

EBS/83/242

CONFIDENTIAL

November 10, 1983

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

Attached for consideration by the Executive Directors is a request from Mali for a stand-by arrangement equivalent to SDR 40.5 million. A draft decision appears on page 25.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. François (ext. (5)8510) or Mr. Sacerdoti (ext. (5)8514).

Att: (1)

INTERNATIONAL MONETARY FUND

MALI

Request for Stand-By Arrangement

Prepared by the African Department and the
Exchange and Trade Relations Department 1/

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

Approved by J.B. Zulu and S. Kanesa-Thasan

November 9, 1983

I. Introduction

In the attached letter dated September 19, 1983, the Government of Mali requests a stand-by arrangement for a period of 18 months ending May 1985, in support of an economic and financial program covering the second half of 1983 and calendar year 1984, in an amount equivalent to SDR 40.5 million, representing 100 percent of present quota (79.7 percent of the proposed quota of SDR 50.8 million). Of this amount, SDR 5.1 million would be from the Fund's ordinary resources and SDR 35.4 million from borrowed resources. Under the last stand-by arrangement for SDR 30.375 million or 75 percent of quota, which expired on May 21, 1983, Mali purchased the total amount under the arrangement, having satisfied all the performance criteria as initially envisaged in the program.

The present case was referred to in footnote 2 on page 7 of EBS/83/213 (September 29, 1983) as one of two where "the members had effectively completed negotiating with the staff and had reached virtually full agreement with the staff". In his summing up on October 3, 1983 the Managing Director stated (Buff 83/254, 10/7/83) that, "it is fair to say also that most Directors who addressed the issue agreed to treat the two other cases mentioned in the staff report (EBS/83/213) in the same way, noting that agreement had already been reached with the staff on the main element of the program before September 14, 1983 and that the letters of intent had been agreed with the staff before the end of the Annual Meeting."

1/ Discussions that provided the basis for the proposed stand-by arrangement were held in Bamako during the period September 5-15, 1983 and in Washington during the period September 26-29, 1983. Staff members participating in the discussions were Mr. François (head-AFR), Mr. Sacerdoti (AFR), Mrs. Schmitz (AFR), Mr. Abisourour (ETR), Mr. Marciniak (AFR), and Ms. Casaromani (secretary-AFR). Mr. Daumont, Fund Resident Representative in Mali, also participated in these discussions.

Fund credit outstanding to Mali, as of September 30, 1983 amounted to SDR 34.2 million (84.4 percent of quota), including SDR 3.8 million (or 9.4 percent of quota) under the compensatory financing facility. The proposed stand-by arrangement, if fully utilized, would increase Fund credit to SDR 70.9 million (or 175 percent of quota), taking into account the scheduled repurchases under the CFF. A waiver of the limitation in Article V, Section 3 (b)(iii) of the Articles of Agreement will be required.

According to the phasing of the proposed stand-by arrangement (Table 1), purchases may be made in six installments. An amount equivalent to SDR 10 million would be available after Executive Board approval of the arrangement. Five additional purchases, the first four of SDR 6 million each and the last of SDR 6.5 million, would become available subject to the observance of the performance criteria for end-December 1983 and end-March, June, September, and December 1984.

II. Background

An analysis of Mali's economic and financial performance in 1982 and the first half of 1983 under the recent stand-by arrangement is contained in SM/83/190 (August 16, 1983), which will be discussed together with this request for a stand-by arrangement. During this period Mali made significant progress in correcting structural imbalances, and favorable results were achieved in reducing disequilibria in public finances and the balance of payments and in reducing domestic and external arrears (Table 2). Public finance management and monitoring was strengthened, and the control on the autonomous special funds was improved. Important structural reforms were introduced in agriculture, with the liberalization of cereal marketing, which, together with increases in producer and official retail prices, helped to stimulate production and reduce distortions. Steps were taken toward the rehabilitation of the public enterprise sector, with significant progress achieved in improving the operating performance of the cereal marketing agency and the electricity agency; however, delays were encountered in reorganizing some other important companies that continue to record large losses.

Economic developments in 1982 were favorable, as a substantial increase in cereal production led to a resumption of growth of real gross domestic product (GDP) after two years of stagnation, and to a decline in the rate of inflation.

Despite the progress cited, substantial disequilibria remain in the public finances and public enterprises, and further initiatives are required to eliminate distortions in agriculture and to expand the role of the private sector. While the external disequilibria have narrowed, the country remains dependent on a large flow of external

Table 1. Mali: Proposed Schedule of Purchases and Repurchases
Under the Stand-By Arrangement, 1983-85

(In millions of SDRs)

	1983		1984			1985	Stand-by period	
	Oct.	Nov.-Dec.	Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-April	Total
<u>Purchases</u>	--	10.000	6.000	6.000	6.000	6.000	6.500	40.500
Stand-by arrangement	(--)	10.000	6.000	6.000	6.000	6.000	6.500	40.500
Ordinary resources	(--)	(--)	(--)	(--)	(--)	(2.107)	(2.955)	(5.062)
Borrowed resources	(--)	(10.000)	(6.000)	(6.000)	(6.000)	(2.955)	(3.545)	(35.438)
<u>Repurchases</u>	--	0.638	0.638	0.638	0.638	0.638	0.638	3.828
CFF facility	(--)	(0.638)	(0.638)	(0.638)	(0.638)	(0.638)	(0.638)	(3.828)
<u>Net purchases</u>	--	9.362	5.362	5.362	5.362	5.362	5.862	36.672
<u>Fund credit outstanding</u> (end-period)								
Total	34.200	43.562	48.924	54.286	59.648	65.010	70.875	
Excluding CFF	30.375	40.375	46.375	52.375	58.375	64.375	70.875	
In percent of quota ^{1/}								
Total	84.4	107.6	120.8	134.0	147.3	160.5	175.0	
Excluding CFF	75.0	99.7	114.5	129.3	144.1	158.9	175.0	
<u>Memorandum item:</u>								
Trust Fund repurchases	--	--	0.912	--	--	1.433	3.257	

Sources: IMF Treasurer's Department; and proposed stand-by arrangement.

1/ Quota as of April 30, 1983: SDR 40.5 million.

Table 2. Mali: Selected Economic and Financial Indicators, 1981-84

	1981	1982		1983	1984
	Actual	Program	Actual	Program	forecast
	(Annual percentage changes, unless otherwise specified)				
National income and prices					
GDP at constant price	-2.4	4.0	4.4	2.0	4.5
GDP deflator	11.0	8.0	8.8	7.9	6.5
Food price index	12.7	12.0	3.7	6.5	6.5
National minimum wage	--	--	--	--	--
External sector					
Exports, f.o.b. (in SDRs)	-17.1	1.7	1.1	18.6	22.2
Imports, c.i.f. (in SDRs)	-13.2	-5.1	-9.0	2.8	3.5
Non-oil imports, c.i.f. (in SDRs)	-15.4	-5.3	-11.8	3.8	3.8
Export volume	-14.1	-0.1	0.7	17.2	16.4
Import volume	-20.3	-8.3	-9.5	1.7	-1.0
Terms of trade	-11.4	-1.7	-0.1	-0.2	0.5
Nominal trade-weighted effective exchange rate (depreciation -)	-3.7	-2.0	-3.0	-2.5	-1.1
Central government budget					
Revenue (excluding grants)	19.8	14.2	7.8	7.1	9.5
Total expenditure	5.2	7.0	3.4	5.9	5.4
Money and credit					
Domestic credit	7.3	10.4	7.8	10.2	9.5 ^{1/}
Credit to Government	(8.5)	(10.0)	(6.4)	(6.7)	(9.7)
Credit to economy	(6.5)	(9.6)	(8.8)	(12.6)	(10.6) ^{1/}
Money and quasi-money (M2)	5.8	10.9	8.6	13.4	10.9 ^{1/}
Velocity (GDP relative to M2)	4.1	3.9	4.3	4.3	4.2
Interest rate ^{2/}	4.0	5.0	5.0	5.0	5.0
	(In percent of GDP)				
Consolidated government deficit ^{3/}					
Excluding grants	3.3	1.6	1.5	1.2	0.7
Including grants	2.0	0.5	1.2	0.4	-0.3
Domestic bank financing (net)	0.8	1.9	1.8	1.5	1.8
Foreign borrowing (net)	0.8	0.1	1.9	1.9	-0.4
Payments arrears (change) and other (reduction-)	0.4	-1.5	-2.5	-3.0	-1.7
Gross domestic investment	17.2	20.7	16.7	17.0	18.0
Gross domestic savings	-5.4	0.8	-2.7	-1.9	1.9
Resource gap	-22.6	-19.9	-19.4	-18.9	-16.1
Current account deficit					
Excluding official transfers	22.6	...	19.3	18.5	15.5
Including official transfers	10.7	...	10.3	8.4	6.4
External debt ^{4/}	87.3	110.3	101.5	106.5	113.5
Debt service ratio ^{5/6/}	7.7	9.2	4.3	6.1	7.7
Interest payments ratio ^{5/6/}	5.7	2.3	2.7	3.4	3.6
	(In millions of SDRs, unless otherwise specified)				
Overall balance of payments (deficit-)	-32.8	-13.2	-2.3	-5.3	-2.7
Gross official reserves (months of imports)	1/2	1/2	1/2	1/2	1
External payments arrears ^{7/}	30.4	21.7	18.9	12.4	-- ^{8/}

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

^{1/} Growth rate over the 12-month period to September 1984.

^{2/} Minimum rate for one-year small savings deposits. Rates on large deposits are freely determined.

^{3/} Includes the operations of the Central Government, special funds, as well as extrabudgetary 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.

^{4/} Inclusive of Fund credit and the operations account with the French Treasury.

^{5/} In percent of exports of goods and services and private transfers receipts.

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

^{7/} Arrears subject to cash payments.

^{8/} Excluding payments arrears of Air Mali, the reduction of which will be established at the time of the mid-term review.

assistance; at the same time, the external debt service payments are rising. Also, a relatively large amount of external arrears remains outstanding.

III. The Proposed Program: September 1983-December 1984

1. Main objectives

The economic and financial program for 1983 and 1984 in support of which a stand-by arrangement is requested aims at making further progress in reducing domestic and external financial imbalances by maintaining strict control over public consumption and by intensifying the pace and the scope of the restructuring effort undertaken since 1981. This is to be achieved by proceeding decisively in the reform of public finances and the public enterprise sector; by taking new measures to stimulate agricultural production and reduce price and marketing distortions; by increasing the scope of activity by the private sector; and by improving the investment policy. The program also provides for the elimination of external and domestic arrears of the public sector by the end of the stand-by period. Because of the significant potential for growth in agriculture and related industrial activities, these policies are expected to promote sustained economic growth in the 1984-86 period of about 4.5 percent. As these policies will be accompanied by a continuation of austere income policies, the savings ratio is expected to increase significantly. With investment expected to be stable as a ratio of GDP at 18 percent and export prospects relatively favorable, the external current account deficit before grants is programmed to decline from 19.3 percent of GDP in 1982 to 15.5 percent in 1984 (Table 2). As official transfers are expected to remain in 1984 at a high level of about 9.2 percent of GDP (9.1 percent of GDP in 1982), the decline in the current deficit will enable the country to reduce its recourse to external borrowing, much of which is at concessional terms, from about 8.5 percent of GDP in 1982 to about 5.5 percent in 1984 and thereby improve its capacity to meet debt obligations. A summary of the program objectives and policy measures is presented in Table 3. The medium-term prospects for the balance of payments and external debt are discussed below in Section 5.

2. Domestic financial policies

a. Public finance

Despite the improvement recorded in 1982, when the consolidated government deficit (which includes the state budget, the budget of the special funds, and extrabudgetary Treasury operations, but excludes all investment expenditures financed with external aid) declined to MF 9.9 billion (1.5 percent of GDP) from MF 19.4 billion in 1981 (3.3 percent of GDP), the government budgetary position remains structurally weak, as personnel expenditures absorb about 62 percent of total outlays, precluding an adequate level of expenditure for maintenance, for

Table 3. Mali: Summary of Principal Policy Measures of the Program

I. Public finance

Revenue measures:

- (a) Increased administrative values applied to imports;
- (b) Stricter taxation of oil imports;
- (c) New fiscal revenue from cotton exports;
- (d) Elimination of the minimum profit tax equal to 1 percent of turnover for certain public enterprises.

Expenditure measures:

- (a) Termination of the practice of automatically hiring university graduates beginning from the second half of 1983;
- (b) Establishment of competitive examination for entry in the civil service;
- (c) Strict enforcement of rules on compulsory retirement;
- (d) Incentives for voluntary separation;
- (e) Wage freeze.

Special funds:

- (a) Strengthening of financial resources and management of Autonomous Amortization Agency (CAA).
- (b) Reorganization of the Price Stabilization Fund.

II. Current payments arrears

- (a) Elimination of domestic and external arrears subject to cash settlements of the Treasury, the Post Office, and public enterprises, excluding Air Mali (MF 22.8 billion at end-1982).
- (b) Precise schedule of elimination of external arrears of Air Mali (MF 5.6 billion at end-1982) to be established at the mid-term review.

III. Monetary policies

- (a) Domestic credit expansion in the 12-month period to September 1984 limited to 9.5 percent, implying an expansion of money and quasi-money of 10.9 percent.
- (b) Restrictive credit policy for noncrop financing credit (maximum rate of increase: 13.2 percent).
- (c) Strengthening of the structure of the banking system, in particular of the development bank.
- (d) Harmonization of the interest rate structure with that prevailing in the WAMU at the time of effective entry into the Union.

IV. External sector

- (a) Ceiling of SDR 10 million during the program period on new borrowing on nonconcessional terms contracted or guaranteed by the Government.
- (b) Completion of the negotiations underway for the rescheduling of certain bilateral loans.

V. Public enterprises

- (a) Privatization or closure of five nonstrategic enterprises;
- (b) Precise measures for SOMIEX and Air Mali, including: for SOMIEX, cut of personnel, privatization of certain activities and foreign managerial assistance; for Air Mali, closure of unprofitable routes, reduction in personnel, opening the capital to participation of domestic and foreign partners, conclusion of a management and technical assistance contract with a foreign partner;
- (c) reorganization of Postal Telecommunication Office, Office du Niger and other major enterprises with the assistance of the World Bank and certain donor countries.

VI. Agricultural and other economic policies

- (a) Change in the modality of intervention of the cereal marketing agency so as to increase its average retail price by about 10 percent;
- (b) Establishment of a new financial system for cotton exports effective November 1, 1983, which includes an income stabilization fund for producers, and terminates the absorption of export profits by SOMIEX;
- (c) Strengthening of the role of the private sector by adoption of new investment code, activation of credit lines for small enterprises, and other institutional measures in connection with the restructuring of public enterprises;
- (d) Improved monitoring of the investment program and establishment of an investment budget for 1985.

recurrent costs of operations, and for investment. In addition, the Treasury is burdened by payments arrears, which amounted to MF 12.5 billion at end June 1983. Accordingly, the program aims at reducing further the consolidated government deficit and at decreasing the share of personnel expenditures in the budget with a series of measures, whose adoption is under way, concerning recruitment, voluntary separations, and retirement, and at eliminating arrears by the end of the program period.

The consolidated government deficit before grants, which is projected to amount to MF 8.6 billion (1.2 percent of GDP) in 1983, is targeted to decline to MF 5.5 billion (0.7 percent of GDP) in 1984 (Table 4); to achieve this objective, the central government deficit will be limited to MF 9.5 billion in 1983 and MF 6.5 billion in 1984. The operations of the annexed budgets and special funds are planned to continue to yield surpluses, respectively, of about MF 1.7 billion in 1983 and MF 2.9 billion in 1984, and net extrabudgetary outlays will not exceed MF 0.8 billion in 1983 and MF 1.9 billion in 1984. For investment expenditures financed with external project aid, only unofficial estimates are available; if these expenditures are included in the total, overall government operations excluding grants would register a deficit of MF 119 billion in 1983, equivalent to 16.1 percent of GDP; including grants the deficit would be MF 44.3 billion, or 6 percent of GDP (Appendix Table 10). Although large, these deficits appear sustainable in the medium term, in view of the large inflow of grants and concessional loans that Mali is expected to receive.

On the revenue side, in light of the already high tax rates, most of the increases will stem from improvements in tax administration, in line with the efforts under way since 1981. Total central government revenues are expected to increase in 1983 by 7.2 percent to MF 84 billion, and in 1984 by 9.5 percent to MF 92 billion; this compares with an average annual rate of increase of 13.7 percent in 1981-82, which was enhanced by an improved tax administration effort especially in 1981. Effective September 1, 1983, the Government increased the administrative values applied to imports for duty purpose; an additional increase will be implemented on January 1, 1984; this, together with further progress in improving customs tax administration, is expected to result in a 10 percent growth in revenues from customs duties (Appendix Table 11). The Government will take strict measures to reduce tax evasion related to petroleum product imports, notably from Nigeria, which has increased in the recent past; should these measures prove insufficient to increase petroleum tax receipts, the Government is prepared to increase the selling price of petroleum products. To assist the restructuring of public enterprises, the Government will eliminate the minimum profit tax equal to 1 percent of turnover on a case by case basis beginning January 1, 1984. The loss of revenue from these measures, however, will be more than offset by the incorporation in the government budget of the profits from cotton exports, until now absorbed by the state export-import company (SOMIEX), which are

Table 4. Mali: Consolidated Government Operations, 1980-84

(In billions of Mali francs)

	1980	1981	1982	1983	1984
				Program	
<u>Revenue</u>	<u>79.0</u>	<u>92.4</u>	<u>101.1</u>	<u>107.8</u>	<u>117.2</u>
Government budget	60.7	72.7	78.4	84.0	92.0
Annexed budgets and special funds	18.6	19.4	23.4	22.6	24.0
Extrabudgetary revenue	-0.3	0.3	-0.7	1.2	1.2
<u>Expenditure</u>	<u>-103.4</u>	<u>-111.8</u>	<u>-111.0</u>	<u>-116.4</u>	<u>-122.7</u>
Government budget	-81.2	-85.4	-88.3	-93.5	-98.5
Of which: personnel expenditure	(49.4)	(51.8)	(54.6)	(59.0)	(62.0)
Annexed budgets and special funds	-11.3	-15.1	-19.9	-20.9	-21.1
Extrabudgetary expenditure	-10.9	-11.3	-2.8	-2.0	-3.1
<u>Surplus/Deficit(-)(commitment basis)</u>	<u>-24.4</u>	<u>-19.4</u>	<u>-9.9</u>	<u>-8.6</u>	<u>-5.5</u>
Government budget	-20.5	-12.7	-9.9	-9.5	-6.5
Annexed budgets and special funds	7.3	4.3	3.5	1.7	2.9
Extrabudgetary operations	-11.2	-11.0	-3.5	-0.8	-1.9
<u>Change in payments arrears (reduction -)</u>	<u>5.3</u>	<u>7.3</u>	<u>-11.7</u>	<u>-12.3</u>	<u>-6.0</u>
<u>Deficit (cash basis)</u>	<u>-19.1</u>	<u>-12.1</u>	<u>-21.6</u>	<u>-20.9</u>	<u>-11.5</u>
<u>Financing</u>	<u>19.1</u>	<u>12.1</u>	<u>21.6</u>	<u>20.9</u>	<u>11.5</u>
Foreign	15.4	12.0	14.8	19.1	4.5
Grants	(6.0)	(7.4)	(1.8)	(5.3)	(7.9)
Gross borrowing	(10.5)	(5.9)	(14.3)	(16.6)	(1.4)
Amortization	(-1.1)	(-1.3)	(-1.3)	(-2.8)	(-4.8)
Domestic	3.7	0.1	6.8	1.8	7.0
Banking system	(2.5)	(3.8)	(12.3)	(11.4)	(14.5)
Other (including Postal Checking System)	(1.2)	(-3.7)	(-5.5)	(-9.6)	(-7.5)
				(In percent of GDP)	
<u>Memorandum items:</u>					
Deficit on a commitment basis	4.4	3.3	1.5	1.2	0.7
Including grants	3.4	2.0	1.2	0.4	-0.3
Deficit on a cash basis	3.5	2.0	3.2	2.8	1.4
Including grants	2.4	0.8	2.9	2.1	0.4

conservatively estimated to yield MF 2 billion in 1984, and of certain taxes collected by special funds, and also by the projected increase in foreign trade taxes on the cotton sector.

Taking into account the revenue projections and the target for the central government deficit, central government budgetary expenditures are limited under the program to MF 93.5 billion in 1983 and to MF 98.5 billion in 1984, representing annual growth rates of 5.9 percent in 1983 and 5.4 percent in 1984, compared with average annual growth of 4.3 percent in 1981-82.

Personnel expenditures are expected to increase by 8 percent in 1983 to MF 59 billion, compared with a 5.4 percent growth rate in 1982 (Appendix Table 12); this acceleration stems mainly from delayed payments of merit increases related to 1981 and 1982 and new recruitment associated with larger graduating classes in 1982 after the closure of schools in 1980 and 1981. However, personnel expenditures are scheduled to grow more slowly in 1984, by 4.9 percent, leading to a decline in their share in total expenditures. Since mid-1983 the Government has discontinued the automatic hiring of graduates and has established competitive examinations to be conducted in the last months of the year for a number of positions that are being determined on the basis of effective need and budgetary constraints. Under the program, a strict limit has been placed on expenditures for new hiring, amounting to MF 3.8 billion in 1983 and MF 3 billion in 1984. A reduction in civil service staff will be achieved through measures already implemented in 1983, such as the strict enforcement of the regulations on compulsory retirement and an increase in the flexibility of the rules on releasing staff, and through the establishment, in the coming months, of a system of incentives to encourage voluntary departures. The wage freeze in effect since 1981 will be continued through 1984. In 1983 the Government introduced on an experimental basis new wage payments procedures that permit better control of civil servants effectively in place, and these procedures will be generalized no later than July 1, 1984. With the share of personnel expenditures in the total declining somewhat in 1984 there should be room for a modest increase in maintenance and investment expenditures. A fully reliable census of civil servants will be completed by March 31, 1984.

Domestic and external arrears of the Treasury, which amounted to MF 18.3 billion in December 1982 and to MF 12.5 billion in June 1983 (Table 5), are scheduled to be reduced further to MF 6 billion by end-December 1983 and to be eliminated by end-1984. Taking into account the reduction in arrears, the consolidated government financing requirement (before grants) will amount to MF 20.9 billion in 1983 and MF 11.5 billion in 1984. In 1983 about 86 percent of the requirement will be covered by net external financing, projected to amount to MF 19.1 billion, out of which grants represent MF 5.3 billion. The remainder will be financed by the domestic banking system, including special advances associated with purchases under the 1982/83 stand-by arrangement

Table 5. Mali: Current Payments Arrears, 1980-83 ^{1/}

(In millions of Mali francs; end of period)

	<u>1980</u> Dec.	<u>1981</u> Dec.	<u>1982</u> Dec.	<u>1983</u> June Prov.
Treasury	22,724	30,004	18,026	12,521
External arrears	(7,326)	(8,049)	(3,577)	(3,690)
Domestic arrears	(13,565)	(20,448)	(13,492)	(8,172)
Extrabudgetary domestic arrears	(1,833)	(1,507)	(957)	(659)
Post Office (international postal transfers)	3,520	4,820	2,622	959
Public enterprises	5,366	7,401	6,682	7,013
Air Mali	(5,203)	(5,952)	(5,626)	(6,014)
ITEMA	(--)	(735)	(532)	(475)
COMATEX	(--)	(302)	(132)	(132)
Energie du Mali	(163)	(412)	(392)	(392)
Autonomous Amortization Agency (CAA)	--	--	295	812
Upper River Niger Development Agency (OERHN)	--	66	836	--
Total arrears	<u>31,610</u>	<u>42,291</u>	<u>28,461</u>	<u>21,305</u>
External arrears	16,212	20,336	14,012	12,474
Domestic arrears	15,398	21,955	14,449	8,831

Source: Data provided by the Malian authorities,

^{1/} Arrears subject to cash payments,

and the proposed new arrangement. In 1984 net external financing is projected to decline to MF 4.5 billion, as the authorities intend to discontinue the recourse to external budgetary loans. The domestic banking system financing of MF 14.5 billion will include MF 11.1 billion of special advances resulting from purchases under the requested stand-by arrangement. The authorities are committed to reducing recourse to bank credit in 1984 if net external financing exceeds the projected level.

The program provides for further strengthening of budgetary controls. Additional progress is presently being made in the monitoring by the Ministry of Finance of the performance of the special funds and annexed budgets and in the centralization of data; accordingly, the 1984 budgets of these funds will be submitted for the first time to Parliament together with the central government budget. During the program period the Government will strengthen the technical and financial resources of the Autonomous Amortization Agency (CAA) in order to improve debt management and the centralization of information and to enable the agency to face larger charges on the external debt; the revenues of the agency will be increased by enlarging the base of the foreign trade tax earmarked to it. Another major special fund, ORSP, which is in charge of price subsidies, will be reorganized in line with its new responsibilities in the financial management of cotton exports.

Mali does not currently prepare an investment budget. To correct this situation, which represents a severe impediment to the implementation of an efficient investment policy, the authorities will in 1983 and 1984 improve the monitoring of the flow of external assistance and establish a more adequate administrative machinery with the objective of preparing an investment budget for 1985. Measures will also be introduced to improve management control and effectiveness at the level of the customs, budget, and Treasury administration. These efforts will benefit from foreign technical assistance.

b. Monetary policy

In recent years the authorities have pursued a tight credit policy. Attempts have been made to avoid the financing of structural losses of public enterprises. This policy will be continued during the program period. The overall credit growth will remain within limits compatible with the targeted reduction in the external payments imbalance and the avoidance of inflationary pressures. Credit to the Government (from the banking system and postal checking system) is scheduled to increase by only 8 percent on an annual average basis during the two years 1983 and 1984 (6.4 percent in 1982). With postal deposits expected to continue to decline, as in 1982, the expansion of bank credit to the Government is projected to rise, on the average, by 9.5 percent per year. In 1983 the expansion of bank credit to Government, scheduled at MF 11.4 billion, will mainly take the form of use of the domestic counterpart of

drawings from the Fund; the rate of expansion in bank credit is planned to be somewhat higher in 1984 (10.2 percent versus 8.7 percent in 1983) on account of a smaller projected inflow of external budgetary assistance (Table 6). However, as indicated above, the recourse to bank credit by the Government in 1984 will be reduced in the event that such budgetary assistance exceeds present projections. Quarterly ceilings on bank credit to the Government for the whole program period have been established.

The program envisages that credit to the economy will increase by 12.6 percent in 1983 and by 10.6 percent in the 12-month period to September 1984. Crop financing is expected to increase in 1983 at a relatively rapid rate (16.5 percent), in view of the substantial increase in the value of the crop to be marketed, while a more modest increase is projected for 1984. Projections for the level of crop financing for the last quarter of 1984 will be established only in mid-1984 on the basis of information on the crop likely to be marketed. Ordinary credit is projected to grow on average by 10.8 percent per year during 1983-84, compared with a growth rate of 13.5 percent in 1982. Most of the anticipated expansion will be directed toward productive industrial and export activities. Quarterly ceilings on credit to the economy have been established for end-December 1983 and end-March, end-June, and end-September 1984. The ceilings for end-December 1984, on the basis of which the last drawing will be made, will be set during the program review to be conducted before mid-September 1984. The ceilings on credit to the economy are expressed in terms of upper and lower limits to make allowance for possible leads and lags in the domestic and foreign marketing of agricultural commodities. The upper limits serve as performance criteria. However, the authorities will regard the lower limits as operational ceilings, and will consult with the Managing Director whenever they are exceeded. Taking into account the projected increase in net foreign liabilities of the banking system, money plus quasimoney is projected to increase by 13.4 percent in 1983 and 11.4 percent in 1984. The relatively high increase in 1983, which will exceed the projected growth of nominal GDP (12 percent), will take place mostly at the end of the year and is accounted for by the projected large crop financing. Over the two years the expansion will be in line with the projected growth of nominal GDP.

It is envisaged that during the program period Mali will become an effective member of West African Monetary Union (WAMU). At that time, the short-term liabilities of the Central Bank under the operations account with the French Treasury will be consolidated in the form of an intergovernmental loan at favorable terms. This consolidation will permit a strengthening of the position of the Central Bank, the deposit money banks, and the principal public enterprises through a reduction of their indebtedness to the banking system. In view of the changes in the stock of bank credit outstanding to the government and to some public enterprises, and other institutional changes that entry into WAMU will entail, the credit ceilings would need to be reviewed when the entry will become operational.

Table 6. Mali: Monetary Survey, 1982-84

	1982	1983				1984				1982	1983	1984	
	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	Dec.	Dec.	Sept	Dec.
		Actual		Program		Program				Change over previous 12-month period			
	(In billions of Mali francs)										(In percent)		
Foreign assets (net)	-131.4	-130.3	-125.2	-138.0	-142.7	-142.4	-144.7	-149.0	-153.2	8.1	8.6	8.0	7.4
Domestic credit	325.9	338.9	328.8	337.5	359.0	376.6	372.6	370.6	...	7.8	10.2	9.8	...
Claims on Government	135.9	139.4	140.7	143.6	145.0	149.3	153.3	156.1	159.0	6.4	6.7	8.7	9.7
Banking system	130.6	134.7	137.0	140.1	142.0	146.5	150.5	153.5	156.5	10.5	8.7	9.6	10.2
Postal Checking System	5.3	4.7	3.7	3.5	3.0	2.8	2.8	2.6	2.5	-44.2	-43.4	-25.6	-16.7
Claims on the economy	190.0	199.5	188.1	193.9	214.0	227.3	219.3	214.5	...	8.8	12.6	10.6	...
Ordinary	138.4	138.1	139.1	147.2	153.9	157.6	161.6	166.6	169.8	13.6	11.2	13.2	10.3
Crop financing	51.6	61.4	49.0	46.7	60.1	69.7	57.7	47.9	...	-2.5	16.5	2.6	...
Money and quasi-money	162.5	175.6	174.1	170.0	184.3	202.2	195.9	188.6	205.3	8.6	13.4	10.9	11.4
Postal deposits	5.3	4.7	3.7	3.5	3.0	2.8	2.8	2.6	2.5	-44.2	-43.4	-25.6	-16.7
Other	157.2	170.9	170.4	166.5	181.3	199.4	193.1	186.0	202.8	12.2	15.3	11.7	11.9
Medium- and long-term foreign liabilities	6.3	6.4	6.7	6.7	7.0	7.0	7.0	7.0	7.0				
Other items (net)	25.7	26.6	22.8	22.8	25.0	25.0	25.0	26.0	...				

Source: Data provided by the Malian authorities; and staff projections.

After the adjustments introduced in 1982 and early 1983 interest rates on time deposits and on loans are positive in real terms. The authorities will keep the interest rate levels under review to ensure that appropriate incentives to savings are maintained. The level and structure of interest rates will be modified at the time of the effective entry into WAMU to be brought in line with the one prevailing in the Union.

To enable the banking system to play a more active role in the economic recovery and in particular in the monitoring of the rehabilitation of the public enterprise sector and in the promotion of private and mixed enterprises, the administrative and financial structure of the deposit money banks, in particular that of the development bank, will be strengthened. The measures under way include increasing capital reserve, improving financial accounting, tightening collection of credits, and establishing adequate reserve provisions for bad debt.

3. External prospects and policies

During the program period exports in terms of SDRs are projected to increase by 17 percent in 1983 and 23 percent in 1984 mainly on account of larger exports of cotton resulting from favorable international price developments and a rising production level; the latter is being fostered by the increase in producer prices in 1983 and a major agricultural development effort in the cotton growing areas of the country. In addition to continuing expansion in export of livestock, exports of sheanuts, fruits, and gold are forecast to increase substantially during 1983 and 1984. At the same time, the austere incomes policy and the improvement in domestic cereal production are expected to contain import growth in terms of SDRs to about 2.5 percent per year on average. As a result, the trade deficit is projected to decline from SDR 170 million in 1982 to SDR 133 million in 1984. The current account deficit is also projected to improve substantially, from SDR 180 million, or 19.3 percent of GDP, in 1982, to SDR 154 million, or 15.5 percent of GDP, in 1984, reflecting the smaller trade deficit and a decline in payments on the Operations Account with the French Treasury (Table 7).

With a continued high level of official transfers assured for both 1983 and 1984, the current account deficit, including grants, is planned to decline from SDR 96 million in 1982 (10.3 percent of GDP) to SDR 77 million in 1983 (8.4 percent of GDP) and SDR 62 million in 1984 (6.3 percent of GDP). The deficits in 1983-84 would be financed mostly by budgetary and project loans at concessional terms, and by the refinancing of external debt obligations, including the interest charges under the operations account with the French Treasury. The overall balance of payments deficit is projected at SDR 5.3 million in 1983 and SDR 2.7 million in 1984. In addition, the program provides for the elimination by December 1984 of the external arrears of the Treasury, the Post Office, and the public enterprises, excluding those of Air Mali,

Table 7. Mali: Balance of Payments, 1981-84 1/

(In millions of SDRs) 2/

	1981	1982	1983	1984	1985	1986	1987	1988	1989
			Program				Projections		
Exports, f.o.b.	130.5	132.0	156.5	191.2	224.2	244.2	280.1	310.5	330.9
Cotton	53.4	51.3	70.9	83.0	106.2	122.3	136.0	149.1	164.5
Livestock	43.5	50.0	51.2	52.3	58.0	64.0	68.9	72.3	78.7
Other	33.6	30.7	34.4	55.9	60.0	57.9	75.2	89.1	87.7
Imports, c.i.f.	-331.5	-301.8	-310.4	-321.2	-346.4	-368.2	-397.2	-425.5	-455.3
Services (net) 3/	-33.5	-36.2	-38.3	-46.6	-42.8	-46.5	-50.0	-53.2	-56.9
Interest payments 3/	(-24.0)	(-23.3)	(-15.9)	(-17.1)	(-10.1)	(-9.6)	(-8.8)	(-8.8)	(-8.7)
Private transfers, net	25.1	26.0	22.1	22.5	24.5	26.0	27.6	29.0	31.3
Current account (excl. grants) (in percent of GDP)	-209.4 (22.6)	-180.0 (19.3)	-170.1 (18.5)	-154.1 (15.5)	-140.5 (12.6)	-144.5 (11.8)	-138.5 (10.3)	-139.2 (9.4)	-150.0 (9.2)
Official transfers	110.0	84.3	92.7	91.7	98.1	101.0	104.0	107.0	110.0
Current account (incl. grants) (in percent of GDP)	-99.4 (7.7)	-95.7 (10.3)	-77.4 (7.8)	-62.4 (6.3)	-42.4 (3.8)	-43.5 (3.6)	-34.5 (2.6)	-32.2 (2.2)	-40.0 (2.5)
Nonmonetary capital (net)	60.3	70.8	57.4	44.6	55.0	62.6	59.7	53.1	51.7
Private (net)	0.6	-2.5	-3.7	--	--	--	--	--	--
Public sector loans	59.7	73.3	61.1	45.8	55.0	62.6	59.7	53.1	51.7
Disbursements	(64.8)	(80.3)	(71.2)	(58.5)	(62.2)	(70.0)	(70.0)	(70.0)	(65.0)
Budgetary loans	(9.4)	(19.7)	(19.3)	(--)	(--)	(--)	(--)	(--)	(--)
Project loans	(55.4)	(60.6)	(51.9)	(58.5)	(62.2)	(70.0)	(70.0)	(70.0)	(65.0)
Amortization	(-5.1)	(-7.0)	(-10.1)	(-12.7)	(-7.2)	(-7.4)	(-10.3)	(-16.9)	(-13.3)
SDR allocation	2.9	--	--	--	--	--	--	--	--
Refinancing	3.4	22.6	14.7	13.9	--	--	--	--	--
Interest	(0.3)	(17.8)	(8.1)	(7.7)	--	--	--	--	--
Principal	(3.1)	(4.8)	(6.6)	(6.2)	--	--	--	--	--
Overall balance	-32.8	-2.3	-5.3	-2.7	12.6	19.1	25.2	20.9	11.7
Central Bank (increase in liabilities +)	18.1	14.8	12.2	14.8	...	...	...	...	...
Operations account	(23.3)	(-7.0)	(5.7)	(--)	...	...	...	...	...
IMF (net) 4/	(-2.1)	(24.3)	(12.2)	(19.6)	...	...	...	...	...
Purchases	(0.1)	(25.4)	(15.0)	(24.0)	...	...	...	...	...
Repurchases	(-2.2)	(-1.1)	(-2.8)	(-4.4)	...	...	...	...	...
Reserves	(-3.1)	(-2.5)	(-5.7)	(-4.8)	...	...	...	...	...
Commercial banks (increase in liabilities +)	(-3.4)	(-3.7)	(-2.5)	(-2.4)	...	...	...	...	...
Change in arrears	(18.1)	(-8.8)	(-4.4)	(-9.7)	...	...	...	...	...

Sources: Central Bank of Mali; and staff estimates and projections.

1/ The data for 1983 and the projections for 1984-87 differ from those of the staff report on the 1983 Article IV consultation (SM/83/190 of August 16, 1983) because of additional information received.

2/ Mali francs have been converted at a period average rate of MF/SDR: 1980: 550.03; 1981: 640.83; 1982: 725.60; 1983: 809.03; 1984: 843.82.

3/ Reflects after 1985 the envisaged consolidation of the operations account and the new debt service payments related to debt currently in the process of being rescheduled.

4/ Includes Trust Fund.

amounting at end-1982 to MF 8.4 billion (SDR 11.3 million). A planned quarterly reduction in such arrears is a performance criterion. The arrears of Air Mali, amounting to MF 5.6 billion at end-December 1982 (SDR 7.6 million), will be reduced during the program period within the context of the complete reorganization of the company; a precise schedule of reduction will be established at the time of the mid-term review with the Fund to be completed before mid-September 1984. Taking into account the planned decline of arrears and the need to have a modest build up in international reserves by SDR 10 million, from the equivalent of 15 days of imports to the equivalent of about one month, the balance of payments need for the years 1983 and 1984 is about SDR 40 million. Of this amount, SDR 32 million would be provided by net purchases from the Fund (of which SDR 5 million has been provided under the stand-by arrangement that expired in May 1983) and the remainder from drawings under the operations account with the French Treasury.

Under the program, the Central Government will not contract or guarantee external loans at nonconcessional terms with an initial maturity between 1 and 12 years, except for an amount not exceeding SDR 10 million for projects whose profitability has been soundly established and for operations associated with a clearly defined rehabilitation program. The disbursed external debt is projected to increase from SDR 1.0 billion at end-1982 (101 percent of GDP) to SDR 1.1 billion at end-1984 (113 percent of GDP); reflecting the very favorable terms of the external debt outstanding, the debt service ratio in 1982 was equal to 4.3 percent (Table 8). In order to limit the growth in the debt service to sustainable levels, the authorities have entered into bilateral negotiations with a view to rescheduling some loans contracted with oil-exporting countries and with centrally planned economies and for the construction of a large hydroelectric dam. The external obligations in the process of being refinanced are estimated to amount, at end-1983, to MF 12 billion (SDR 14.3 million). Progress in concluding formal agreements with the creditors will be kept under close review and will be a subject for the review with the Fund before mid-September 1984. The debt service ratio is projected to rise from 6.1 percent in 1983 to 7.7 percent in 1984 on account of an increase both in interest charges and amortization payments.

The exchange rate, which remains pegged to the French franc, depreciated in the first nine months of 1983 by 14 percent with respect to the SDR, following a depreciation of 13 percent in 1982. The cumulative depreciation of the Mali franc vis-à-vis the SDR since 1980 amounted to 54 percent at end-September 1983. The trade-weighted effective exchange rate vis-à-vis the main exporters of manufactures has depreciated so far in 1983 by 2.5 percent, after a decline of 3 percent in 1982.

Table 8. Mali: External Public Debt, 1981-89 ^{1/}

(In millions of SDRs)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
			Forecasts				Projections		
I. Service on debt contracted through end-1983 ^{2/}									
CAA (excluding IMF charges)	3.4	4.3	6.3	10.1	10.9	10.9	13.8	18.4	19.1
Interest	1.5	2.2	3.0	4.4	4.5	4.3	4.3	4.9	4.8
Principal	1.9	2.1	3.3	5.7	6.4	6.6	9.5	13.5	10.3
OERHN	1.4	1.7	1.6	2.2	2.2	2.2	2.2	4.8	4.3
Interest	1.4	1.7	1.6	1.7	1.7	1.7	1.7	1.6	1.5
Principal	--	--	--	0.5	0.5	0.5	0.5	3.2	2.8
Fonds Routier	0.4	0.9	1.2	1.3	1.3	1.3	1.3	1.1	1.1
Interest	0.3	0.8	1.0	1.0	1.0	1.0	1.0	0.9	0.9
Principal	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.2	0.2
Operations account (interest)	19.8	--	--	--	--	--	--	--	--
II. Estimated service on newly contracted debt ^{3/}									
Interest	--	--	--	0.2	0.5	0.7	0.9	1.2	1.4
Principal	--	--	--	--	--	--	--	--	--
III. Payments to the IMF ^{4/}									
Charges	2.8	2.0	5.0	6.7	10.5	20.1	22.4	20.9	11.6
Repurchases	0.6	0.9	2.2	2.3	2.4	1.9	0.9	0.2	0.1
Repurchases	2.2	1.1	2.8	4.4	8.1	18.2	21.5	20.7	11.5
IV. Total debt service									
Interest	27.7	8.9	14.1	20.3	25.4	35.2	40.6	46.4	33.5
Principal	23.5	5.6	7.8	9.4	10.1	9.6	8.8	8.8	8.7
Of which:									
on rescheduled debt ^{5/}	(--)	(--)	(--)	(--)	(1.5)	(1.5)	(1.5)	(2.2)	(2.2)
Principal	4.2	3.3	6.3	10.9	15.3	25.6	31.8	37.6	24.8
Of which:									
on rescheduled debt ^{5/}	(--)	(--)	(--)	(0.7)	(0.7)	(0.5)	(0.5)	(7.7)	(7.1)
Memorandum items:									
Debt service ratio	13.2	4.3	6.1	7.7	8.4	10.7	11.0	11.4	7.8
Exports of goods, services and private transfers receipts	209.1	205.3	229.3	262.0	303.0	329.0	370.0	406.0	428.0
Disbursed debt (end of period) (in percent of GDP)	810.1 (87.3)	944.8 (101.5)	1,008.0 (109.7)	1,101.1 (110.8)	1,176.0 (105.8)	1,220.4 (99.8)	1,258.6 (93.6)	1,291.0 (87.3)	1,331.2 (81.8)

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

^{1/} Differences with data in the staff report on the 1983 Article IV consultation (SM/83/190 of August 1983) are due to additional information obtained.

^{2/} Debt service on existing debt, including, for 1984-89, estimated charges on debt in the process of being rescheduled, including the operations account.

^{3/} Assumes an average grace period of 6 years and an average interest rate of 2 percent.

^{4/} Includes Trust Fund and payments related to the proposed stand-by.

^{5/} Debt being rescheduled bilaterally.

4. Structural policies

a. The public enterprise sector

The authorities are in the process of taking important steps for further rehabilitation of the public enterprise sector. The reorganization of this sector, which encountered delays during 1982 and early 1983, will involve cuts in personnel, the social consequences of which are to be attenuated by the establishment of a reconversion and retraining fund, and certain fiscal advantages in the form of tax abatement. The reorganization involves two sets of actions, the first of a general regulatory and administrative nature and the second specific to each enterprise. The first set of measures, which were approved by the Government in June and the implementation of which is under way, comprises: (i) fiscal and accounting reforms, such as the reform of the profit tax by eliminating the provision of a minimum tax equal to 1 percent of turnover (which led to taxation of the companies capital), the establishment of nontaxable provisions for uncollectible claims and stock depreciation, and an increase in the share of profits to be retained by firms; (ii) a more flexible system of price control; and (iii) a strengthening of the power of boards of directors and management.

The enterprises' specific actions include the termination of government participation in five small companies not of strategic interest, which will be privatized or liquidated; the adoption of internal reorganization measures for the enterprises presently viable; and the establishment of specific rehabilitation programs for the major companies whose situations are critical, which would be supported by foreign technical and financial assistance. The rehabilitation programs of several major enterprises will be carried out with the assistance of the World Bank, under an existing economic management and training project and a more comprehensive public enterprise rehabilitation project under preparation. Among the companies in most critical condition are SOMIEX and Air Mali, which continues to incur large losses despite, in the case of SOMIEX, (Société Malienne d'Import Export) the implementation of a restructuring plan in 1981-82. The process of reorganization of SOMIEX is being accelerated, in conjunction with the entry into effect, on November 1, 1983, of a new financial mechanism for cotton exports which puts an end to the absorption of export profits by the company to cover losses in internal distribution. The privatization of the supermarket stores which represented a financial burden on the company, will be completed before the end of the year. To reduce excessive personnel costs, the company has been instructed by the supervising ministry to carry out by the end of 1983 the lay-off of 131 employees, already agreed in principle, and to further reduce personnel by 400 before end-June 1984, resulting in a cumulative reduction of personnel by 40 percent since 1981. To ensure more efficient control of procurement marketing and financial operations, a management assistance team financed by the World Bank is scheduled to be in place by March 1984. The Government has established the objective to restore a balance in current operating results of the company in 1984.

With regard to the airline company, the Government has taken the decision to concentrate its activity on a limited number of financially profitable routes, with priority to the domestic network. The board of directors of the company will prepare by December 20, 1983 concrete proposals on routes to be closed and excess personnel to be laid off, which will be carried out promptly. The authorities have taken the decision to open the capital of the company to private participation, both domestic and foreign, and are presently seeking possible foreign partners which would provide managerial and technical assistance in addition to financial support. Furthermore, the World Bank has agreed in principle to finance a team of management experts which will assist the company in the implementation of its reorganization.

The progress in the reorganization of these two companies will be strictly monitored by the Fund. It will be reviewed the staff in January 1984 and will be the object of the mid-term review with the Fund to be completed by mid-September 1984. The progress already made and possible additional measures proved to be necessary will be the subject of understandings to be reached with the Fund for drawings after July 1, 1984.

The Government will also adopt measures to reorganize the Postal and Telecommunications Office before end-March 1984, whose weak financial and technical management continues to effect adversely the functioning of the Postal Checking System.

The progress under the recovery program is to be monitored closely through more timely preparation of financial indicators. The Government has set the objective of eliminating by 1986 the operating deficit (MF 8.3 million in 1982) of the 10 largest companies under the Ministry of State Enterprises.

b. Agricultural and other sectoral policies

Under the program the authorities will continue the process of reform of agricultural policies, started in 1981, whose aim is to promote increased production and more efficient marketing. While the successive increases in producer prices between April 1980 and April 1983 have in general brought them to a level ensuring sufficient incentives, the Government will review the situation in April 1984, with particular attention given to the price of paddy. In the context of an effort to increase paddy production in the irrigated areas, and in particular in the area controlled by the Office du Niger, the authorities are examining the appropriateness of extending marketing liberalization to paddy produced in those areas. At the same time, a project to rehabilitate the Office du Niger is under way, with the assistance of the World Bank and several donor countries, with the objective of substantially increasing production in the coming years. Despite the increase in producer prices for cereals in April 1983, the Government,

in view of the continued wage freeze, does not intend in 1983 to increase the official sale price of millet, sorghum, and maize. However, in order to narrow the gap between the official and free market prices for cereals, and to reduce further the deficit of OPAM, the agency will be authorized, effective November 1, 1983, to conduct a significant part of its sale of millet, sorghum, and maize at the intervention price of MF 140 per kilo instead of at the distribution price of MF 125 per kilo. The sales at the lower price will be limited to the need of public interest institutions. In addition, an intervention price will be introduced for rice at a level at least MF 20 per kilogram above the official retail price, and OPAM will be authorized to conduct a part of its sale at this higher price. These measures, which are being taken in consultation with the World Bank, will increase OPAM's average sales price by about 10 percent. With regard to cotton, in conjunction with the start of an important project to expand its production, supported by the World Bank, the Government has decided to establish, effective from November 1983, a new financial mechanism that includes an income stabilization fund for producers.

The Government will continue to develop policies aimed at expanding the role of the private sector in the economy and in the creation of employment opportunities. To that effect, a new investment code will be adopted soon, and measures have been prepared to speed the utilization of existing credit lines and endowment funds financed with external assistance, which are available for investments by small- and medium-scale enterprises.

The Government is aware of the need to strengthen the process of executing the development plan and improving the selection of projects and the monitoring structures. To that end, it will carry out an in-depth review of investment realization during the first three years of the 1981-85 Development Plan, which will provide the basis for introducing the necessary adjustments in the investment program for the remainder of the period. The strengthening of the planning system will be conducted with assistance from the World Bank, with the objective of establishing an investment budget by 1985.

5. Medium-term prospects of the external position

With a continuation of the adjustment policies called for in the program, it may be expected, on reasonably conservative assumptions and normal weather conditions, that the current account of the balance of payments (excluding official grants) will remain approximately unchanged in absolute terms, but will decline significantly in terms of GDP from 15.5 percent in 1984 to 9.2 percent in 1989 (Table 7). Export receipts are projected to grow at an average annual rate of 14 percent between 1984 and 1989 in terms of SDR, mainly as a result of a continuation of the favorable trend in cotton production growth, projected at 8.5 percent per year on average and an increase in cotton export prices in dollar terms of 6 percent per year. These projections are in line with World Bank forecasts. In addition livestock, fruit and sheanuts exports

are expected to rise, and a sharp increase in gold exports is foreseen. Gold exports, which originate at present from panning activity, accounted for 13 percent of total exports in 1982. With the entry into operation of a large new gold mine in 1984 and with the opening of additional mines in 1987-88, total gold export receipts are projected to more than double by 1988. On the import side, increased production of cereals fostered by more favorable producer prices and by the structural reform of the Office du Niger is expected to lead to a decline in cereal imports. Imports of petroleum production will be contained by the increase in the operations of a large hydroelectric plant completed in 1981. Taking into account the increase in imports of material and equipment for investment projects, total import payments are projected to grow by 7.4 percent per year in the period 1984-89 in terms of SDRs, assuming continued restraint on private and public consumption. Interest payments are estimated to increase from SDR 7.8 billion in 1983 to SDR 10.1 billion in 1985, mainly on account of higher charges on liabilities toward the Fund, but are projected to decline thereafter.

Taking into account a projected increase of official unrequited transfers by 3 percent per year, in line with past trends, the current account deficit, including grants, is forecast to decline from SDR 62 million or 6.4 percent of GDP in 1984 to SDR 40 million (or 2.5 percent of GDP) in 1989. On the assumption that there would be a modest decline in gross borrowings on concessionary terms from SDR 71 million in 1983 to SDR 65 million in 1989, resulting from the decision to terminate recourse to foreign borrowing to finance the current budgetary deficit, these trends suggest that Mali could achieve an overall balance of payments surplus after 1984.

The debt service ratio is projected to rise from 7.7 percent of exports of goods and services in 1984 to a peak of 11.4 percent in 1988, a still modest figure compared with ratios prevailing in many developing countries. The increase is attributable mainly to rising repurchase obligations to the Fund and amortization on rescheduled debt (Table 8). It is forecast to decline thereafter to about 7.8 percent in 1989. Excluding obligations to the Fund, the debt service ratio is projected to be equal to 5.2 percent in 1984 and to remain broadly stable thereafter. Disbursed external debt in percent of GDP is forecast to decline from 110 percent in 1983 to 82 percent in 1989.

6. Performance criteria and mid-term review

The program contains the following performance criteria: (i) quarterly ceilings on bank credit to the Government; (ii) quarterly ceilings on banks credit to the economy (those ceilings are expressed in terms of upper and lower limits; while the upper limits constitute performance criteria, any excess over the lower limits will call for consultation with the Fund management); (iii) quarterly reduction in domestic and external arrears of the public sector (general government and public enterprises with the exclusion of Air Mali); (iv) a ceiling on new non-concessional loans with a maturity between 1 and 12 years contracted or

guaranteed by the Government; and (v) the standard provisions relating to trade and exchange practices. The quantitative performance criteria and targets for 1983-85 are set out in Table 9. A review will be held with the Fund staff in mid-January 1984 to ensure the consistency of the draft budget for 1984 with the program and to examine progress in the reorganization of SOMIEX and Air Mali. In addition, a full review with the Fund will be conducted before mid-September 1984, during which the ceiling for credit to the economy for end-December 1984 will be established and understandings will be reached with regard to the reduction of the arrears of Air Mali and the subsequent steps in the reorganization of SOMIEX and Air Mali. During this review the implementation of the program in 1983 and the first half of 1984 will be assessed, with particular reference to the policy on agricultural prices for 1984/85, the cereals market intervention policy, and progress achieved in rehabilitating other public enterprises and in renegotiating certain external debts. An additional review with the Fund will take place as soon as the precise terms and conditions of Mali's entry into WAMU will become known and the entry becomes operational.

IV. Staff Appraisal and Proposed Decision

Since 1981 the Malian authorities have embarked on a strategy to redress serious financial and structural imbalances. The proposed program is intended to reduce the imbalances further, by restraining public and private consumption, accelerating a number of structural reforms in public finance, public enterprises and agriculture and improving investment policy. Given the agricultural potential of the country, it is expected that strict implementation of these policies could lead to the attainment of a viable balance of payments position over the medium-term.

As demonstrated by the satisfactory implementation of the 1982 stand-by program, the authorities are fully committed to ensure further progress in restructuring the public sector. A number of important actions have already been adopted or implemented in recent months. With regard to public finance, appreciable savings should be realized from the termination of the automatic hiring of graduates by the civil service, with the establishment of public competition for vacant posts, and with the envisaged incentives for early retirement. While the budget for 1984 will already reflect the effect of these measures, more significant savings will occur in future years. Moreover, the continuation of the wage freeze should further encourage the shift of personnel out of public employment. Savings with respect to personnel costs will help the authorities attain the fiscal objectives established under the program, namely a further decline in the consolidated budget deficit, an improvement in the structure of public expenditures and the elimination of Treasury arrears by end-1984. Significant improvements have already taken place in strengthening the management of public finances, including that of the special funds, and the authorities are committed to

Table 9. Mali: Quantitative Quarterly Targets for the Proposed 1983-85 Stand-By Arrangement

(In billions of Mali francs)

	1982	1983	1983	1984			1985	
	Dec.	June	Dec.	March	June	Sept.	Dec.	
	Actual						March (Target for end of program)	
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

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).

continue this process. The preparation of an investment budget, which will be undertaken in 1984, will permit a better monitoring of the large flow of external assistance and improve the selection and execution process of investment projects.

The process of rehabilitating public enterprises, which already resulted in positive results for a limited number of companies in 1981-83, is to be substantially enlarged and reinforced in the program period. The decision and the measures under way to complete the reorganization of the state import-export company and to undertake the restructuring of the airline company are crucial tests of the determination of the authorities to achieve the rehabilitation of the public

sector. As concrete progress in that direction has been slow so far, it is essential that the authorities proceed quickly and decisively along the lines indicated in the program. To monitor this progress, specific procedures have been established.

In the agricultural sector, the process of reform in cereal marketing and pricing policies, which has already had important beneficial effects on the economy, will be continued to further reduce price distortions and contain the official cereal marketing losses. For cotton, the increase in producer prices, a new financial mechanism for exports, and the establishment of the stabilization fund, are important and welcome actions that will considerably strengthen production incentives and extension services.

The continuation of an austere incomes policy and the reinforcement of production incentives in agriculture are scheduled to lead to a substantial improvement in the current account of the balance of payments, both over the program period and in the medium term. The exchange rate depreciation in recent years has contributed to ensure the competitiveness of exports and has also significantly strengthened incentives for domestic production of import substitutes. The decline in the current account deficit, together with the continuation of a relatively large flow of official external grants, and the renegotiation already under way of a number of bilateral loans, is expected to result in an overall surplus over the medium term, despite some reduction in Mali's recourse to foreign borrowing.

In the staff's view, the proposed program represents a strong adjustment effort for improving the financial and structural situation of Mali, encouraging economic development and strengthening its external position. Accordingly the following draft decision is submitted for the approval of the Executive Board :

1. The Government of Mali has requested a stand-by arrangement for the period from _____ 1983 to May 31, 1985 for an amount equivalent to SDR 40.5 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/242.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Table 10. Mali: Overall Government Operations, 1980-84

(In billions of Mali francs)

	1980	1981	1982	1983	1984
				Program	
<u>Revenue</u>	<u>85.2</u>	<u>98.6</u>	<u>107.2</u>	<u>114.3</u>	<u>123.7</u>
Consolidated <u>1/</u>	79.0	92.4	101.1	107.8	117.2
Other <u>2/</u>	6.2	6.2	6.1	6.5	6.5
<u>Expenditure</u>	<u>-203.2</u>	<u>-216.9</u>	<u>-220.5</u>	<u>-233.6</u>	<u>-252.8</u>
Consolidated <u>1/</u>	-103.4	-111.8	-111.0	-116.4	-122.7
Other	-99.8	-105.1	-109.5	-117.2	-130.1
Current <u>2/</u>	(-9.7)	(-13.7)	(-19.0)	(-26.5)	(-24.5)
Development <u>3/</u>	(-90.1)	(-91.4)	(-90.5)	(-90.7)	(-105.6)
<u>Deficit (-)</u>					
<u>Commitment basis</u>	<u>-118.0</u>	<u>-118.3</u>	<u>-113.3</u>	<u>-119.3</u>	<u>-129.1</u>
Consolidated <u>1/</u>	(-24.4)	(-19.4)	(-9.9)	(-8.6)	(-5.5)
Other <u>2/</u>	(-93.6)	(-98.9)	(-103.4)	(-110.7)	(-123.6)
Change in payments arrears	5.3	7.3	-11.7	-12.3	-6.0
<u>Cash basis</u>	<u>-112.7</u>	<u>-111.0</u>	<u>-125.0</u>	<u>-131.6</u>	<u>-135.1</u>
Grants	61.7	70.8	61.2	75.0	77.4
Cash basis after grants	-51.0	-40.2	-63.8	-56.6	-57.7
<u>Financing</u>	<u>51.0</u>	<u>40.2</u>	<u>63.8</u>	<u>56.6</u>	<u>57.7</u>
Net foreign borrowing	47.3	40.1	57.0	55.8	47.2
Banking system <u>1/</u>	2.5	3.8	12.3	11.4	14.5
Other <u>4/</u>	1.2	-3.7	-5.5	-10.6	-4.0
<u>Memorandum items:</u>				(In percent of GDP)	
Revenue	15.5	16.6	15.9	15.4	14.7
Expenditure	-37.0	-36.5	-32.6	-31.4	-30.1
Deficit (-)					
Commitment basis	-21.5	-19.9	-16.8	-16.1	-15.4
Consolidated <u>1/</u>	(-4.4)	(-3.3)	(-1.5)	(-1.2)	(-0.7)
Other <u>2/</u>	(-17.0)	(-16.6)	(-15.3)	(-15.0)	(-14.7)
Cash basis	-20.5	-18.7	-18.5	-17.7	-16.1
Grants	11.2	11.9	9.1	10.1	9.2
After grants, commitment basis	-10.2	-8.0	-7.7	-6.0	-6.3

Source: Data provided by the Malian authorities.

1/ Consolidated Government includes: National and Regional Budgets, Annexed Budgets and Special Funds, and extrabudgetary expenditures mainly channeled through the Treasury and the Central and Development Banks.

2/ Includes aid in kind, current operations of rural development agencies and of local governments, and counterparts of food aid.

3/ Investment and related technical assistance financed by project aid.

4/ Includes the postal checking system.

Table 11. Mali: Budgetary Revenues, 1980-84 1/2/

(In millions of Mali francs)

	1980	1981	1982	1983 Program	1984
<u>Taxes on net income and profits</u>	<u>11,840</u>	<u>12,717</u>	<u>14,190</u>	<u>13,372</u>	<u>14,269</u>
Enterprises	5,802	7,169	10,033	9,472	9,919
Of which: state enterprises	(1,407)	(1,451)	(1,846)	(1,400)	(1,400)
private sector	(3,147)	(4,125)	(5,284)	(4,960)	(5,200)
Individuals	6,038	5,548	4,157	3,900	4,350
Of which: assessment	(363)	(439)	(1,201)	(800)	(880)
withholding	(4,417)	(4,499)	(2,492)	(2,670)	(2,980)
<u>Taxes on property</u>	<u>456</u>	<u>685</u>	<u>1,362</u>	<u>1,770</u>	<u>1,680</u>
<u>Taxes on goods and services</u>	<u>9,347</u>	<u>11,065</u>	<u>11,413</u>	<u>14,084</u>	<u>15,065</u>
Of which: general sales tax	7,249	7,386	7,333	8,325	8,925
Of which: state enterprises	(2,579)	(2,533)	(2,490)	(2,600)	(2,800)
private sector	(4,019)	(4,195)	(4,257)	(4,900)	(5,200)
Of which: excises	2,098	2,268	3,284	4,933	5,274
<u>Taxes on international trade</u>	<u>24,667</u>	<u>32,676</u>	<u>32,197</u>	<u>36,338</u>	<u>40,088</u>
Of which: custom duties	1,252	1,819	1,535	2,000	3,080
other import charges	5,692	8,045	9,675	10,043	10,445
sales taxes on imports	9,038	12,088	12,485	14,736	15,340
petroleum taxes	5,090	6,090	4,899	5,200	5,224
liquidation	1,537	2,638	2,478	2,429	2,955
export tax	1,644	1,771	936	1,300	2,352
<u>Other taxes</u>	<u>12,043</u>	<u>13,616</u>	<u>16,212</u>	<u>15,425</u>	<u>15,950</u>
Of which: head tax	5,089	5,162	6,434	6,655	6,870
cattle tax	1,095	1,294	1,644	1,650	1,710
stamp duties	1,788	2,448	4,143	3,320	3,720
previous years' receipts	2,042	4,431	3,904	3,550	3,350
<u>Nontax revenues 2/</u>	<u>2,361</u>	<u>1,968</u>	<u>2,994</u>	<u>3,009</u>	<u>4,953</u>
<u>Total revenues 2/</u>	<u>60,714</u>	<u>72,727</u>	<u>78,368</u>	<u>83,998</u>	<u>92,005</u>
(Percentage change)	(10.5)	(19.8)	(7.8)	(7.2)	(9.5)

Source: Data provided by the Malian authorities.

1/ Central and regional government budgets only.

2/ Excluding extraordinary receipts recorded under budgetary code 08-03.

Table 12. Mali: Budgetary Expenditures, 1980-84 ^{1/}

(In billions of Mali francs)

	1980	1981	1982	1983 Prog.	1984 Prog.
Personnel ^{2/}	49,402	51,762	54,611	58,980	61,870
National budget	(43,665)	(45,093)	(47,514)	(51,577)	(54,078)
Regional budget	(5,737)	(6,669)	(7,097)	(7,403)	(7,792)
Scholarships	7,850	6,504	6,133	6,219	6,605
Maintenance	15,215	16,474	17,288	17,426	17,426
National budget	(14,803)	(15,929)	(16,797)	(16,935)	(16,935)
Regional budget	(412)	(545)	(491)	(491)	(491)
Other current expenditures ^{3/}	6,782	7,698	7,040	7,591	8,763
National budget	(6,377)	(7,329)	(6,673)	(7,224)	(8,396)
Regional budget	(405)	(369)	(367)	(367)	(367)
Equipment	2,003	3,003	3,191	3,284	3,836
Total expenditures (Percentage change)	81,252 (11.8)	85,441 (5.2)	88,263 (3.3)	93,500 (5.9)	98,500 (5.3)

Source: Data provided by the Malian authorities.

^{1/} Central and regional government budgets only; excludes subsidies to public enterprises.

^{2/} Excluding relocation and official travel expenditures that are allocated to other current expenditures.

^{3/} Including relocation and official travel expenditures.

Relations with the Fund
(As of September 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 66.02 million (163.02 per- cent of quota), of which SDR 3.82 million (9.44 per- cent) under the compensatory financing facility and SDR 30.37 million (75 percent) under credit tranches.
Reserve tranche position:	SDR 8.7 million (21.4 percent of quota)
SDR position:	Holdings amounted to SDR 0.12 million (0.75 percent of the net cumulative alloca- tion of SDR 15.91 million).
Trust Fund loans outstanding:	SDR 21.1 million
Direct distribution of profits from gold sales:	US\$3.48 million
Gold distribution:	18,826.368 fine ounces

Article IV consultation 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 1983 Article IV consultation discussions were held in Bamako during the period May 30-June 16, 1983, and the staff report (SM/83/178) was issued on August 16, 1983.

In August 1982 an expert from the fiscal panel was assigned 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; his term was renewed for a second year.

Relations with the World Bank Group1. Lending operations through September 1983 ^{1/}
(In millions of U.S. dollars)

	<u>Committed</u>	<u>Disbursed</u>	<u>Undisbursed</u>
Agricultural and rural development	105.2	96.1	9.1
Rainfed agriculture	(58.4) ^{2/}	(52.6)	(5.8)
Irrigated agriculture	(29.0)	(28.2)	(0.8)
Livestock and forestry	17.8)	(15.3)	(2.5)
Transportation	78.8	69.3	9.5
Roads	(52.5)	(43.6)	(8.9)
Railways	(26.3)	(25.7)	(0.6)
Education	15.0	14.3	0.7
Urban development	12.0	7.8	4.2
Industry	8.0	1.5	6.5
Energy	35.3 ^{3/}	5.3	30.0
Telecommunications	17.1	4.9	12.2
Technical assistance	10.4	1.1	9.3
 Total	 281.8	 200.3	 81.5
 Repayments	 1.4	 1.4	 --
 Debt outstanding	 280.4	 198.9	 81.5

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 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\$25.9 million approved but not yet effective.

^{3/} Includes US\$7.6 million approved but not yet effective.

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 _____, 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 total purchases under this arrangement reach the equivalent of SDR 30,375,000 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 SOMLEX, 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 SOMLEX 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 TOR 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 out 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 8.5 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 25 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.	
	Actual							
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).



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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 out 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 OERH. 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)

	<u>1982</u> <u>Dec.</u>	<u>1983</u> <u>June</u>	<u>1983</u> <u>Dec.</u>	<u>1984</u> <u>March</u>	<u>1984</u> <u>June</u>	<u>1984</u> <u>Sept.</u>	<u>1984</u> <u>Dec.</u>	<u>1985</u> <u>March</u> (Target for end of program)
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

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).