

EBS/83/242
Supplement 1 *Corrected*

CONFIDENTIAL

December 12, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Mali - Stand-By Arrangement

Attached for the records of the Executive Directors is the text of the stand-by arrangement for Mali agreed at Executive Board Meeting 83/171, December 9, 1983.

Att: (1)

Mali - Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated September 19, 1983, from the Minister of Finance and Commerce of Mali requesting a stand-by arrangement and setting forth (a) the objectives and policies which the Government of Mali intends to pursue for the period of this arrangement; and (b) understandings of Mali with the Fund regarding reviews that will be made of progress in realizing the policies and measures of the program. To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from December 9, 1983 to May 31, 1985, Mali will have the right to make purchases from the Fund in an amount equivalent to SDR 40.5 million, subject to paragraphs 2, 3, 4 and 5 below, without further review by the Fund.

2. a. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 10 million until December 31, 1983, SDR 16 million until March 31, 1984, SDR 22 million until June 30, 1984, SDR 28 million until September 30, 1984, and SDR 34 million until December 31, 1984.

b. None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Mali's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota.

3. Purchases under the stand-by arrangement shall be made from borrowed resources until purchases under this arrangement reach the equivalent of SDR 27,560,000 and thereafter from ordinary and borrowed resources in the ratio of 1 to 1.2, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Mali will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Mali's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

a. during any period of this arrangement in which the data for the preceding calendar quarter within the period of the arrangement indicate that:

- (i) the limits on net bank credit to the Government specified in the table attached to the policy memorandum (Annex); or
- (ii) the performance criteria for the reduction of payments arrears specified in the table attached to the policy memorandum; or
- (iii) the ceiling on contracting and guaranteeing new non-concessional external borrowing with a maturity of between 1 and 12 years described in paragraph 34 of the same memorandum

are not observed; or

b. during any period until December 31, 1984 in which the upper limits on bank credit to the economy specified in the table attached to the policy memorandum are not observed; or

c. during any period after July 1, 1984, until understandings have been reached with the Fund on appropriate policies as indicated in paragraph 3(a), (b), (c), (d), and (e), of the attached letter, and a schedule for the reduction of arrears of Air Mali has been established in consultation with the Fund as contemplated by paragraph 3(g), or, after such performance criteria have been established, while they are not being observed; or

d. during any period after December 31, 1984 until suitable performance criteria for credit to the economy at end-December 1984 have been established in consultation with the Fund as contemplated by paragraph 3(f) of the attached letter, or, after such performance criteria have been established, while they are not being observed; or

e. during the entire period of the stand-by arrangement, if Mali:

- (i) imposes or intensifies restrictions on payments and transfers for current international transactions; or
- (ii) introduces or modifies multiple currency practices; or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or
- (iv) imposes or intensifies import restrictions for balance of payments reasons.

When Mali is prevented from purchasing under this arrangement because of this paragraph 4, purchases will be resumed only after

consultation has taken place between the Fund and Mali and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Mali's right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Mali. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Mali and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Mali, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Mali will consult the Fund on the timing of purchases involving borrowed resources.

8. Mali shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. a. Mali shall repurchase the amount of its currency that results from a purchase under this arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Mali's balance of payments and reserve position improves.

b. Any reductions in Mali's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

c. The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day; is not a business day, provided that repurchase will be completed no later than seven years from the date of purchase.

10. During the period of the arrangement, Mali shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Mali or of representatives of Mali to the Fund. Mali shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Mali in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

11. In accordance with paragraph 4 of the attached letter, Mali will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria under paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Mali has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Mali's balance of payments policies.

Republic of Mali
Ministry of Finance
The Minister

Bamako, September 19, 1983

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosière:

1. I take pleasure in sending you herewith a memorandum on the main aspects of the economic and financial program adopted by the Government of the Republic of Mali for 1983 and 1984. This program constitutes the second phase in the achievement of the objectives of rehabilitating and restructuring the Malian economy under the 1981-85 Five-Year Development Plan. The country's need to complete this task successfully, and its will to do so, were solemnly reaffirmed last February at an Extraordinary National Party Council devoted to economic affairs. It is, therefore, with the support of all the active forces of the country that the Government of Mali can assure you that the recovery effort undertaken since 1981--however hard and long it may appear at times--will be pursued with determination and that the delays which have occurred in certain areas, especially as regards certain public enterprises, will be corrected. In order to facilitate the implementation of this program and attenuate the attendant external payments problems, the Government hopes to count on a stand-by arrangement for an 18-month period in the amount of SDR 40.5 million, the impact of which will be complemented by the sectoral assistance provided by the World Bank and the bilateral assistance pledged to us at the international donors' conference held in Bamako in December 1982.

2. As you can see, this second program is wider in scope, more detailed and more ambitious than the one adopted for 1982. Firstly, in spite of adverse weather and international conditions which remain quite unfavorable, the 1983-85 program aims at an additional and considerable reduction of financial disequilibria at the government finance, public enterprise and external payments levels with the prospect of achieving a satisfactory equilibrium in 1986. Secondly, the program includes the effective enforcement of the structural reforms in priority areas which were prepared or begun in 1982 and will have a considerable impact in the medium term. Among such reforms, I would like to mention in particular the expansion of the role of the private sector, the restructuring of the main public enterprises and the Office du Niger, the boosting of cotton production,

and the reform of the educational system and civil service hiring practices. The Government's resolve to enforce these reforms strictly is reflected in the recent decisions taken with regard to producer prices for the 1983/84 crop year, to the rehabilitation of SOMIEX and Air Mali, to the cotton sector, to the limitation of civil service recruitment, and to the reduced intervention on the cereals market. A number of other reforms, including the reform of rural development operations, require further refinement before they can become operational in 1984.

3. The Government is fully aware that successful implementation of a program so far-reaching in scope, objectives, and impact requires close coordination between the various ministries and continuous monitoring. This will be the responsibility of an Interministerial Program Monitoring Committee. We also intend to remain in close contact with the Fund and World Bank staffs and periodically to examine with them the progress made in the achievement of the program's objectives. A first review will be held with the Fund staff at mid-January 1984 in order in particular to ensure that the draft budget for 1984 and its annexes--which are not yet available--are in fact consistent with the projections and objectives of this program, and to provide assurance that the necessary steps for the restructuring of SOMIEX and Air Mali are well under way. In addition, before mid-September 1984, the Government will conduct with the Fund a complete review of the implementation of the program during 1983 and the first months of 1984. During this review understandings will be reached with the Fund on (a) the policy on agricultural producer prices for 1984/85; (b) the cereals market intervention policy; (c) additional steps as necessary to carry out the rehabilitation of SOMIEX and Air Mali; (d) the progress achieved in rehabilitating the OPT, the Office du Niger and other major public enterprises; (e) the renegotiation of certain external debts. During the review, the authorities will also establish, in consultation with the Fund: (f) the December 1984 ceiling on credit to the economy in light of the prospective financing requirements for the 1984/85 crop year; and (g) a schedule for the reduction of arrears of Air Mali. An additional review will take place when the precise terms and conditions of Mali's entry into WAMU will become known and Mali becomes an effective member of the Union so as to make any adjustments that may be necessary in the program and the performance criteria. Finally, overall policies and sectoral measures for 1985 and 1986, which constitute the third and final phase of the recovery plan, will be discussed with the Fund staff in late 1984.

4. The Government considers the policies and measures described in the attachment memorandum adequate to ensure achievement of the objectives of its program, but is prepared to adopt any other measures that may prove necessary to this end. In accordance with Fund policy in this regard, it will consult the Fund on the adoption of all measures that may seem appropriate.

Sincerely yours,

/s/

Drissa Keita
Minister of Finance

Memorandum on the Main Aspects of the Economic
and Financial Program of the Government of the
Republic of Mali for 1983 and 1984

Introduction--General Objectives

1. The objectives and economic and financial measures adopted for 1983 and 1984 follow on those that were adopted for 1982, and are part of the overall objectives and general policies under the 1981-85 Five-Year Plan recently confirmed by the Extraordinary National Party Council in February 1983. The objectives for this second phase take into account, on the one hand, the results obtained during 1981-82 and certain difficulties that could not be overcome in 1982, and, on the other, updated projections for 1983-86. The latter were based in turn on the most recent data on the international environment and the conditions of production in Mali, as well as the results expected from the vigorous recovery, restructuring and rehabilitation measures that are part of this program. The main macroeconomic targets can be summarized as follows:
2. An average economic growth of 4.5 percent a year in 1984-86 and normal weather conditions, making it possible to achieve an average annual rate of 3 percent during the period of the Plan as a whole. This forecast takes into account the drought-induced decline in agricultural, livestock, and related production in 1983, the natural recovery effect expected in 1984, and the anticipated results of the specific measures taken to improve cotton, rice and sugar production, and to encourage the private sector.
3. Continued moderation of the growth of public and private sector consumption, holding it to a rate below the trend for the growth of the national product so as to re-establish, by successive stages, a positive national savings rate equivalent to at least 5 percent of GDP in 1986. This moderation of consumption will continue to be ensured through controlling the growth of wages and of civil service employment, maintaining a considerable tax effort while improving its distribution, and more actively encouraging financial savings. It will be accompanied by further progress toward establishment of true prices and improvement of the incomes of farmers. These measures will result in a reduction of financial disequilibria in the government finance sector and in government agencies and enterprises.
4. The overall investment rate will remain fairly high throughout the period--around 18 percent of GDP--thanks especially to the size of bilateral and multilateral external assistance on concessional terms, a large portion of which is already pledged. Nevertheless, the country's own contribution to the investment effort and to the coverage of recurrent costs will be strengthened by increased participation in basic initiatives, by the ongoing rehabilitation of public institutions, and by restoring the balance of the public expenditure structure.

5. The program for rehabilitating the financial sector will be continued in 1983-85 by eliminating the external and domestic payments arrears of the public sector, settling the domestic claims and debts of the public sector (especially reciprocal government/enterprise claims), consolidating frozen bank debts, and rescheduling specific external debts. Certain consolidation and rescheduling arrangements, however, cannot become operational until Mali joins the UMOA.

6. The current balance of payments deficit (after external grants) will be reduced from 10 percent of GDP in 1982 to 8 percent in 1983 and to 6 percent in 1984, and it should be possible to limit it to 4 percent by 1987, a level which appears sustainable in the medium term. Such a reduction in the current deficit is consistent with realistic projections for production, investment, national savings and official transfers, and with the policies envisaged for increasing the efficiency of the productive sectors. Strict implementation of the proposed program should make it possible gradually to reduce Mali's recourse to external resources, even on concessional terms, and ultimately to maintain debt service at a level sustainable by the economy.

7. To achieve these macroeconomic objectives, the Government has prepared, in close consultation with Fund and World Bank staff, a package of policies and specific sectoral measures, both short- and medium-term, which will be implemented in 1983 and 1984. These measures, explained in detail in Part II of this memorandum, relate to government finance, public enterprises, the agricultural sector, domestic credit, and external payments. Specific sectoral measures for 1985 and 1986, which will constitute the third and last phase of the recovery plan, will be drawn up before the end of 1984.

Part I. Conclusions of the review of the 1982 program

8. In accordance with the provisions of the letter of intent of March 12, 1982, in April and June 1983 the representatives of the Government of Mali and the Fund staff carried out a final review of the implementation of the economic and financial program during 1982 and the first six months of 1983. This in-depth review, the subject of the recent Article IV consultation report, shows that the Government's main objectives for 1982 were satisfactorily attained. The consolidated government finance deficit--as defined in the program--and the balance of payments disequilibrium were reduced to the extent envisaged under the program thanks to the implementation of the fiscal, wage, budgetary and monetary measures planned. Furthermore, the performance criteria related to credit, to reducing external and domestic payments arrears, and to external borrowing were met throughout the stand-by period, by a comfortable margin as regards credit. While delays and difficulties were experienced in 1982 in the implementation of structural measures at some public enterprises, especially SOMIEX, corrective measures were taken in order to overcome the lag in part. In view of the complex nature of the functional relationship between the postal checking system and the Office des Postes et Télécommunications (OPT) and of the severe

financial problems facing that agency, it was not possible to achieve the target of standardizing the postal system's financial channels. However, corrective measures are now being studied and will be implemented shortly. Finally, in February 1983 the political authorities adopted the guidelines for a new civil service recruitment policy. Without awaiting development of a new economic and financial program that might obtain further support from the International Monetary Fund, in the first nine months of 1983 the Government continued its policy on adjustment and restructuring along the lines of the general policies adopted in 1981. The Government's specific targets for 1983 as a whole, as well as the measures it has introduced, are described below.

Part II. The 1983-84 program

I. Government finance

9. In accordance with the general objective of restoring the soundness of government finance by 1986 at the latest, this second program provides for measures to further reduce the consolidated deficit 1/ from Central Government financial operations (before grants) in 1983 and 1984, to eliminate all the payments arrears of the Treasury and the Caisse Autonome d'Amortissement (CAA), to improve the structure of government revenue and expenditure, and to improve the Central Government's financial management methods. The consolidated deficit of Central Government financial operations, which amounted to FM 20 billion on an approved payment basis in 1981 and was reduced to FM 10 billion in 1982 under the first program, will be limited to FM 8.6 billion in 1983 and FM 5.5 billion in 1984.

10. To achieve this consolidated objective, the Central Government budget deficit will be limited to FM 9.5 billion in 1983 and FM 6.5 billion in 1984 by a package of specific measures summarized in paragraphs 11 and 12 below. In addition, the operations of the annexed budgets and special funds will continue to yield surpluses 2/ of about FM 1.7 billion and FM 2.9 billion in 1983 and 1984, respectively. Finally, net extrabudgetary operations are estimated to amount to about FM 0.8 billion and FM 1.9 billion in 1983 or 1984, respectively. In addition, in order to eliminate the direct payments arrears (domestic and external) of the Central Government, which amounted to FM 18 billion as at December 31, 1982, including FM 1 billion on the part of the CAA, the Central Government will make payments of up to FM 12.3 billion in 1983 and an additional FM 6 billion in 1984. 3/ The deficit of the Central Government's financial operations, the reduction in Central Government payments arrears and the unfreezing of some

1/ Includes the Central Government budget, the annexed budgets and special funds, and net extrabudgetary operations.

2/ Before external debt amortization by the CAA and the highways Fund.

3/ The program for reducing the Central Government's payments arrears and the public enterprises external arrears is shown in Attachment I. The program for reducing domestic arrears included in that attachment relates to the Treasury only.

correspondents' deposits with the Treasury will be financed by recourse to bank credit, the expansion of which will be kept within limits compatible with the achievement of the balance of payments targets, with the balance stemming from external assistance that has been lined up. To the extent that the external assistance received in 1983 and 1984 exceeds the amount forecast by the program, one third of the excess will be allocated to reducing recourse to monetary financing, the second third to accelerating the reduction in public sector payments arrears, and the balance to operations consistent with the objectives of the recovery program. These allocations will be examined in the course of the periodic reviews planned with Fund staff.

11. The Government will energetically continue the actions under way since 1981 to improve the assessment and collection of taxes and levies due, in particular as regards customs and direct taxes. The various studies carried out in recent years in cooperation with Fund staff have in fact shown that, in view of the high tax rates, revenue increases could stem for the most part from improvements in tax administration and a reduction in tax evasion. To keep the growth of revenues in line with price increases abroad, the Government has decided to adjust, effective September 1, 1983, the administrative values /valeurs mercuriales/ applied to imports; an additional increase will be implemented on January 1, 1984. In future, these values will be reviewed every six months. In view of their precarious financial positions, public enterprises make only a modest contribution to Central Government revenues. Nevertheless, to facilitate the recovery process for these enterprises, the Government has agreed, on a case-by-case basis beginning January 1, 1984, to suspend application of the 1 percent turnover tax for the period during which the rehabilitation programs are being carried out. In addition, to improve the financial relations between the Central Government and the public enterprises, the Ministry of Finance has begun to waive previous overdue tax liabilities and to offset tax arrears against overdue payments of invoices. Specific procedures will be devised with SOMIEX, EDM and OPT in particular. The Central Government's shortfall resulting from implementation of these measures will be more than offset in 1984 by incorporating into the budget certain revenues previously earmarked to the special funds, by increasing collections of import duties and of the special taxes (CPS--Contributions pour prestations de services particuliers rendus) payable by the cotton sector, and by direct payment to the Treasury of the profits from cotton exports. These profits, previously absorbed by SOMIEX to finance the losses it sustained in the domestic marketing of consumer goods, have been provisionally estimated at FM 2 billion for 1984. All told, it is projected that actual Central Government budget revenue will increase by 7.1 percent in 1983 and 9.5 percent in 1984 to FM 84 billion and FM 92 billion respectively.

12. In view of the revenue projections for 1983 and 1984 and the need to reduce the deficit of Central Government financial operations, Central Government budgetary expenditure will be limited under the program to FM 93.5 billion in 1983 and FM 98.5 billion in 1984, representing year-on-year increases of 6 percent and 5 percent, respectively. In addition,

the rate of increase in personnel expenditure will be limited to 8 percent in 1983 and to less than 5 percent in 1984 so as to permit better coverage of the recurrent costs for goods and services of government agencies and the administration, prompt payment of invoices presented by the public enterprises, and a modest increase in the relative share of investment expenditure incorporated into the budget. The required moderation in the growth of personnel expenditure will be achieved in part by continuing the reform of the education system initiated in 1981 (the subject of a summary report prepared by the Ministry of National Education) and in part by implementing the Central Government's new policy on recruitment and personnel management, which was adopted by the Extraordinary National Party Council in February 1983. An additional effort will be made in 1984 to gain further control over the amount of scholarships and to contain the increase in expenditure on national defense.

13. In order to limit the growth of civil service staffing levels and gradually to reduce the relative share of personnel expenditure in total budgetary expenditure, the Government has adopted the following measures:

a. Since June 1983, the Central Government has ceased automatically hiring graduates of secondary schools and universities, and instead uses competitive examinations after duly taking into account budget forecasts and specific requirements expressed by the various agencies. No recruitment can be carried out and no competitive examination can be announced without authorization from the Ministry of Labor and Civil Service and approval by the Ministry of Finance. Under no circumstances will the budget ceiling for new hiring exceed FM 3.8 billion in 1983 and FM 3 billion in 1984. These ceilings are absolute limits and will be enforced with the greatest possible strictness in accordance with the new procedures established.

b. The reduction in civil service staffing levels will be achieved by (i) strictly enforcing the regulations on retirement; (ii) increasing the flexibility of the rules on releasing staff; (iii) enforcing the disciplinary provisions pertaining to violation of staff rules and regulations; and (iv) introducing legislation and other incentives to encourage the voluntary departure of public sector employees and their taking up productive private activities.

c. Wage payment procedures will be reorganized so as to avoid payments delays and possible irregularities. To this end, a central payroll office was set up in September 1983 within the Budget Department of the Ministry of Finance, and a comprehensive computerized management system will be introduced alongside the current procedure not later than July 1, 1984.

d. A reliable census of staff actually employed in the civil service at end-December 1983 will be completed by March 31, 1984, while simultaneously updating the personnel file maintained by the Ministry of Labor and Civil Service and introducing a new payroll procedure. In future, this survey will be updated and recruiting and retirement schedules will be drawn up for June 30 of each year, making it possible to draft the budget for the following year on the basis of more trustworthy data.

e. A strengthening of the technical and human resources of the offices responsible for Central Government personnel management.

f. Organization charts identifying, by category and qualifications, the staffing required for the operation of the agencies will be drawn up by the end of 1984.

14. The general and specific measures taken in 1982 as regards the annexed budgets and special funds have made it possible for the Ministry of Finance to improve the management and coordination of the Central Government's overall resources and of their allocation. Thus, for the first time, the annexed budgets for 1984 will be prepared and submitted together with the Central Government budget. In addition, the Government has decided to strengthen the structures of two public bodies which play a special role in the Malian economy: the Caisse Autonome d'Amortissement (CAA) and the Office de Stabilisation et de Régulation des Prix (OSRP).

a. The financial resources of CAA will be increased so that it can deal with the increasing servicing of the Central Government's external debt (including guaranteed debts) and pay arrears as scheduled. Its resources will be increased in particular by broadening the base of the special tax (CPS) on cotton, by intensifying collections of receipts in conjunction with loans taken over by the Central Government, by reducing the costs relating to the domestic debt (commitments for which no payment orders are issued by the end of the year which will be covered by the budget) and, if necessary, by exceptional financial assistance from the Central Government. CAA may thus be expected to have sufficient resources to service the external debt as well as to settle external arrears as planned.

b. In conjunction with the new responsibilities assigned to it as regards management of the cotton sector, OSRP will be profoundly restructured in the course of 1984. Beginning January 1, 1984, it will also transfer to the Ministry of Finance the proceeds of the various TOP levies (except on cotton and hydrocarbons) as well as collections of the domestic tax on petroleum products, which combined will total FM 4.6 billion in 1984. In view of the decline in tax revenues accounted for by the differences in petroleum product price structures as a result of the successive increases in Dakar and Abidjan ex-refinery prices in terms of CFA francs, and of the spread of duty- and tax-evading imports, the Government has taken strict measures to ensure the payment of all duties and taxes payable on imports of hydrocarbons regardless of their geographic origin. Furthermore, the Government will see to it that the costs of OSRP intervention in certain sectors, in particular the cereals and groundnuts sectors, are further reduced. Should these steps prove insufficient, the Government will raise the selling prices of petroleum products. In any case, any additional increase in import prices will be passed on in sales prices.

15. In addition to the specific actions in the government finance area referred to above, the Government plans in 1983 and 1984 to carry out various projects which will make it possible in subsequent years to

strengthen the general management of the Central Government. Noteworthy among these are a comprehensive survey and monitoring of all aid received by Mali; the computerization of management at Customs, Budget and the Treasury; centralization of the management of all Central Government accounts; the adoption of Central Government budget settlement laws; and the preparation of an investment budget for 1985. Mali has already lined up the technical support it requires for carrying out these projects.

II. Public enterprise sector

16. Despite the delays and difficulties encountered in 1982 in the effort to restructure the public enterprise sector, the Government is more than ever convinced both of the need to implement the reforms adopted and of the appropriateness of the strategy selected. Thanks to the initial measures implemented in 1982, the complementary studies conducted in cooperation with the World Bank, and the technical and financial support already lined up, the Government believes that more substantial progress will be possible in 1983 and 1984 even while minimizing the negative social and budgetary impact of such reforms by means of a package of companion measures. It is becoming more and more apparent that carrying out these reforms will require an effort to adjust staffing levels and will give rise to additional but temporary financial costs in the form of taxes forgone or of financial assistance obtained in order to promote the return to sound balance sheet positions, upgrade fixed capital and reconstitute working capital. These reforms are also aimed at encouraging and assisting the private sector as it takes over some of the tasks previously carried out by the public sector. In this connection, the Government seeks Malian and foreign private sector participation in the capital of certain public enterprises. The plan of action stemming from the decisions taken by the Government on June 14, 1983 entails a series of short- and medium-term measures on the macroeconomic and microeconomic levels, the implementation of which will be monitored by a standing committee.

17. The package of measures adopted on the macroeconomic level has been examined in various reports prepared by the Ministry of State in charge of Economy and the Plan and by a group of consultants brought in by the Government of Mali and financed by the World Bank. The major decisions, as well as those adopted or confirmed as part of this financial program, may be summarized as follows:

a. Disengaging the Central Government from the direct financing of five enterprises which have no prospect of viability as part of the public sector. These enterprises will be made self-managing, turned over to the private sector, or, if necessary, voluntarily closed. These various options will be reviewed with the World Bank as part of the rehabilitation project now being prepared.

b. Completely eliminating bank credits and limiting the budget subsidies to finance the operating deficits of SEPAMA, OPAM and the Office du Niger, which will receive subsidies from OSRP totaling FM 2.4 billion and FM 2.3 billion in 1983 and 1984, respectively. This principle does not

rule cut waivers of back taxes or the consolidation or clearing of bank debts as part of the financial rehabilitation efforts to be carried out case by case.

c. Easing the tax burden by suspending application of the 1 percent turnover tax on a case-by-case basis, but not taxing the funds set aside to cover stocks depreciation and bad debts, by revising the rules on distribution of earnings, and by enhancing the flexibility of the tax collection procedure by notifying third-party holders.

d. Accelerating the procedures for reviewing and revising sales prices proposed by the enterprises.

e. Making certain changes in corporate charters and in the duties of Boards of Directors.

18. To increase the impact of the macroeconomic steps taken, the Ministry of State Enterprises intends to draw up and implement individual rehabilitation programs with the assistance of internationally recruited technical associates. For a first group of eight enterprises which are profitable in their present form (Group A), these programs will entail steps to be taken within each enterprise to improve its short- and medium-term technical and financial performance. The rehabilitation of some of these enterprises began in 1982 and, in the case of EDM, ITEMA and SONATAM, has already yielded excellent results. The Government hopes in particular that the energy sector studies carried out with the World Bank will make it possible, before the end of 1984, to identify practical steps that will guarantee the most efficient use of Mali's hydroelectric and thermal power plants and thereby further improve the financial position of EDM and OERHN. For a second group of 12 enterprises (Group B), fundamental restructuring is urgently required. This group includes SOMIEX and Air Mali. The restructuring plan for the former was adopted by the Government in June 1981, and its key provisions were implemented in 1982 and 1983. The plan's financial impact has not been as favorable as expected, largely because of certain shortcomings in SOMIEX management and the delays in reducing severe overstaffing. It was nevertheless possible to finance the resulting losses in 1983 without recourse to bank credit by using the profits from cotton exports and by accumulating tax arrears and domestic and external commercial arrears. In order to restore the balance of the operating account exclusive of financial costs and exceptional losses from previous financial years, the company reduced its staff by 121 employees in 1983 and will carry out a further cut of about 400 employees by June 30, 1984. Also, the privatization of the supermarket retail activity will be completed before the end of the year. To monitor closely the implementation of the measures adopted to restore the company's financial equilibrium, the authorities will establish an executive committee consisting of the interested cabinet members and the director general of the development bank. In addition, the company has been authorized to sign a management assistance contract with a foreign partner before the end of the year, and the terms of reference for this arrangement have already been drawn up. The financial recovery of SOMIEX as presently restructured now appears all the more urgent in that the Government has decided, beginning November 1, 1983, to transfer profits from the sale of cotton to the Treasury. After exploring

various approaches, the Government decided to completely reorganize Air Mali, whose activities are essential in view of the landlocked position of the country. To this end, it has decided to concentrate the company's activities on the financially profitable routes, with priority given to domestic service, and to reduce personnel. To that effect, the board of directors of the company will prepare for December 20 of this year specific measures to be implemented in early 1984. Furthermore, the Government has decided to seek private and external participation in the capital of the company to obtain foreign technical and managerial assistance; this may lead to the establishment of a new company. Negotiations with a view to finding a foreign partner have already begun. To carry out the successive stages in this company's financial rehabilitation successfully, the supervisory ministry will be supported by a team of experts financed by the World Bank whose terms of reference have already been defined. Other rehabilitation programs, in particular for COMATEX, SEPAMA, and SOCIMA, are now being prepared with bilateral technical assistance.

19. The Government will also continue rehabilitation efforts for the public enterprises and agencies supervised by other ministries, in particular OPAM, the Office du Niger, the Régie des Chemins de Fer (railroad), and the Office des Postes et Télécommunications. In conjunction with the deregulation of the cereals market, OPAM has been successfully restructured and reorganized, as evidenced by the reduction of operating losses by more than half from 1981 to 1983, the decrease in subsidies granted by OSRP, and the reduction of the distortions between official prices and market prices. The improvements recently adopted in intervention price policy, in conjunction with further administrative savings, should make it possible to reduce the structural deficit attributable to price disparities still further in fiscal year 1983/84 and to finance it out of counterpart funds for external food aid without recourse to OSRP subsidies, except as regards covering the interest charges on past borrowing. As regards the Office du Niger, whose potential contribution to food self-sufficiency is extremely important, the Government intends to draw up an emergency rehabilitation program in the months ahead in cooperation with the World Bank and other donors. In addition to specific measures already implemented in 1983, this program will include a functional restructuring of the management of production units, increased financial discipline, and the restoration of the productive apparatus and the waterworks infrastructure. Finally, in order to overcome the difficulties encountered in 1982-83 in improving the postal checking system, the Government has decided to strengthen the administrative and financial management of the Office des Postes et Télécommunications. To this end, the financial accounts for 1980-82 will be drawn up by end-November 1983, a device for financially monitoring the current budget will be introduced, and rehabilitation measures will be applied not later than end-March 1984. In the meantime, the provisions of the instruction of June 12, 1982 governing the reserve fund will be revised to correct the flaws observed in its operation, and the steps necessary to ensure the liquidity of postal checking deposits will be taken.

20. In order to improve the monitoring of progress under the recovery program, the accounting units of the enterprises will be strengthened, the financial accounts will be audited by outside experts, and a set of economic and financial management indicators will be devised for each public enterprise. The Government has set the objective of gradually reducing, over a three-year period, the aggregate operating deficit (exclusive of the results from cotton) of the ten largest enterprises under the Ministry of State Enterprises, which amounted to FM 8.3 billion in 1982, thereby achieving equilibrium in 1986. Procedures have been established to speed up the process of collecting receivables from customers and to offset the reciprocal debts and claims between one public enterprise and another or between the Central Government and the public enterprises. The problem of the external arrears of public enterprises, most of which are accounted for by Air Mali's commercial debts, will be solved in the course of drawing up that company's restructuring program. Progress made in reorganizing the company and the procedures for reducing its payments arrears will be reviewed with the Fund before mid-September 1984. Mali is counting heavily on external assistance to support the vast restructuring and rehabilitation program and to permit restoration of the technical and financial resources of public enterprises. Negotiations have been initiated with the World Bank for a rehabilitation loan. The Government has also considered setting up a Social Reconversion Fund intended to facilitate the retraining of the public enterprises' excess staff.

III. Agricultural sector and other productive sectors

21. During the period of the 1983-85 program, the Government will continue to take such actions with respect to prices and institutional improvements as are necessary to develop the country's agricultural potential fully. Following successive price increases between April 1980 and April 1983, official producer prices overall are now at a level that provides sufficient incentive, even after taking into account the increased cost of inputs and the subsidy cuts. The Government will nevertheless review the situation before end-April 1984 so as to ensure that these prices remain competitive, particularly in view of the additional reductions planned in the subsidization of inputs for the cotton crop. It will devote particular attention to reviewing both the purchase price of paddy and supporting measures designed to stimulate production further in irrigated areas, and will continue to study the advantages and drawbacks of further deregulating trade in paddy seed. Although the producer prices for cereals were increased in April 1983, the Government does not for the time being intend to raise the range of official sales prices used by OPAM for millet, sorghum and corn, largely because of the continued wage freeze. However, with a view to narrowing the gap between these official prices and market prices and thereby further reduce the structural deficit, OPAM will be authorized effective November 1, 1983 to sell part of its millet, sorghum and corn at the intervention price (FM 140 per kilogram). In addition, an intervention price will be established for rice at a level at least FM 20 per kilogram above official retail prices, and OPAM will be authorized to transact some of its sales at this price. Furthermore, OPAM will also be authorized to standardize retail floor price levels (at FM 125 per kilogram

for millet, corn and sorghum and at FM 230/250 per kilogram for the various qualities of rice) and to limit its sales at these prices to the strict needs of entities serving the public interest. This set of measures should increase OPAM's average sales price by about 10 percent for the crop year as a whole. Specific arrangements to this end will be defined in consultation with the World Bank. Finally, in conjunction with the start-up of a sizable project to expand the production of cotton and related crops (Mali-Sud II), the Government has decided to establish, effective November 1, 1983, a new financial network for the cotton sector which will include an income stabilization fund for producers, managed by OSRP. The additional study now under way on rural development operations (ODR) will yield practical restructuring measures for end-June 1984.

22. Within the general framework of the restructuring of the Malian economy and the establishment of mutually beneficial coexistence between the state sector, the mixed sector and the private sector, the Government has endeavored to expand the participation of the private sector in all areas of economic life. Specific outgrowths of this new orientation since 1982 include deregulation of the marketing of cereals, groundnuts, kenaf and precious metals; privatization of some public enterprises and transportation functions previously handled by OPAM and SOMIEX; and expansion of the responsibilities of village associations and cooperatives. This restructuring has been reflected in financial terms by an increase in the proportion of total credit absorbed by the private sector, which is sure to increase again in 1984 and thereafter. To encourage the growth of the private sector and expand employment opportunities for Malian school graduates and technicians, the Government is now completing a package of administrative, institutional and financial measures which will entail in particular the revision of the customs code, the adoption of a new investment code, and the activation of lines of credit and endowment funds in favor of small- and medium-scale enterprises, which will be financed by external assistance that is already available.

23. The Government intends before the end of 1983 to carry out an in-depth midterm review of Development Plan execution during the 1981-83 period and to examine the prospects for the two final years of the Plan. This review will provide an opportunity to obtain up-to-date information on the technical and financial aspects of project advancement and to make the necessary adjustments in the investment program. To ensure that resource allocation is as effective as possible the Government will work with the World Bank to strengthen project planning and monitoring structures and will draw up a genuine investment budget for 1985. The Government also intends to maintain close cooperation with all the major donors participating in the financing and execution of the investment and rehabilitation projects.

IV. Monetary policy

24. The monetary and credit policy to be followed during the program period will be aimed at promoting achievement of the economic development and financial recovery objectives that have been adopted without exceeding

limits compatible with the required reduction in the external payments imbalance and in domestic inflationary pressures. To this end, the authorities have adopted the following measures:

25. The expansion of net bank credit to the Central Government ^{1/} will not exceed FM 11.4 billion in 1983 and FM 14.5 billion in 1984, representing annual rates of growth of 8.7 percent and 10.2 percent in 1983 and 1984, respectively. The maximum quarterly ceilings on the outstanding amount of such credit, which shall constitute performance criteria for the entire program period, are indicated in Attachment I. Only part of the projected increase in credit will be earmarked for the financing of general budget operations. The bulk of the increase will be set aside, in accordance with clearly defined ratios, for nonrecurrent financial rehabilitation operations, such as the reduction of public sector payments arrears and settling the claims of Treasury correspondents. In addition, should external budgetary assistance exceed the projections of FM 19.1 billion for 1983 or FM 23.6 billion for 1983 and 1984 taken together, the authorities will allocate the first third of any excess to reducing the expansion of bank credit to the Central Government; the remaining two thirds will be used as indicated at the end of paragraph 10.

26. Outstanding bank credit to the rest of the economy, including regular credits and crop credits to public and private enterprises, will be subject to separate quarterly ceilings through end-September 1984, indicated in Attachment I. These ceilings correspond to an annual increase of 10.6 percent over the 12-month period ending in September 1984. The ceiling for end-December 1984 will be set in consultation with the Fund, before mid-September 1984, once the financing requirements for the 1984/85 crop season are known.

27. The annual rate of growth in bank credit to the economy, exclusive of crop credit, has been set at a maximum of 11.2 percent in 1983 and 10.3 percent in 1984. The authorities will continue to be rigorous and selective in granting such credit, so as to channel most of the anticipated growth under this heading to sound productive activities and to avoid financing the structural operating deficits of public enterprises. The Central Government's settlements of domestic payments arrears will be taken into account in defining the individual credit ceilings. Credits to finance exports, industry and private enterprise are projected to expand more rapidly than commercial credit and credit to the major public enterprises.

^{1/} Net bank credit to the Central Government, for the purposes of this program, includes the net claims on Government of the Central Bank and the deposit money banks. The deposits of the Central Government taken into account for purposes of determining the net claims of the commercial banking system will also include Central Government funds held in suspense accounts and the holdings of the ministries and government bodies covered in the consolidated figures for Central Government financial operations.

28. Crop credits will continue to be monitored closely to ensure their repayment at the end of the marketing and processing cycle. In view of anticipated cotton production and of the increased producer prices, it is expected that crop credits will increase rapidly between November 1983 and March 1984, and then gradually decline from April to September 1984. In order to take into account the leads and lags which may occur at various stages of domestic or foreign marketing, the minimum amount of seasonal credit outstanding has been increased by a technical margin of FM 3.5 billion as at end-December 1983, FM 4.5 billion as at end-March and end-June 1984, and FM 3 billion as at end-September 1984. These margins are included in the total amounts outstanding for the period December 1983-September 1984 that are shown in the attachment and constitute performance criteria. The monetary authorities nevertheless intend to keep outstanding credit to the economy within ceilings which exclude the technical margin. It is understood that the Malian authorities will consult with the Managing Director of the Fund in the event the lower limits are exceeded.

29. To enable the banking system to play a more active role in the financial recovery, the authorities are strengthening the administrative and financial structures of the deposit money banks. The commercial banks, in particular the Mali Development Bank, will thus be able to play a more active and effective part in the conduct and financial monitoring of the programs to rehabilitate the public enterprises and to promote private and parapublic enterprises.

30. The increase in basic credits will result in increases in money and quasi-money at annual rates of 11.7 percent in 1983 and 10.9 percent in the 12-month periods ending in September 1983 and September 1984, i.e., at rates below the projected nominal increase in GDP for these two years. In view of the expansion of the banking system to cover the entire national territory and of the efforts to mobilize the savings of Malian workers abroad, bank deposits are expected to increase more rapidly than currency in circulation.

V. External payments

31. The Government intends to maintain an exchange system free of any restrictions on payments and transfers for current international transactions; furthermore, it does not intend to introduce multiple currency practices, conclude bilateral payments agreements with Fund members, or impose restrictions on imports for balance of payments reasons.

32. The exchange rate of the Mali franc is pegged to that of the French franc (FM 100 = F 1). Following the sharp rise of the dollar, the exchange rate of the Mali franc vis-à-vis the SDR depreciated along with that of the French franc by nearly 35 percent between December 1979 and July 1983. The effective exchange rate, weighted by the value of trade with manufacturing and oil-producing countries, depreciated by 23 percent over the same period. While this depreciation led to pronounced increases in the cost of imports from countries outside the franc area, it also bolstered the international competitiveness of Mali's exports and agricultural output, thereby contributing to a short- and medium-term improvement in its balance of payments position.

33. The technical negotiations on Mali's admission to the UMOA were concluded in December 1981, and Mali is now in a position to meet all the technical requirements for participation. Mali's membership has not yet been approved by the Conference of the Heads of State of the UMOA, however, pending the resolution of certain political matters. Pending Mali's admission, the bilateral monetary agreements with France have been extended. In view of the prospects for consolidating the operations account overdraft and rescheduling the service burden, the interest payable will continue to be shown in this program as refinanced.

34. To ensure Mali's uninterrupted development and the rehabilitation of the public enterprises, and to avoid future increases in the external debt burden, the Government will continue to resort exclusively to official grants and concessional loans with a grant element of at least 25 percent. At all events, new loans contracted or guaranteed by the Government with maturities of more than 1 to less than 12 years and on nonconcessional terms will be limited to SDR 10 million for the period of the stand-by arrangement. This new borrowing will be used solely for projects whose profitability has been fundamentally established, for operations associated with a clearly defined rehabilitation program, or for financing external debts which have fallen or are about to fall due.

35. In order to keep the cost of servicing the medium-term external debt in 1983 and 1984 below 10 percent of the value of exported goods and services and transfers, and thereby to ease the financial burdens on the Central Government and certain public agencies, the Government of Mali has entered into bilateral negotiations with a view to rescheduling some loans contracted with the oil-exporting countries, with centrally-planned economies, and for construction of the dam at Selingué. This renegotiation will also involve some suppliers credits guaranteed by the Central Government. Agreement in principle on a rescheduling has already been obtained from the creditor countries and institutions. In view of the existence of these understandings, liabilities due but not paid, including interest on loans, will not be included among payments arrears. Progress toward concluding formal agreements will be examined during the review of the program.

36. In order to ensure their elimination before the end of the stand-by arrangement, the amount of external payments arrears of the public sector (Treasury, CAA, OPT postal settlements, and public enterprises excluding Air Mali), estimated at FM 8.4 billion as at December 31, 1982 ^{1/}, will be reduced by at least FM 4 billion in 1983 and by at least FM 4.4 billion in 1984. The maximum quarterly amount of such outstanding arrears, which shall constitute a performance criterion, is set forth in Attachment I. This schedule will make it possible to eliminate all the external arrears of the Treasury and the CAA by September 30, 1984 at the latest. Arrangements for eliminating the external arrears of Air Mali and OPT, which will be done in connection with recovery plans now being drawn up, will be determined in consultation with the Fund during the review of the program.

^{1/} Not including the external payments arrears of Air Mali, which were FM 5.6 billion as at end-1982 and FM 6 billion as at June 30, 1983.

37. The Government will strengthen the administrative and financial resources of the Caisse Autonome d'Amortissement to enable it to monitor with all due strictness the developments with regard to all the external liabilities (including guarantees) of the Central Government and public agencies, and thereby be able to provide a more rational management of indebtedness in the short and medium term. To this end, and in accordance with its new charter, the CAA shall by regulation be kept informed of all new external financial commitments of the Republic of Mali. In addition, before end-March 1984 it will conduct a survey of prior commitments, particularly of public enterprise debt guaranteed by the Government, in order to verify the reliability of the statement of payments arrears drawn up as at June 30, 1983. It will also participate in external debt negotiations and renegotiations entered into by Mali. Finally, it will prepare a detailed quarterly schedule of its revenue and expenditure so as to ensure strict observance of debt service maturities and compliance with the scheduled reductions in external arrears, which shall constitute one of the performance criteria of the stand-by arrangement.

38. Despite an unfavorable international environment, the projected production for 1983 and 1984 and the adjustment measures called for by this program should make it possible to achieve the following balance of payments targets:

a. Reduction of the current deficit of the balance of payments (excluding grants) to SDR 170 million (18.5 percent of GDP) in 1983 and to SDR 154 million (15.5 percent of GDP) in 1984. Most of this deficit will be financed by grants and concessional loans tied directly to development projects and by the financing of some external debt obligations.

b. With public external grants taken into account, the current deficit will be reduced from SDR 96 million (10 percent of GDP) in 1982 to SDR 77 million (8 percent of GDP) in 1983 and SDR 62 million (6 percent of GDP) in 1984.

Quantitative Performance Criteria and Targets Under the Proposed Stand-By Arrangement

(In billions of Mali francs)

	1982	1983	1983	1984			1985	(Target for end of program)
	Dec.	June	Dec.	March	June	Sept.	Dec.	
Bank credit to Central Government	130.6	137.0	142.0	146.5	150.5	153.5	156.5	...
Bank credit to the economy								
Upper limit	--	--	217.5	231.8	223.8	218.5	... <u>1/</u>	...
Lower limit <u>2/</u>	190.0	188.1	214.0	227.3	219.3	214.5
Maximum outstanding payments arrears <u>3/</u>								
Domestic arrears	14.5	8.8	4.0	3.0	2.0	1.0	--	--
External arrears <u>4/</u>	8.4	7.0	4.4	3.8	3.1	1.0	--	...

(In millions of SDRs)

New external borrowing <u>5/</u> (cumulated)	--	--	10.0	10.0	10.0	10.0	10.0	10.0
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1/ These limits will be agreed before mid-September 1984, when the financing requirements for crop-year 1984/85 will be known (see paragraph 26).

2/ If the lower limits are not observed, the Malian authorities will consult with the Managing Director of the Fund (see paragraph 28). Upper limits are performance criteria.

3/ Refers solely to arrears subject to reduction by means of cash payments.

4/ Not including the arrears of Air Mali (see paragraph 20).

5/ Nonconcessional loans contracted or guaranteed by the Central Government with an initial maturity of more than 1 year to less than 12 years (see paragraph 34).