption of the rehabilitation program, the staff stressed the need to liberalize paddy marketing gradually, so as to increase the farmers' autonomy.

The performance of the other rural development agencies, with the exception of the agency in charge of cotton production in the south of the country (CMDT), has in general shown only limited effectiveness, because of lack of recurrent cost financing, insufficiently trained personnel, and poor organization. These agencies are financed by external aid, budgetary funds, and earmarked resources arising from the sales price of agricultural products. With the technical assistance

of a consulting firm sponsored by the World Bank, the authorities have recently completed a detailed analysis of the problems of these agencies. As a next step, the Government has requested the consultant's participation to elaborate a set of specific recommendations on how to restructure these agencies, with the aim of increasing the efficiency of the extension services, eliminating the overlapping of their operations, and reducing the financial burden on the government budget.

b. Public enterprises

The Malian representatives recognized that delays had taken place in the process of rehabilitating public enterprises but stressed that implementation of comprehensive actions were under way. A consultant's report sponsored by the World Bank had been submitted to the authorities in November 1982, with recommendations both on macro-economic measures to be adopted in the fiscal and price fields and on specific actions to be taken for individual enterprises. ^{1/} The Government examined the recommendations only in June and adopted most of them. In particular, decisions have been taken to decrease the tax burden on enterprises, by eliminating on a case by case basis the one percent tax on turnover and by limiting the taxation of profits, and to authorize the establishment of reserves against bad credits. In order to reduce price rigidities, it has also been decided that the National Price Commission will act promptly on price adjustments introduced by enterprises. The Government has also agreed on the need to strengthen the authority and the effectiveness of management, and has ruled in favor of management contracts with outside groups that will provide managerial services for the group B enterprises, for which urgent structural reforms are needed.

The Malian representatives explained that, now that the Government had taken a position on the consultant's report's recommendations, decisive actions would be taken rapidly to correct the situation of major state enterprises such as SOMIEX and Air Mali. For SOMIEX, in addition to actions to reduce employment and to implement fully the reorganization plan already adopted, a management contract is to be arranged with outside partners in the coming months, with financial support of the World Bank; this should bring about tighter controls in all aspects of domestic distribution, and put a halt to the large losses in stocks the company has suffered in the past. The staff pressed for a rapid adoption of the new actions envisaged to improve the performance of the company, and stressed in particular the need to terminate without delay the absorption of cotton export profits by the company. The staff emphasized that these profits, which in 1983 are

^{1/} The report subdivides the enterprises in three groups; a group A comprising the companies presently operating in satisfactory condition; a group B, which includes the companies of strategic importance for which major restructuring is needed; and a group C, which comprises nonstrategic companies for which privatization or liquidation is proposed.

expected to double to more than MF 7 billion, must be considered as pertaining to the state and should not be utilized to cover losses of an individual company. The Malian representatives assured the staff that a new mechanism of allocating cotton profits will be introduced in the framework of a large cotton development project currently under negotiation with the World Bank, and that under the new scheme SOMIEX will receive only a fixed commission for services rendered.

For Air Mali, a company which continues to incur large losses and whose operational effectiveness remains weak, the authorities have decided to conclude partnership agreements with foreign airlines, which will provide technical and managerial assistance; the company will redeploy its activity to the domestic network. With regard to the nonstrategic companies, the Government will accelerate its efforts to open the capital to private participants; it has clearly stated to the social partners that, although efforts will be made to avoid liquidation, no new public funds will be invested in these companies.

The authorities also expressed their commitment to bring about a reduction of large internal arrears existing between enterprises and the Treasury. In recent years there has been some reciprocal settlement of large credits and debits between some enterprises and the Treasury, and this process will be extended. Some of the settlements between enterprises have taken place through a National Settlement Commission. It is envisaged that, in the framework of the rehabilitation program of the major enterprises, these arrears will be fully settled. The external arrears of public enterprises are concentrated in Air Mali and will be dealt with in the context of the complete restructuring of the company.

c. Reform of the education system

The development of Mali's education system during the last decade was very rapid and led to a sharp increase in the share of recurrent educational expenditure in the total government budget to 27 percent in 1980. In addition to its growing cost despite low salaries for teachers, the expansion in education has not been consistent with the requirements of economic development. Enrollments in primary education increased by only 2 percent per annum between 1975 and 1981, and the number of illiterates has continued to increase. At the same time, enrollment in secondary education increased by 8 percent and in higher education by 11 percent, while the growth of employment in the modern sector outside the public sector was stagnating. This resulted in an oversupply of graduates, mainly with nontechnical education who were absorbed by the civil service, thus leading to an increase in the number of civil servants. The rapid growth of secondary and higher education enrollment has been stimulated by a generous scholarship program available to secondary- and higher-education students (accounting for 40 percent of the education budget in 1980) and by the automatic and legally required civil service employment offered to all graduates.

Initial actions to change the scholarship and civil service recruitment policies have met serious opposition, mainly in 1980, in the form of student strikes, riots, and parental protests which led to the closing of most of the schools in 1980/81. The Government, however, aware of the importance of the problem and faced with severe budgetary constraints, has taken drastic actions. These actions were based on a comprehensive review of the education sector undertaken by a Malian task force, with the assistance of the UNESCO/World Bank Cooperative Program, which has been endorsed by the Government and included in the 1981-85 Development Plan. The new education strategy that has been implemented since 1981 includes (a) a substantial redistribution of the education budget, with increasing budgetary allocations for basic education and decreasing allocations for secondary and higher education; (b) a reduction in scholarship expenditure, through a cut in the amount of individual scholarships, a tightening of eligibility criteria, and the elimination of most of the scholarships for study abroad; (c) measures to improve efficiency in the use of existing resources, through an increase in the student/teacher ratio, the adoption of the double-shift system in urban areas, a more selective entrance examination, and a tightening-up of academic requirements; (d) higher financial participation of local communities and parents in the cost of education and in the building of schools; and (e) an expansion in technical and vocational training programs so as to meet the country's manpower requirements more adequately. As a result of these policies, over the last two years the share of educational outlays in total budgetary expenditure has remained stable at about 26 percent, with the nominal increase per annum not exceeding 6 percent. The Ministry of Education was confident of being able to maintain this share in the coming years while implementing the fundamental reform in Mali's education system indicated above. In line with the new educational policy, the Government has started to implement a new employment policy (see next section).

d. Employment policies

The Malian authorities have become convinced that it is crucial to a strengthening of the financial situation of the Government and of public enterprises to reduce the number of personnel absorbed by these sectors, which is excessive in relation to need. Since early 1983 the Government has begun to elaborate a strategy of actions designed to diminish the number of personnel in the civil service, by tightening the system of recruitment, introducing strict controls on the personnel payroll, rigorously enforcing the retirement regulations, and encouraging voluntary departures from the civil service. With regard to recruitment, the Government has decided to terminate, beginning in the second half of 1983, the previous system under which all graduates from institutions of higher education were automatically recruited into the civil service. An interministerial committee is preparing various measures to ensure the strict application of Article 1 of the Civil Service Statute issued in 1978, which states that recruitment of a civil servant may take

place only when a vacancy exists. The existing vacancies will be filled only through public competition organized by the Ministry of Civil Service. A reform of the system of payment of personnel is presently under way with the assistance of the UNDP and the World Bank, which will permit careful checking of personnel effectively in place and paid. The authorities are also relatively optimistic about the possibility of obtaining voluntary resignations from the civil service, if certain incentives for resettlement, mainly in the agricultural sector, are provided. To that end, they intend to place at the disposal of civil servants who resign, agricultural areas with favorable development opportunities, together with certain basic equipment; the civil servants would also receive a modest resettlement allowance and continue to receive social security benefits. This policy in their view could be facilitated by the relatively large availability of unexploited agricultural areas following large irrigation infrastructure investment by the state. The authorities hope that this resettlement policy will be supported by foreign technical and financial assistance.

With regard to the personnel in public enterprises, the Government is aware that the total number of employees is excessive and that their qualifications need to be upgraded. While the authorities recognize the need to reduce the personnel in these enterprises, they point out that, given the very low level of wages, the share of the wage bill in total cost is relatively modest. They envisage facilitating the reduction in personnel by introducing a system of resettlement allowances.

The authorities are also studying the possibilities of expanding employment opportunities in the private sector, by abolishing certain restrictive regulations, such as the one that prevents the establishment of independent medical practice in the country, and by stimulating the absorption of the graduates by the private sector. They also expect that the expanded role of the private sector in the economy will create more employment opportunities over time, in particular in agriculture and the small enterprise sector. The Government is reorganizing the system of incentives for small enterprises and, in the context of the restructuring of major public enterprises, has assigned important responsibilities to the private sector, such as the transportation function of OPAM and SOMIEX.

2. Public finance

The discussions on public finance centered on the prospects for 1983 and 1984. The staff noted that the reduction in the consolidated government deficit in 1982 was encouraging. As the reduction was partly the result of the temporary closure of schools in 1980/81, it stressed the importance of firmly implementing the new recruitment policy, the restructuring in education policy, and the effective control of personnel expenditures so as to permit a needed expansion of non-personnel related expenditure and adequate provisions for the growing service of the external debt.

The Malian representatives acknowledged that, despite the continuation of the salary freeze, personnel expenditure would grow in 1983 somewhat faster than in 1982 (10 percent versus 6 percent) because of delayed payments of merit increases related to 1981 and 1982 and new recruitment. They explained that the increase in recruitment projected for 1983 is due to a backlog in hiring of school graduates caused by the reopenings of schools in 1981/82 and is not affected by restrictive measures applied for the 1983 graduates. They stressed, however, that personnel expenditure will be effectively contained in 1984, as a result of the personnel policies discussed in the previous section. They were in particular relatively optimistic on the savings that could be effected through the careful screening of the personnel on the payroll; they were also confident that the new system of recruitment and the incentives to departure from the civil service will be in place toward the end of 1983; this will greatly facilitate the reduction in the budget deficit and the restructuring of budgetary expenditures in the coming years.

With a continued containment in expenditures for supplies and equipment, the authorities expected that central government budgetary expenditures would not grow by more than 6 percent in 1983, versus 3.4 percent in 1982. With regard to revenues, the Malian representatives said that a relatively high growth was expected in 1983 for customs duties (about 14 percent versus 11 percent in 1982) as a result of continuous tightening in custom tax administration. With income taxes and other indirect taxes projected to grow by about 4 percent, a rate similar to that in 1982, total budgetary revenues are expected to rise by 8.5 percent in 1983, compared with a growth rate of 7.7 percent in 1982. As a result of these developments, the central government deficit is projected to decline from MF 9.9 billion, or 1.5 percent of GDP, in 1982 to MF 8.5 billion, or 1.1 percent in 1983.

The trend of revenue and expenditure of the special funds appears less favorable. Their overall surplus, which amounted to MF 4.9 billion in 1982, or 0.7 percent of GDP, is projected to decline to MF 1.8 billion in 1983, or 0.2 percent of GDP. The revenue from hydrocarbon taxation, which is in part channeled to the special funds, is expected to decline in 1983 as a result of an increase in import costs, which has not been accompanied by an adjustment in retail prices. At the same time, the interest charges on the external debt, which are serviced by the Autonomous Amortization Agency (CAA), will increase in 1983 partly as a result of obligations due to the Fund. The mission expressed concern about the developments in hydrocarbon tax revenues and suggested that the authorities give serious consideration to a possible increase in the petroleum retail price, if the squeeze on revenues persisted in the coming months. The staff also stressed the need to strengthen the financial position of the CAA and ensure adequate resources to meet rising debt service obligations; to that end, the staff advocated terminating the practice of shifting to the CAA the service of overdue budgetary commitments, and urged an enlargement

of the revenue base of the agency. The Malian representatives, while sharing these concerns, pointed out that an adequate expansion of agency receipts would take place in the coming years with the projected increase in cotton exports and the envisaged modification of the cotton export mechanism.

Taking into account certain extrabudgetary expenditures, and net lending of the Treasury to public enterprises, the consolidated government deficit is projected to decline moderately in 1983, to MF 9 billion, or 1.2 percent of GDP, from MF 9.9 billion, or 1.5 percent of GDP, in 1982. With external financing and advances from the banking system projected at MF 19 billion, the authorities project reducing government domestic and external arrears by about MF 9 billion as well as other Treasury's liabilities, in particular vis-à-vis the Telecommunications and Postal System.

The authorities envisage a further significant reduction of the consolidated government deficit and arrears in 1984. In view of the already high level of tax rates in Mali, the increase in revenue will stem mainly from further improvements in tax administration. However, additional revenue will result in 1984 from the transfer to the budget of a significant part of the profits from exports of cotton, thus far absorbed by SOMIEX, and from the centralization in the budget of minor taxes thus far earmarked outside the budget. On the expenditure side, with the new measures being implemented to limit recruitment and tighten controls on the personnel in place, the authorities plan to reduce significantly the share of personnel costs in total expenditures. Other expenditures are expected to increase in order to improve maintenance, basic public services, and investment financed by the budgetary resources.

Until now Mali has not established an investment budget, and capital expenditures, which have been financed almost entirely with external aid, have been planned, executed, and financed under the control of technical ministries. The Five-Year Development Plan 1981-85, established by the Ministry of Plan, which is responsible for its overall supervision, contains a list of priority projects for which external financial assistance has been negotiated or is under negotiation, but the ministry does not provide indications on the annual volume of investments to be realized or on the financial flows associated with them. ^{1/} The staff urged the authorities to start the process of preparing an annual investment budget, which would centralize all government expenditures financed with project aid, including those of autonomous agencies, such as the rural development agencies and the

^{1/} On the basis of data on official grants and concessional official borrowing recorded in the balance of payments, development expenditures (including technical assistance) directly tied to external aid are estimated at about MF 100 billion in 1982, an amount equivalent to 13 percent of GDP.

local authorities. The annual investment budget would be an essential tool to improve the project selection process, to monitor the progress in the execution of the multi-year plans, and to ensure their compatibility with available resources. The Malian representatives recognized the need to establish an investment budget and stated that the Ministry of Plan has already been entrusted with the task of preparing such a budget for 1984. It appears likely, however, that an additional year of preparatory work will be needed, with the benefit of foreign technical assistance to be provided in part by the Fund, before such a budget can be presented on a regular basis.

3. Monetary policy

Since the signing of the first Franco-Malian monetary agreement and the country's re-entry into the French franc zone in May 1967, monetary policy has been the responsibility of the Banque Centrale du Mali (BCM) under joint Malian and French direction. The agreement provided for the reestablishment of an operations account, which gives the Central Bank overdraft facilities with the French Treasury and thereby guarantees the convertibility of the Mali franc. After a period of accommodating credit policy partly to take into account the economic difficulties resulting from the Sahelian drought, credit policy was tightened from 1978 and in recent years remained restrictive to prevent the financing of operating losses of state enterprises.

The staff welcomed the prudent credit policy that was pursued by the monetary authorities in 1982 and discussed the credit projections for 1983. Credit to the economy is expected to grow faster than in 1982 as a result of an expected increase by one third in the value of the cotton crop to be marketed, an expected rise in cereal crops, and an expansion in nontraditional exports. Some pickup is also expected in credit for small- and medium-sized private enterprises, which are being encouraged by the authorities, whereas the credit expansion to households and commerce is planned to be slowed down. As a result of these factors, seasonal credit is projected to increase in 1983 between 15 and 22 percent, depending on the pace of crop marketing, versus a small decline in 1982; with ordinary credit increasing as in 1982 by 13 percent, the expansion of credit to the economy will be in the range of 14 to 16 percent. Within ordinary credit there will be a reallocation of credit away from households and commerce and toward industrial and export activities. The policy of restraining credit to public enterprises to avoid the financing of structural losses will be continued. The staff considered the overall credit policy for 1983 as appropriate, but noted that the projected expansion of credit for industry and export appeared relatively high. The expansion of credit to Government is expected to be close to that in 1982 (7.4 percent versus 6.4 percent). Postal checking deposits of the private sector are forecast to continue to decline as in 1982, as a complete normalization of the system has not been achieved and confidence has not been restored. As a result of these developments, total domestic

credit is projected to grow between 11 and 12 percent versus 7.8 percent in 1982. The growth in broad money is projected to accelerate to about 15 percent from 8.6 percent in 1982, with most of the increase to take place at the end of the year in connection with the marketing of crops. With the increase in deposit interest rates in the second half of 1982, and with the current development of banking facilities throughout the country, bank deposits are expected to increase more rapidly than currency in circulation. The authorities explained that the increase in deposit rates effected in mid-1982, together with banking facilities established in France and other countries with a relatively large Malian community, could contribute to attracting into Mali a higher flow of workers' remittances.

4. External sector prospects and policies

The balance of payments for 1983 is projected to show a further improvement. The most significant development is the considerable rise in cotton exports (36 percent) that is taking place after years of stagnation, as a result of a 30 percent rise in production and export volume and a 5 percent rise in export prices in terms of SDRs. With other exports also increasing, total exports are projected to rise by 17.4 percent in terms of SDRs. Imports, after having declined in 1982 in terms of SDRs, are expected to show modest growth; the acceleration is mainly accounted for by higher cereal imports, which are financed by external grants and were programed in late 1982 in the expectation of a severe decline in production. These imports will be utilized in part to build up precautionary stocks. Reflecting this increase in stocks, the current account deficit, excluding official transfers, is projected not to decline as a percentage of GDP. However, in light of the substantial increase in grants for both cereals and investment, the current account deficit including official transfers is expected to decline as a ratio of GDP from 8.4 percent in 1982 to 6.9 percent in 1983. As capital inflows are expected to increase on account of higher project and budgetary aid, the overall balance is projected to register a small surplus. This surplus, together with the use of Fund resources in early 1983, will permit a further reduction in external arrears. The debt service ratio is forecast to rise from 4.6 percent in 1982 to 7.1 percent in 1983, in spite of debt relief under negotiation, partly reflecting charges and repurchase obligations due to the Fund.

The external debt structure of Mali remains favorable, as loans at concessional terms represent almost all the debt. At the end of 1982, the outstanding debt carried an average interest rate of 2 percent, and its maturity and grace period were on average 32 and 7 years, respectively. About 50 percent of total debt outstanding was contracted before 1967 with the Soviet Union and the People's Republic of China. Despite this very favorable structure, the debt service ratio will increase over the medium term, largely because of amortization of loans extended by some centrally planned economies and some oil-producing countries and obligations related to recent Fund drawings. To contain

the growth in the debt service, the Malian authorities are presently involved in renegotiating these bilateral loans, which will enable them to contain the debt service ratio to 8 percent in 1984 and limit its rise in the coming years (see below). While renegotiations of these loans are still under way, the authorities are confident that they will be successfully completed by mid-1984. The authorities have also received assurances from the French Government that liabilities of the Central Bank under the operations account will be partly canceled and partly consolidated in the form of a long-term intergovernment debt at a very low interest rate at the time of Mali's entry into WAMU. The staff team welcomed the steps that the authorities were taking to ensure that the charges on the external debt would remain within bounds compatible with the country's resources. At the same time, it stressed the need to complete these negotiations speedily, so as to avoid the accumulation of unsettled obligations for which renegotiations were pending. The staff team also pressed the authorities to take adequate measures to strengthen the financial resources of the CAA, to enable it to face the rising debt service charges projected for the coming years. It also expressed concern that a part of the service of the external debt remains outside the responsibility of the CAA, and that inadequate coordination between the CAA and other agencies did not permit a careful medium-term planning both of debt disbursements and of debt service. The authorities concurred on the need to strengthen the debt management responsibility of the CAA, and stated that corrective measures would be taken soon, with technical assistance financed by the World Bank. They were also aware that measures will have to be taken to ensure adequate resources for the CAA for 1984 and beyond.

Mali's exchange system is similar to other French franc area countries which maintain an operations account with the French Treasury, and is virtually free of restrictions on payments and transfers for current international transactions, with the exception of travel allowances in currencies other than the French franc, which are limited to a specific annual amount. This limit has remained unchanged thus far in 1983, and no change is envisaged, despite the restrictive measures adopted in other countries of the French franc area. The Malian representatives expressed their strong belief that the country's exchange system remains beneficial to its economy, as the full external convertibility of the currency promotes foreign trade and economic development. They pointed out that the depreciation of the currency vis-à-vis the U.S. dollar and on an effective basis has substantially increased the profitability of the export sector, while, given the composition of the external debt, has had only a moderate impact on the debt service.

The Malian representatives stated that transactions under bilateral payments agreements were negligible and in the case of the five agreements with Fund members (the People's Republic of China, Egypt, Morocco, Romania, and Viet Nam) related only to final settlements.

VI. Medium-Term Prospects of the Balance of Payments

For the medium term, the Malian economy enjoys favorable export prospects for agricultural and mineral commodities and livestock. Mali has significant comparative advantages in the cultivation of cotton. A large development project in the south of the country, presently under negotiation with the World Bank and other institutions, is expected to increase cotton production and exports significantly, while expanding cereal cultivation at the same time. There are also continued favorable prospects for increasing livestock exports. Ample potential exists for increasing paddy production, in particular in the large irrigated area controlled by the Office du Niger. As a result of the development efforts in the production of cereals and an adequate level of producer prices, it is expected that Mali's present dependency on cereal imports will be substantially reduced over the medium term. The country has also started to develop its precious mineral resources more intensively. Gold production, which until now takes the form of gold panning, will be supplemented in 1984 by the entry into production of a new, large gold mine, and later in the decade by the opening of additional mines, for which exploratory work is already under way. As a result, gold exports, which at present account for 13 percent of total exports, are expected to double by 1986. As a result of these developments, export receipts are projected to grow over the next five years at an average annual rate of 12 percent (Table 3).

The growth of exports, together with the envisaged decline in cereal imports, is expected to lead to a reduction of the current account deficit of the balance of payments, excluding official transfers, from 17 percent in 1982 to below 13 percent in 1987. This will enable the country to gradually reduce its reliance on external aid, although it is expected that the country will continue to be able to mobilize, as presently, a relatively large flow of aid on favorable terms. External assistance is projected to increase by about 3 percent per year, a rate similar to that in the past, and official transfers should continue to represent about half of the total, the remainder being constituted by loans at concessional terms. The current account deficit including official transfers is projected to decline from 8.4 percent of GDP in 1982 to close to 4 percent in 1987. Taking into account some decline in the recourse to external loans, and assuming the successful completion of the debt renegotiations now under way, the debt service ratio including charges on new borrowing during 1983-87 is expected to rise from 7 percent in 1983 to 12 percent in 1987.

VII. Staff Appraisal

Since 1981, Mali has embarked on a comprehensive strategy to restructure and rehabilitate its economy, with the aims of reducing domestic and external financial imbalances in the public sector and accelerating economic growth, mainly in the potentially rich agricultural

Table 3. Mali: Current Account of the Balance of Payments and Debt Service, 1982-87

(In millions of SDRs)

	1982 Actual	1983 Est.	1984	1985 Forecast	1986	1987
A. Current account						
Exports, f.o.b.	132.0	155.0	190.3	210.3	224.3	245.7
Imports, c.i.f.	-301.8	-311.7	-332.1	-346.4	-358.3	-375.0
Trade balance	-169.8	-156.7	-141.8	-136.1	-134.0	-129.3
Services (net)	-18.5 ^{2/}	-30.8 ^{2/}	-40.3	-58.7	-61.4	-64.2
Of which: investment income (net) ^{1/}	-6.2	-9.4	-13.4	-13.2	-12.7	-12.1
Private transfers (net)	26.0	22.6	23.2	24.5	26.0	27.6
Current account (excl. official transfers)	-162.3 ^{2/}	-164.9 ^{2/}	-158.9	-170.3	-169.4	-165.9
(In per cent of GDP)	(17.4)	(17.7)	(15.8)	(15.3)	(13.8)	(12.2)
Official transfers (net)	84.3	100.3	94.8	101.5	100.5	107.6
Current account (incl. official transfers)	-78.0 ^{2/}	-64.6 ^{2/}	-64.2	-68.8	-68.9	-58.3
(In per cent of GDP)	(8.4)	(6.9)	(6.4)	(6.2)	(5.6)	(4.3)
B. Debt service payments						
I. Medium- and long-term debt ^{3/}	7.0	10.5	16.0	19.7	20.3	22.1
Interest	4.8	6.2	10.2	10.3	10.3	10.5
Principal	2.2	4.3	5.8	9.4	10.0	11.6
II. Fund credit ^{4/}	2.0	5.0	6.7	10.9	19.8	16.2
Charges	0.9	2.2	2.3	2.1	1.6	0.6
Repurchases	1.1	2.8	4.4	8.8	18.2	15.6
III. Total service payments (I + II)	9.0	15.5	22.7	30.6	40.1	38.3
Interest	5.7	8.4	12.5	12.4	11.9	11.1
Principal	3.3	7.1	10.2	18.2	28.2	27.2
Debt service ratio ^{5/} (in per cent)	4.6	7.1	8.9	11.0	13.6	11.9
Of which: interest (in per cent)	2.9	3.9	4.9	4.6	4.5	3.4

Reference item:

Exports of goods and services and private transfers (net)	195.6	217.7	255.3	277.7	296.2	322.1
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Source: Data provided by the Malian authorities; and staff estimates and projections.

^{1/} Including dividends.

^{2/} Excluding interest charges on the operations account to be consolidated, and other interest charges being rescheduled.

^{3/} Debt service on existing debt, prospective borrowing, and, for 1984-87, in addition preliminary charges on debt in the process of being rescheduled including the operations account.

^{4/} Includes Trust Fund.

^{5/} In percent of exports of goods and services and private transfers (net).

sector. This strategy has centered on appropriate incentives for agricultural production, liberalization of production and marketing mechanisms, reorganization of public enterprises, reform of the education system and public employment policy, and increased reliance on the private sector as a source of production and employment opportunities. Although initiated in 1981, these policies were strengthened in 1982, in the context of an economic and financial program supported by Fund resources, and are expected to be broadened in scope in 1983-84.

After years of stagnation, the performance of Mali's economy was on the whole favorable in 1982, as real growth resumed and price inflation abated. Progress was achieved, in conformity with the program's targets, in reducing the consolidated government deficit, improving the balance of payments, and reducing internal and external arrears. All the performance criteria under the stand-by arrangement were met. There has been in particular a significant improvement in Mali's public finance, which have been very weak in the past as a result of rapid growth of personnel expenditures and deficiencies in tax administration. The substantial decline in the consolidated government deficit in 1982 therefore represents a significant development, and the repayment of arrears, in line with the program's target, has contributed to an improvement in confidence. At the same time, the authorities have improved the monitoring of the budget execution and brought the hitherto largely autonomous special funds and extrabudgetary operations under better control. Despite these improvements, the structure of the public finances continues to be characterized by an excessive share of personnel expenditures, which prevents the adequate allocation of resources to needed maintenance and investment outlays. The staff therefore welcomes the determination with which the authorities have recently elaborated a comprehensive strategy to contain personnel expenditures, which is based on recruitment limitations, encouragement to separation from the civil service, and mechanisms to control the personnel in place. The measures envisaged are expected to be implemented by the end of 1983 and should permit a change in budgetary trends from 1984 on. The staff also notes the decision of the authorities to maintain in 1983, for the third successive year, a wage freeze in the public sector. This measure, together with the steady increase of incomes in the agricultural sector, resulting from substantial increases in producer prices in recent years, shall contribute to redirecting labor resources toward the agricultural sector.

The rehabilitation of public enterprises represents a major task for the Malian authorities. While certain specific measures have been taken in 1982, including a number of tariff adjustments, progress thus far has been limited to a few companies, including the electricity company and the agricultural marketing agency (OPAM). Although a comprehensive reform of the export-import agency (SOMIEX) was adopted, the financial performance of its distribution activities failed to improve because of management deficiencies and a reluctance to lay off excessive personnel. After some delays, in June 1983 the Government

approved a comprehensive set of measures recommended by a consultant study sponsored by the World Bank. Accordingly, they are presently taking important actions to reorganize certain major companies, including the national airline company, and to correct for the delays which occurred in the case of SOMIEX. In this regard, they have decided to prevent SOMIEX from retaining the profits derived from cotton exports, a measure which in the staff's view represents an essential step to force a major correction in the management of the distribution sector. The staff has welcomed these new initiatives and has urged the authorities to speed up their implementation. The staff feels that the reduction of personnel that will result from the reorganization of the public enterprise sector can be facilitated by the improvement in employment opportunities resulting from the liberalization of the economy and the development of the agricultural sector, and also by the introduction of resettlement allowances and training programs financed partly by foreign assistance.

In the agricultural sector, the liberalization of cereal marketing introduced in 1982 has considerably improved the distribution process and has contributed, together with the increase in producer prices, to stimulating production. It would also be appropriate, in the framework of the reorganization of the Office du Niger, to extend the liberalization gradually to paddy marketing. The staff welcomes the substantial improvement in the operational efficiency of the cereal marketing agency. However, despite the increase in recent years, official cereal retail prices still remain significantly below market prices and at levels that do not cover costs. While the authorities are committed to eliminating this gap over the medium term, they have decided not to increase official retail prices in 1983, in light of the freeze in public sector wages. While expressing understanding for this position, the staff has urged the authorities to introduce more flexibility into the intervention policy of the marketing agency so as to reduce losses further and redirect the related external financing to productive projects.

The significant improvement in the balance of payments expected in 1983 as a result of a large increase in cotton production is welcome. Exports are expected to increase at a sustained rate in the coming years, mainly because of increase in cotton production, which is being promoted by a large development project, and the entry into operation of new gold mines. With progress toward self-sufficiency in cereal, and continued improvement in economic and financial management, the trade account is expected to improve substantially over the medium term. This development will facilitate the task of servicing the external debt, which, while at present relatively low, is projected to increase in the years ahead despite the renegotiations now under way of large bilateral loans. In light of the existing weakness in monitoring present and prospective external debt service, the staff has urged a strengthening of debt management, an expansion of the financial resources earmarked for debt service, and early completion of the

renegotiations under way. The staff noted that the authorities expect to continue to receive a relatively large flow of external assistance in the form of grants and loans at very concessional terms.

The staff is of the view that the authorities are proceeding with determination in carrying out a comprehensive policy of economic and financial rehabilitation, and considers that their policies are worthy of the Fund's continued support. Discussions on a new program to be supported by Fund resources are well under way and are expected to be completed soon.

It is recommended that the next Article IV consultation with Mali be held on the standard 12-month cycle.

VIII. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Mali, in the light of the 1983 Article IV consultation with Mali conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).
2. The Fund notes with satisfaction that Mali continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions, and urges the authorities to take early action to terminate the remaining bilateral payments agreements with Fund members.

MALI - Basic Data

Area, population, and GDP per capita

Area	1,240,190 square kilometers
Population	
Total (1982 estimates)	7.43 million
Growth rate (1982 estimates)	2.5 per cent
GDP per capita (1982)	SDR 125

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Forecast
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Gross domestic product (at current prices)

Total (in billions of Mali francs)	519.2	549.1	594.7	675.5	743.1
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(In percent of GDP)

Primary sector	25.4	25.2	26.3	27.7	28.9
Secondary sector	12.6	12.2	12.7	12.3	12.4
Tertiary sector	62.0	62.6	61.0	60.0	58.7

Consumption	101.1	106.0	105.4	102.7	101.9
Gross domestic savings	-1.1	-6.0	-5.4	-2.7	-1.9
Investment	18.3	18.4	17.2	16.7	17.2
Resource gap	-19.4	-24.4	-22.6	-19.4	-19.1

(Annual change in percent)

Real GDP	10.1	-1.2	-2.4	4.4	2.0
Nominal GDP	19.2	5.8	8.3	13.6	10.7

Prices

Implicit GDP deflator	8.3	7.1	11.0	8.8	7.9
Price index of foodstuffs in Bamako					
Controlled market	11.2	14.1	14.1	9.1	12.0
Uncontrolled market	-3.9	22.0	12.3	2.2	3.9
Composite index	-0.9	20.2	12.7	3.7	6.5

Government finance

(In billions of Mali francs)

Central Government					
Revenue	57.3	60.7	72.7	78.4	85.0
Expenditure	-76.3	-81.2	-85.4	-88.3	-93.5
Deficit	-19.0	-20.5	-12.7	-9.9	-8.5
Extrabudgetary operations (net)	-11.8	-11.2	-11.0	-4.9	-2.3
Annexed budgets and special funds (net)	6.6	7.4	4.2	4.9	1.8
Consolidated deficit (commitment basis)					
(excluding grants)	-24.2	-24.3	-19.5	-9.9	-9.0
Grants	5.1	6.0	7.4	1.8	2.0
Consolidated deficit (commitment basis)					
(including grants)	-19.1	-18.3	-12.1	-8.1	-7.0

MALI - Basic data (continued)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Forecast
(In billions of Mali francs)					
<u>Government finance (cont'd)</u>					
Financed by:					
Foreign borrowing (net)	7.0	9.4	4.8	13.0	9.3
Banking system (net)	8.0	2.8	4.8	8.2	10.0
Changes in arrears	4.5	5.3	7.3	-11.9	-9.0
Other Treasury operations (net)	-0.4	0.8	-4.8	-1.2	-3.3
<u>Monetary survey (end of year)</u>					
Net foreign assets	-103.9	-112.1	-121.6	-131.4	-136.6
Domestic credit	268.8	281.7	302.4	325.9	362.5
Claims on Government (net)	116.6	117.7	127.7	135.9	146.0
Claims on economy	152.2	164.0	174.7	190.0	216.5
Money and quasi-money	136.1	141.4	149.6	162.5	186.9
Long-term foreign liabilities	5.1	5.0	5.0	6.3	7.0
Other items (net)	23.7	23.2	26.2	25.7	32.0
(In millions of SDRs)					
<u>Balance of payments</u>					
Exports, f.o.b.	114.1	157.4	130.5	132.0	155.0
Imports, c.i.f.	-271.4	-381.8	-331.4	-301.8	-311.7
Services (net) ^{1/}	-34.5	-31.4	-33.6	-36.2	-47.7
Of which: Interest income	(-6.6)	(-12.5)	(-24.8)	(-24.0)	(-26.3)
Private transfers (net)	25.1	25.5	25.1	26.0	22.6
Current account ^{1/}	-166.7	-230.3	-209.4	-180.0	-181.8
Unrequited public transfers (net)	68.0	112.1	110.0	84.3	100.3
Capital (net)	80.0	90.2	63.7	93.4	85.3
Nonmonetary capital receipts	86.0	92.0	65.4	77.8	72.3
Central government, long-term	(82.3)	(88.0)	(64.8)	(80.3)	(72.3)
Budgetary aid	(16.0)	(19.1)	(9.4)	(19.7)	(15.6)
Project aid	(66.3)	(68.9)	(55.4)	(60.6)	(56.7)
Private capital inflow (net)	(3.7)	(4.0)	(0.6)	(-2.5)	(--)
Nonmonetary capital payments	-6.0	-2.7	-5.1	-7.0	-10.8
Central government, long-term	(-6.0)	(-2.7)	(-5.1)	(-7.0)	(-10.8)
Refinancing of debt	--	0.9	3.4	22.6	23.8
Interest	(--)	(0.2)	(0.3)	(17.8)	(16.9)
Principal	(--)	(0.7)	(3.1)	(4.8)	(6.9)

^{1/} Includes interest charges on the operations account and other interest charges to be rescheduled, which are included as a refinancing item in the capital account.

MALI - Basic Data (concluded)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Forecast
SDR allocations	2.5	2.9	2.9	--	--
Overall balance	-16.2	-25.1	-32.8	-2.3	3.8
Commercial banks	-2.4	4.0	-3.4	-3.7	-3.3
Central Bank	10.2	8.4	18.1	14.8	7.9
Operations account	(13.3)	(9.1)	(23.3)	(-7.0)	(5.4)
IMF (net)	(-3.8)	(-2.4)	(-3.9)	(21.4)	(2.5)
Other (net)	(0.7)	(1.7)	(-1.3)	(0.4)	(--)
Change in arrears	8.4	12.7	18.1	-8.8	-8.4
(In millions of SDRs)					
<u>Official foreign reserves and liabilities (end of year)</u>					End-March
Gross reserves	4.7	11.4	15.0	15.1	21.5
Gross liabilities	205.1	204.7	197.6	215.0	210.8
Of which: operations account	(176.8)	(171.2)	(169.6)	(163.4)	(160.3)
Forecast					
<u>Outstanding external debt (end of period)</u>	573.2	707.4	810.1	944.8	1,016.4
Medium- and long-term external debt	390.1	527.3	633.8	750.4	822.6
Operations account	176.8	171.2	169.6	163.4	160.3
Fund credit	6.3	8.9	6.7	31.0	33.5
<u>Debt service ratio (in per cent)</u>	3.7	3.0	4.1	4.6	7.1
(In billions of Mali francs)					
<u>Total payments arrears 1/(end of period)</u>	24.7	31.6	42.3	28.5	15.1
Of which: External arrears	(14.4)	(16.2)	(20.3)	(14.0)	(7.3)
(In millions of SDRs)	(27.2)	(28.1)	(30.4)	(18.9)	(9.0)
(Mali francs per SDR and per U.S. dollar)					
<u>Exchange rates (period average)</u>					End-June
SDR	549.7	550.0	640.8	725.6	815.9
U.S. dollar	425.5	422.6	543.5	657.2	763.7
(December 1978 = 100)					
Trade-weighted effective rate index	100.0	99.6	95.9	93.0	89.0

Sources: Data provided by the Malian authorities; and staff estimates.

1/ Excluding stock of external obligations under renegotiation.

Relations with the Fund
(As of June 30, 1983)

Fund data

Date of membership:	September 7, 1963
Quota:	SDR 40.5 million (proposed quota: SDR 50.8 million)
Intervention currency and the rate:	French franc; MF 100 = F 1
Fund holdings of local currency:	SDR 67.30 million (166.16 per- cent of quota), of which SDR 5.10 million (12.59 per- cent) under the compensatory financing facility and SDR 30.4 million (75 percent) under credit tranches.
SDR position:	Holdings amounted to SDR 0.31 million (1.94 percent of the net cumulative alloca- tion of SDR 15.91 million).
Trust Fund loans outstanding:	SDR 21.5 million
Direct distribution of profits from gold sales:	US\$3.48 million
Gold distribution:	18,826.368 fine ounces

Staff contacts and technical assistance:

The 1981 Article IV consultation discussions were held in Bamako during the periods April 27-May 14 and September 10-16, 1981 and the staff report (SM/81/206) was discussed by the Executive Board on November 16, 1981.

The stand-by discussions were initiated in Bamako between November 26 and December 9, 1981 and concluded in Washington during the period January 27-February 3, 1982. The program paper (EBS/82/68) was discussed and approved by the Executive Board on May 21, 1982. Discussions for a mid-term review were held in Bamako between November 15 and November 26, 1982. The mid-term review paper (EBS/82/25) was discussed by the Executive Board on February 25, 1983. Discussions with Malian representatives to review the performance under the program were held in Washington between April 11 and 19, 1983.

An expert from the fiscal panel was assigned in August 1982 for one year to assist the authorities in the field of budget control. A Fund resident representative was appointed for an initial one-year term and arrived in Bamako on September 29, 1982.

Relations with the World Bank Group

1. Lending operations through May 1983 1/
(In millions of U.S. dollars)

	<u>Committed</u>	<u>Disbursed</u>	<u>Undisbursed</u>
Agricultural and rural development	78.7	68.7	10.0
Rainfed agriculture	(31.9)	(25.8)	(6.1)
Irrigated agriculture	(29.0)	(28.1)	(0.9)
Livestock and forestry	(17.8)	(14.8)	(3.0)
Transportation	76.2	63.1	13.1
Roads	(49.9)	(39.8)	(10.1)
Railways	(26.3)	(23.3)	(3.0)
Education	15.0	13.9	1.1
Urban development	12.0	7.3	4.7
Industry	8.0	1.3	6.7
Energy	32.9 <u>2/</u>	2.2	30.7
Telecommunications	16.3	3.9	12.4
Technical assistance	10.5	--	10.5
Total	249.6	160.4	89.2
Repayments	1.0	1.0	--
Debt outstanding	248.6	159.4	89.2

2. Technical assistance

The World Bank provides technical assistance to Mali through its standard lending operations for projects, mainly in the agricultural and transportation sectors. In the context of Mali's effort to re-structure its economy, the Bank has recently approved an economic management and training project, which will finance specialists, studies, training, and related support to improve financial and economic policies, to strengthen public institutions, and to train civil servants. Assistance will focus on cereals marketing, rural development agencies, state enterprises, the civil service bureau, the public debt agency, and the business management institute. During preparation of this project, two long-term technical experts have assisted in the reform of public cereals marketing, and diagnostic studies of public enterprises and rural development agencies have been carried out to help prepare reform programs in these two sectors.

1/ IDA lending only.

2/ Includes US\$7.6 million approved but not yet effective.

