

FOR  
AGENDA

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CONTAINS CONFIDENTIAL  
INFORMATION

October 29, 1981

To: Members of the Executive Board

From: The Secretary

Subject: Mali - Staff Report for the 1981 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1981 Article IV consultation with Mali. A draft decision appears on page 24.

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

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

MALI

Staff Report for the 1981 Article IV Consultation

Prepared by the Staff Representatives for the 1981  
Consultation with Mali

Approved by Louis M. Goreux and S. Kanesa-Thanan

(In consultation with Exchange and Trade Relations, Fiscal  
Affairs, Legal, and Treasurer's Departments)

October 27, 1981

The 1981 Article IV consultation discussions with Mali were held in Bamako during the period April 27-May 14, 1981 and September 10-16, 1981. The Malian representatives included Mr. D. Keita, Minister of Finance and Commerce, Mr. M. Ag Hamani, Minister of Planning, Mr. T. Diakite, Minister of State Enterprises, Mr. N. Kone, Minister of Rural Development, Colonel Sekou Ly, Minister of Education, Mr. I. Kanoute, President of the Board of Directors of the Central Bank of Mali and Director of the Cabinet of the President of the Republic, and other senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives involved in two missions were Messrs. Ch. A. François (head-AFR) Buu Hoan (AFR), A. Faria (AFR), J. Simpson (AFR), F. Corfmat (FAD), J. Clement (EP-AFR), A. Pera (EP-ETR) and R. Kronenberg (EP-AFR), and Mrs. I. Klotz (secretary-AFR). Mr. S. Nana-Sinkam, Executive Director for Mali, participated in some of the discussions in May.

Mali continues to avail itself of the transitional arrangements of Article XIV. A summary of Mali's relations with the Fund and the World Bank is provided in Appendices I and II.

I. Background and Recent Developments

1. Basic trends during 1972-80

During the period 1972-80 the Malian economy displayed increasing internal and external imbalances, reflecting profound structural problems exacerbated by adverse exogenous factors, notably frequent drought conditions (in 1973, 1979 and 1980) and a sharp deterioration in the terms of trade (25 per cent). As a result, both overall and sectoral growth in real gross domestic product (GDP) was erratic (Table 1). Real GDP is officially reported to have expanded at a moderately rapid rate for the period as a whole (4.6 per annum), although there are indications that this rate may

Table 1. Mali: Selected Economic and Financial Indicators, 1972-81

(In per cent)

	1972-80 Compound rate	1979	1980	1981 Forecast
<u>Trends in income and expenditure</u>				
Growth rate in real terms:				
Primary sector	3.6	15.7	-3.1	-1.9
Secondary sector	3.3	1.0	-0.8	-1.1
Tertiary sector	6.7	15.7	0.2	1.1
Total GDP	4.6	10.9	-1.2	-0.1
	1972 1/			
Investment/Nominal GDP	15.9	23.5	22.0	22.5
Gross domestic savings/Nominal GDP	6.4	4.5	2.7	1.3
Resource gap/Nominal GDP	9.5	19.0	19.3	21.2
<u>Prices and wages</u>				
Food price index	14.6	-0.1	20.1	...
National minimum wage	12.8	--	18.6	...
<u>Trends in government finance</u>				
Growth rates:				
Budgetary revenue	14.1	5.0	8.2	17.7
Budgetary expenditure	16.5	16.4	11.6	0.5
Extrabudgetary revenue	23.1	6.7	9.4	13.8
Extrabudgetary expenditure	25.0	21.0	1.2	20.0
	1972 1/			
Consolidated revenue/Nominal GDP	14.8	17.4	17.6	18.9
Of which: budget	11.0	10.6	10.7	11.6
Consolidated expenditure/Nominal GDP	21.3	32.0	31.8	32.4
Of which: budget	13.1	14.4	15.0	13.9
Consolidated deficit/Nominal GDP	6.5	14.6	14.0	13.5
Of which: budget	2.1	3.8	4.3	2.3
<u>Trends in monetary aggregates</u>				
Growth rates:				
Net domestic credit	17.0	12.1	6.4	11.8
Credit to the Government	12.6	9.4	4.8	10.1
Credit to the economy	21.7	14.4	7.8	13.1
Money and quasi-money	19.2	14.9	6.1	10.9
	1972 1/			
Money and quasi-money/Nominal GDP	18.7	26.3	23.4	26.6
Net foreign liabilities/Nominal GDP	17.6	20.1	20.2	21.2

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

1/ Ratio in per cent.

be overestimated. On average, the highest growth rate was recorded in the tertiary sector (7 per cent per annum), reflecting increased government expenditure and trade activities. By contrast, the average growth rate for the primary sector was 3.6 per cent with cotton production and livestock expanding steadily over the period, cereal production increasing somewhat more moderately (with most growth occurring only in the 1978/79 season), and groundnut production declining steadily. As domestic savings declined markedly, real per capita consumption appears to have increased at an average rate of about 1 per cent over the whole period, although it declined between 1977 and 1980. While the real minimum wage improved until 1977, it declined by one third in 1978-80 because of a tight wage policy and an acceleration in the rate of inflation.

The expansion in the economy during the period 1972-80 was supported by a substantial increase in public investment in the context of the Five-Year Development Plan (1974-78), which is effected mostly outside the government budget. As a result, gross investment as a proportion of GDP increased from 16 per cent in 1972 to an average of 22 per cent in 1979-80. Most of these investments aimed at increasing agricultural production, developing agro-industries, and expanding the transport and energy infrastructure. As domestic savings weakened seriously during the period, mainly because of the financial deterioration of the public sector, the investment effort was financed essentially by foreign resources.

The performance of public enterprises, which dominate most of activities in the modern sector of the economy, weakened considerably during the period, particularly after 1977. Most state enterprises incurred substantial operating losses, due primarily to inefficient management, worn-out equipment, overstaffing, insufficient supply of raw materials, and inadequate pricing policies. Between 1974 and 1979 alone, the annual losses of the 12 largest enterprises increased from MF 700 million (1 per cent of sales) to MF 25.5 billion (21 per cent of sales). <sup>1/</sup> Most of these losses were financed by increases in domestic credit, accumulation of tax arrears and utilization of capital. After 1977 the already weak financial position of these enterprises was aggravated by the stricter credit policy pursued by the Central Bank, the accumulation of unpaid bills due from customers (including the Government), and intensive government efforts to collect tax arrears.

During 1972-80 government finances deteriorated sharply. As growth in budgetary expenditure (17 per cent per annum) exceeded growth in budgetary revenue (14 per cent per annum), the Treasury deficit (excluding special funds and foreign-financed investments) widened from MF 3.9 billion (2.1 per cent of GDP) in 1972 to MF 24.2 billion (4.3 per cent of GDP) in 1980. Given the irregular inflow of external budgetary assistance and the statutory constraints limiting the Government's access to central bank credit, adequate financing of the deficit was not available, and the Treasury accumulated a substantial

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<sup>1/</sup> SDR 1 = MF 550 (1980 period average).

volume of domestic and external payments arrears. Furthermore, the composition of government spending was skewed so that a large part of the increase in budgetary expenditure went to the compensation of government employees (civil servants and the armed forces) and to current transfers (mostly scholarships), while real expenditure on maintenance and materials declined; as a result, Mali's physical infrastructure and the quality of government services deteriorated. An increasing number of fiscal operations, including cereals subsidies, servicing of the debt, agricultural extension servicing, road building and maintenance, and most investments, were effected outside the budget and financed by earmarked tax resources or, in the case of investments, by foreign assistance tied to specific projects. Taking such extrabudgetary operations into account, the consolidated fiscal deficit widened from 6.5 per cent of GDP to 14 per cent over the period.

Despite the moderate rate of increase in credit to the Government during 1972-80 (13 per cent), total domestic credit increased at an average rate of 17 per cent, reflecting the 22 per cent growth rate in credit to the economy. As much of the increase in credit to the economy financed the growing losses of state enterprises and accumulated interest charges, little domestic credit was channeled to productive activities, and non recoverable loans came to comprise an increasing proportion of banks' portfolios. Although the expansion in domestic credit led to a substantial increase in net foreign liabilities of the banking system, broad money grew at an annual average rate of 19 per cent a rate significantly faster than that of nominal GDP. Thus, the ratio of broad money to GDP rose from 19 per cent in 1972 to 25 per cent in 1979-80, indicating a rapid increase in holdings of money.

Although export receipts increased significantly over the period 1972-80, the current account deficit of the balance of payments widened from 10 per cent of GDP in 1972 to 19 per cent in 1980, mainly because of a rapid increase in imports. The increase in export receipts resulted from an expansion in production and export of cotton and, after 1974, of livestock. The export of livestock, mostly to Senegal and the Ivory Coast, is effected largely outside of official channels, with part of the proceeds being used directly to finance the import of consumer goods or retained in the form of CFA banknotes, which are widely used in Mali. The steep rise in the value of imports can be attributed largely to investment goods, foodstuffs, and petroleum products; other imports increased very little. While foreign aid and non monetary capital inflows grew rapidly over the period, the overall balance of payments deficit nevertheless widened from SDR 7.4 million in 1972 to SDR 31 million in 1980. These deficits were financed largely by increased liabilities under the operations account with the French Treasury and, to a lesser extent, by an increase in external payments arrears of the public sector. Some additional financing was also provided by loans under the Trust Fund in 1977-80.

Mali's disbursed external public debt (including liabilities under the Operations Account and repurchase obligations to the Fund) increased from SDR 267 million in 1972 to SDR 693 million in 1980. However, as a proportion of GDP, it declined from 80 per cent in 1972 to 72 per cent.

Part of this decline reflects the cancellation of SDR 78 million in debt by the Federal Republic of Germany and France in the latter year. Owing to the concessional nature of most loans and the rescheduling of loans extended by the U.S.S.R. and China, the debt service ratio amounted to only 7.3 per cent of exports in 1980.

## 2. Performance under the Trust Fund Program

To limit the deterioration of the financial situation, the Malian authorities adopted, in connection with a request for a Trust Fund loan in respect of the first period, a financial program supported for the period October 1977 to December 1978 (TR/77/43). Another financial program supported by a loan from the Trust Fund in the second period was adopted in early 1979 (TR/79/15). These programs called for a reduction in the budget deficit, a strengthening in the performance of the public enterprises and a slower increase in nonseasonal domestic credit. It was expected that the measures adopted, together with favorable expectations for production, would limit the overall balance of payments deficits. Performance under these programs during 1978-79 fell substantially short of expectations, however, partly on account of the drought in 1977/78 but also because a number of policies and measures specified in the program were not implemented. A comparison of the program targets with actual performance is presented in Table 2. 1/

Although the second financial program supported by the Trust Fund formally ended on May 31, 1980, the authorities adopted budget, credit and balance of payments objectives for the whole of 1980 (TR/80/10). When formulated in January 1980, the program aimed to limit the overall 1980 balance of payments deficit to SDR 23.5 million (excluding the SDR allocation), an amount which could be financed by disbursements under the Trust Fund, a purchase under the compensatory financing facility, and a further accumulation of liabilities under the operations account. The budget deficit (excluding special funds and investment financed directly by external assistance) was to be reduced to MF 6.2 billion in 1980, through both a marked increase in revenue and a curtailment in the growth of current expenditure. The program also included targets for total domestic credit and called for increased efforts to rehabilitate the main public enterprises through structural reforms, improved managerial efficiency, increased participation of private capital and upward adjustments in certain retail prices.

Although the overall economic and financial performance remained relatively unsatisfactory in 1980, particularly in the area of public finances, the authorities made some progress in formulating structural reforms and in initiating adjustment measures. Nevertheless, because of a reduction in agricultural production, and a sharp drop in the external terms of trade (10 per cent), the overall deterioration in the balance of payments position could not be contained as envisaged. The budget deficit,

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1/ For a detailed review, see TR/80/10, Section II.

Table 2. Mali: Execution of Financial Programs Supported by the  
Trust Fund Loans of 1978-80

	Targets	Outcome
<u>Overall balance of payments deficit 1/</u>	<u>(In millions of SDRs)</u>	
1978	5.4	21.5 <u>2/</u>
1979	8.0	24.5 <u>2/</u>
1980	23.5	31.4 <u>2/</u>
<u>Overall Treasury deficit</u>	<u>(In billions of Mali francs)</u>	
1978	5.0	11.9 <u>3/</u>
1979	3.6	19.8 <u>3/</u>
1980	6.2	24.0 <u>3/</u>
<u>Increase in non-seasonal domestic credit</u>	<u>(In per cent)</u>	
1978	9.0	12.7
1979	8.3	8.6
1980	9.0 <u>4/</u>	6.4 <u>4/</u>

1/ Excluding the allocations of SDR and disbursements from the Trust Fund.

2/ Including current external payments arrears of the Treasury and public enterprises.

3/ Including current payments arrears of the Treasury.

4/ Net domestic credit.



instead of declining as envisaged, increased to more than MF 24 billion, as revenue fell short by MF 12.2 billion of the program target of MF 71.6 billion while expenditures exceeded the program limit of MF 77.8 billion by about MF 5.6 billion. The revenue shortfall occurred partly because of a noticeable weakening in overall tax administration but also because the budgeted growth in revenue was overestimated despite the unfavorable economic prospects. Consequently, the 8 per cent increase in revenue during 1980 reflected mainly the introduction of a new tax on petroleum consumption in March 1980, while other revenue stagnated. Expenditures exceeded the program objective, mainly as a result of rapid growth in government employment and a nonbudgeted salary increase of 10 per cent effective March 1, 1980. The increase in the wage bill was partly offset by a freezing of expenditures for material and equipment at the level appropriated for 1979 and by the temporary reduction in education expenditures associated with the closure of several schools following student unrest in mid-1980. As the recourse to central bank credit remained within the statutory limit, the budget deficit was largely financed by foreign assistance (24 per cent of current revenue) and by a further accumulation of arrears, which at the end of December 1980 totaled MF 21 billion (one third of current revenue).

Although major financial difficulties continued to beset public enterprises, their aggregate losses relative to sales appear to have declined in 1980 following retail price increases, the closure of SCAER (the agency responsible for distributing agricultural inputs), and the initial steps to restructure SOMIEX, the state enterprise holding a monopoly on the import of basic consumer goods and export of cotton and groundnuts. Furthermore, the Central Bank's policy of denying rediscount facilities to finance operating losses of state enterprises, including those resulting from price subsidies on basic consumer goods, was strictly enforced for the first time since the policy's formal introduction in 1977. During 1980 and the first nine months of 1981 substantial upward adjustments were made in the retail prices of widely marketed goods (edible oil: 43 per cent; sugar: 40 per cent; flour: 39 per cent; and milk: 36 per cent) to reflect actual cost. The price of all petroleum products was raised by 125 per cent to reflect the increase in import costs and the new excise taxes; a further increase of 16 per cent is presently envisaged, which would bring the price of regular gasoline to MF 520 per liter (equivalent to about US\$3.50 per gallon).

Reflecting the reduced government recourse to bank financing and a stricter credit policy toward the rest of the economy, the expansion in net domestic credit slowed from 12 per cent in 1979 to 6.4 per cent in 1980, and that of credit to the economy, including public enterprises, declined from 14 per cent to 8 per cent, well below the program target. The slower credit expansion, together with an increase in net foreign liabilities, caused the growth in money plus quasi-money to decline from 15 per cent in 1979 to 6 per cent in 1980, a rate well below the growth in nominal GDP.

Despite a marked increase in export earnings, Mali's current account deficit of the balance of payments deteriorated further, from 17.5 per cent of GDP in 1979 to 19 per cent in 1980 (Table 3). The increase in export earnings (38 per cent) was due to an improvement in the price and volume of cotton exports, including the exports of stocks carried over from the previous crop season, and to a sharp growth in proceeds from livestock exports. 1/ Most of the increase in import payments reflected the sharp hike in oil prices, higher imports of foodstuffs, and import payments effected in Mali franc banknotes in neighboring countries. Even though most of the current deficit was financed by official transfers and nonmonetary capital, these inflows were insufficient to cover this deficit, and the overall deficit consequently widened from SDR 24 million in 1979 to SDR 31 million in 1980, an amount 34 per cent higher than the program objective. About one third of this deficit was financed by disbursements under the Trust Fund (SDR 5.6 million) and the allocation of SDRs (SDR 2.7 million); the remainder was financed by an increase in liabilities under the operations account and by a further accumulation of current external payments arrears of the public sector. At the end of December 1980 gross international reserves amounted to only SDR 12 million, a level equivalent to less than two weeks of imports. Liabilities under the operations account amounted to SDR 171 million; the operating balance (total liabilities less accrued interest and the consolidated debt related to emergency cereals imports) amounted to SDR 75 million.

## II. Report on the Discussions

The consultation discussions were conducted in conjunction with preliminary discussions on a comprehensive rehabilitation program for Mali which it was hoped by the Malian authorities could be supported by use of Fund resources in the near future. They focused on the main factors responsible for the profound structural problems facing the country and on the short-term and medium-term adjustment policies required to stimulate domestic supply and reduce Mali's economic and financial imbalances. These discussions benefited from various technical assistance missions from the World Bank which focused on agricultural policies, public enterprises and investment policies, and took place in the context of the preparation of the new development plan for 1981-85 and negotiations for Mali's entry into the West African Monetary Union (WAMU), scheduled for later in 1981.

The economic and financial developments in 1981 appear to be mixed. Agricultural production during the 1980/81 crop year fell sharply due to insufficient rainfall. Marketed production of cotton and groundnuts declined by 24 per cent and output of cereals (millet, sorghum, corn and rice) was reported to have declined by one third. Moreover, the rate of capacity utilization in manufacturing also fell during the first part of the year, primarily because of lengthy electricity stoppages. Taking into account some increases in other sectors, mainly construction and services, real GDP is

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1/ Because of lack of custom data, the export of livestock is estimated on the basis of remittances of CFA banknotes. Consequently, the distinction between such exports and private capital inflow cannot easily be made.

Table 3. Mali: Analytical Presentation of the Balance of Payments 1/, 1972-81

(In millions of SDRs)

	1972	1979	1980 Provisional	1981 Forecast
Exports	41.9	114.0	157.5	125.1
Of which: cotton	14.2	61.7	79.2	53.1
livestock	8.5	27.5	45.6	43.2
Imports, c.i.f.	-77.8	-271.3	-346.0	-313.0
Of which: foodstuffs	-20.5	-37.1	-60.5	-60.5
petroleum products	-7.3	-42.9	-63.7	-65.0
Services and private transfers (net)	-0.6	-10.0	3.5	7.2
Errors and omissions <u>2/</u>	3.8	1.8	-10.7	--
<u>Current account</u>	<u>-36.5</u>	<u>-165.5</u>	<u>-195.7</u>	<u>-180.7</u>
Project aid and technical assistance <u>3/</u>	17.5	115.3	125.7	125.7
Of which: official grants	11.0	68.1	61.2	57.9
<u>Adjusted current balance</u>	<u>-18.6</u>	<u>-50.2</u>	<u>-70.0</u>	<u>-55.0</u>
Food aid	1.0	4.5	8.5	15.4
Financial budgetary assistance	4.3	16.0	29.7	15.0
Debt repayments	-1.1	-4.4	-4.4	-7.1
Other (net)	7.0	9.6	4.8	5.5
<u>Public transfers and capital balance (net)</u>	<u>11.2</u>	<u>25.7</u>	<u>38.6</u>	<u>28.8</u>
<u>Overall balance</u>	<u>-7.4</u>	<u>-24.5</u>	<u>-31.4</u>	<u>-26.2</u>
Memorandum items	(In per cent)			
Current account/Nominal GDP	10.5	17.6	19.4	19.6
Adjusted balance/Nominal GDP	5.3	5.3	6.9	6.0
Overall balance/Nominal GDP	2.1	2.6	3.1	2.8
External public debt/Nominal GDP	80.0	63.0	72.1	...
Debt service/Exports	8.4	8.6	7.3	12.5

Source: Data provided by the Malian authorities.

1/ Including external payments arrears.

2/ Related mainly to trade accounts.

3/ Directed financed by grants and concessional loans.

projected to decline. Despite these unfavorable production developments, the budget and overall balance of payments deficits are likely to be reduced significantly in 1981 following the implementation of the adjustment measures discussed in this section.

1. Economic and development policies

After several years of stagnation in investment, the Government has succeeded in accelerating sharply the rate of public investment in the framework of the Five-Year Development Plan (1974-78) to 22 per cent of GDP in 1980. The public investment realized during the period 1974-80, including an unidentified amount associated with recurrent costs, amounted to MF 416 billion, or more than twice the annual amount spent under the previous plan. Most of these investments were allocated to productive sectors, with primary emphasis given to cotton and irrigated rice projects (31 per cent), industries (15 per cent), and transportation (13 per cent). The construction of a multipurpose dam at Selingué, the largest single project under the plan (14 per cent) was completed in 1980, and it became operational in the second half of 1981. Most of these investments were financed by external resources, mainly grants and concessional loans from both bilateral and multilateral sources; less than one tenth was financed by domestic resources, including budget appropriations and earmarked funds of government agencies. During this period private investment remained approximately unchanged at about 5 per cent of GDP, and consisted mainly of housing and an increase in livestock.

The Malian authorities acknowledged that the growth in agricultural and industrial production has not been commensurate with the impressive investment effort. Besides the long gestation periods and delays in implementation of a number of projects, they considered that recurring years of adverse weather conditions and the rapid rise in the cost of imported inputs were largely responsible for the low rate of output. Nevertheless, they also expressed dissatisfaction with the results of their economic policies. From an historical perspective, they explained that Mali had established an extensive structure of government monopolies, agricultural agencies and public enterprises in the early 1960s with a view to accelerating economic and social development and compensating for the lack of private initiative in those years. However, with a few notable exceptions, most of this parapublic structure has not been able to meet the Government's expectations. As a consequence, most of these entities have been beset with financial difficulties which have prevented normal productive operations.

Since 1980 the Government has begun to undertake a major reevaluation of the country's development performance and to reorient economic policies in order to ensure a more efficient use of resources in the future. The new economic policies, which were endorsed by an extraordinary congress of the ruling party in February 1981, are embodied in the recently adopted Five-Year Development Plan (1981-85). To achieve their economic and social

objectives more efficiently, the authorities intend to promote a better balance between the respective roles of the government sector, the mixed enterprise sector and the private sector. To that end, they will encourage the participation of the private sector in all economic activities, convert certain public enterprises into mixed or private companies, and reduce the share of public expenditure relative to aggregate demand. The staff emphasized that a restructuring of the economy with a view to improving economic management will require major reforms, mainly in the areas of agriculture and public enterprises and investment planning.

In line with this policy reorientation, the Malian representatives indicated that in 1980 and 1981 the Government had already taken a number of decisions and initiated reforms aiming at stimulating agricultural production through higher market incentives and an improvement in extension services and marketing arrangements. These decisions can be summarized as follows:

a. During the last two years, official agricultural producer prices were increased sharply to levels which are now consistent with those prevailing in neighboring countries. These adjustments applied to maize (80 per cent), millet (70 per cent), paddy (61 per cent), tobacco (20 per cent), cotton (18 per cent) and groundnuts (13 per cent) and were accompanied by a reduction in subsidies for agricultural inputs. The Malian representatives regarded the current level of producer prices as adequate to ensure profitability in agriculture during 1981; nevertheless, they stated that producer prices would be kept under constant review to ensure that they remain sufficiently remunerative to encourage agricultural production.

b. The marketing of cereals has been de facto liberalized both for import and domestic production since February 1981. The legislation providing for the abolition of the government monopoly and for the organization of private trading is being completed.

c. OPAM (Office des Produits Agricoles du Mali), the state agency for marketing cereals, is being restructured with the assistance of the World Bank, with a view to limiting its activities to maintaining official security stock, supplying selected public institutions and deficit regions, and stabilizing prices at supportable levels. Official retail prices for millet and rice, which are now considerably below market prices, will be increased in November. The staff expects that these price increases, in combination with the restructuring measures and the use of food aid counterpart funds, will permit a substantial reduction in the subsidies financed by earmarked taxes, thereby freeing resources to reduce the budget deficit.

d. The authorities are undertaking, with technical assistance from the World Bank, a comprehensive review of the operations of the agricultural agencies (Opérations de Développement Rural), with the objective of, inter alia, formulating proposals that can contribute to improving their efficiency and reducing their cost for the budget.

e. Other measures implemented in 1981 include the entering into operation of an Agricultural Development Bank (with foreign capital) and the establishment of a Price Stabilization Fund for export commodities and a Central Procurement Bureau for agricultural inputs. A study of the restructuring of the groundnuts sector will be undertaken soon with assistance from the World Bank.

During 1981 the Government has also made progress in the implementation of a program adopted in March 1980 to restructure the public enterprise sector and to reestablish financial equilibrium by 1985. This program envisages the closure of those public enterprises deemed to be nonviable, the opening of certain others to private capital, and the reorganization of enterprises considered by the Government to be of strategic importance. The Malian authorities explained that to date the only enterprise to have been closed was SCAER (Société de Crédit Agricole et d'Équipement Rural) which had accumulated more than MF 13 billion of losses between 1973 and 1980, but the closure of six other small companies was envisaged if private partners could not be found. A major reorganization of SOMIEX (Société Malienne d'Import et d'Export), the large state enterprise that, *inter alia*, holds a monopoly on the import of basic consumer goods and the export of cotton, is proceeding satisfactorily. This reorganization should restore the financial equilibrium of its distribution activities in 1981 and includes the scaling down of activities to only eight basic consumer goods, the divestiture of most retail stores, a reduction in personnel, and an increase in sales prices. Because of its influence on energy saving, the authorities are giving high priority to the rehabilitation of the electric company (Énergie du Mali); to that end, a program prepared with technical and financial assistance from the World Bank will be implemented shortly. A general survey will be undertaken in the coming months, with the assistance of foreign consultants, to formulate specific reforms for the other public companies under the supervision of the Ministry of State Enterprises as well as a timetable for their implementation. While acknowledging the need for fundamental measures to rehabilitate the public enterprise sector, the Malian representatives expressed the view that a rapid reduction of overstaffing would be difficult in view of the limited employment opportunities in the rest of the economy. Furthermore, with the limited capacity for domestic savings, sizable foreign financial assistance would be needed to restore the capital base necessary for normal production conditions.

The Malian representatives stated that, in formulating wage and price policies in the last three years, they have given prime consideration to reducing pressures on the budget and the financial situation of public enterprises. However, they expressed concern about the short-term repercussions of the price adjustments on the real incomes of the poorest segments of the population. They indicated that as a result of the removal of most of the price subsidies for basic consumer goods and the sharp increase in the prices of petroleum products, the rate of price increase, as measured by a weighted

index of official and unofficial foodstuff prices, rose from an average of 15 per cent in 1978-79 to 20 per cent in 1980. Because of further adjustments in administered prices, the rate of price increase could remain high in 1981. As the increases in wages and salaries during the period 1977-81 were limited to a 20 per cent adjustment granted in March 1980, real incomes of minimum wage earners declined by one third. The authorities did not rule out the possibility of a wage adjustment in 1982; nevertheless they hoped to reduce the impact of any wage increases on the financial performance of the public sector by gradually reducing overstaffing, raising labor productivity, and improving management.

## 2. Domestic financial policies

### a. Fiscal policies

The Malian authorities are increasingly aware of the structural weaknesses of Mali's public finances which caused the consolidated fiscal deficit to widen. The tight statutory constraints governing central bank credit to the Government, together with increasing difficulties encountered in mobilizing foreign budgetary assistance created serious payment difficulties which have led in recent years to an accumulation of a large volume of current payments arrears. Furthermore, because of the growing illiquid situation of the Treasury, the public entities and the private sector could not make use of their funds deposited with the Treasury and the Postal Checking System. The proliferation of extrabudgetary transactions and special funds outside the Treasury has further complicated the management of government resources.

Continued weak revenue performance has contributed importantly to the growth in the Government's budget deficit. Mali's tax system is characterized by a large number of overlapping indirect and direct taxes, with approximately 40 per cent of all revenue collected being earmarked for purposes outside the budget. Most revenue is derived from indirect taxes and rates are often quite high. Evasion of non wage income taxes has been widespread. Moreover, because of their weak financial performance, public enterprises have been unable to contribute as much revenue as had been anticipated. Thus, because of unrealistic assessment, more than one third of the taxes assessed remains uncollected. Consequently, a particularly heavy direct tax burden has fallen on those economic groups which are easily identifiable, such as wage earners and public enterprises, often with little regard to their ability to pay. The pervasive use of specific rather than ad valorem taxes in the current inflationary environment has further diminished the built-in elasticity of the tax system. Thus, despite recent increases in the tax on petroleum products and on many basic commodities, the ratio of total consolidated revenue to GDP has remained unchanged at around 17 per cent in the last two years.

On the expenditure side, several factors caused the ratio of total consolidated public outlays to GDP to increase from 21 per cent in 1972 to 32 per cent in 1980. Apart from the growing public capital outlays financed from abroad, expenditure on personnel grew more rapidly than government revenue and accounted for more than 70 per cent of total budgetary expenditure in 1980. As unit wages and salaries increased only moderately, the sharp rise in the Government's wage bill was caused to a large extent by the expansion of the education system and the long-standing practice of providing jobs to most school graduates. As a result, the number of civil servants (excluding the military) rose at an annual rate of 10 per cent during the period 1977-80. The higher outlays for education reflected a large increase in the number and amount of student grants (10 per cent of current budgetary expenditure in 1980) and a more liberal admission policy for higher education. Expenditures for health, defense, and the establishment of new political institutions also increased in recent years. To compensate partially for the increase in expenditures for personnel and social services, outlays for material and maintenance were held to levels which were insufficient to ensure the proper functioning of the administration. The Government's efforts to limit access to higher education and public employment engendered widespread student unrest, leading to the closure of a number of schools in June 1980.

As a first step in the adoption of a comprehensive program to restore a viable medium-term equilibrium in Mali's public finance, the authorities introduced a number of fiscal measures during 1981, aimed at reducing the Treasury deficit to a level consistent with the financing available through an increase in revenue, restraint in expenditure and a strengthening of the administrative structure. The objective of the authorities now is to reduce the Treasury deficit from MF 24 billion in 1980 (4.3 per cent of GDP) to about MF 14 billion (2 per cent of GDP) in 1981. About half of the projected reduction will result from the increase in revenue; the remainder will reflect the blocking of some planned expenditure, and the suspension of some education expenditures resulting from the temporary closure of several schools during the first part of the year. Excluding these exceptional factors, the Treasury deficit would have reached MF 19.5 billion, still some 25 per cent below that of 1980. The 1981 Treasury deficit will be largely financed by external assistance; recourse to statutory central bank advances has remained within its strict limits but will be supplemented by the use of the counterpart of the purchase under the compensatory financing facility already made in 1980.

Revenues are projected to rise by 18 per cent in 1981, as compared with an average annual increase of only 7 per cent during 1978-80, mainly in response to intensive efforts made by the authorities to overcome the administrative weaknesses encountered in previous years. As a result of these efforts, tax receipts increased by 38 per cent during the first half of 1981, compared to the same period in 1980. The Malian representatives explained that the increase in revenue reflected the measures adopted in



early 1981 to reduce tax evasion, collect tax arrears, and improve the tax collection procedures. With respect to customs administration, the Government has improved fraud detection by gathering information on shipments destined for Mali and by requiring merchandise to be unloaded in special warehouses, from which merchandise could be removed only after the payment of duties had been made. With regard to the arrears, the Government seized the bank accounts of some private and public enterprises and closed some small delinquent businesses. Other measures adopted included the commencement of a centralization of assessment and collection procedures, an updating of the census of taxpayers and increased penalties for delinquent taxpayers. Because the tax burden on wage earners was becoming excessive and threatened to result in higher wage demands, the Government reduced the tax rates on wage income by two thirds in May 1981. These changes were expected to boost the disposable income of workers by about 10 per cent. The resulting loss in revenue (estimated at MF 2.6 billion) will be compensated by upward adjustments in the rates of indirect taxes on basic foodstuffs and petroleum products adopted in June.

Notwithstanding the more favorable revenue prospects, the authorities expect to be able to keep budgetary expenditures in 1981 at about the same nominal level (MF 84 billion) realized in 1980 in order to achieve the desired reduction in the budget deficit. To that end, the Government intends to block almost 5 per cent of the original budgetary appropriations. Salaries and benefits will remain unchanged, and the recruitment of new employees will be strictly limited to essential services. The modest growth in the wage bill will be due mainly to normal promotions and to recruitment done in 1980 and would be offset by a sharp reduction in payments for scholarships (a saving of MF 3 billion) as eligibility requirements are tightened and individual awards are reduced. Outlays on materials, maintenance operations, and equipment would remain virtually unchanged. Reflecting the strict implementation of these measures and the windfall savings resulting from the temporary closing of schools, total expenditure during the first half of the year was limited to MF 32 billion, an amount equivalent to less than 40 per cent of the annual forecast; however, it is expected to increase significantly during the second half, mainly as a result of the reopening of the schools in September.

To reduce the Treasury deficit further in 1982 and through the medium term, the authorities are aware that additional measures and reforms will have to be taken to restrain the growth in expenditure and to exploit fully the revenue potential of the existing tax system. The most important is a strict control of the wage bill, a containment of education expenditures, and an improvement in tax administration. Furthermore, to ensure an effective implementation of these policies, a close monitoring of Treasury operations, and a centralization of all government operations, including special funds and earmarked resources, will be necessary. The Government, with foreign technical assistance, is currently formulating concrete measures in those areas; some of them are being implemented, or will be implemented in 1982.

b. Monetary policy

Since the signing of the first Franco-Malian monetary agreement and the country's re-entry into the French franc zone in May 1967, monetary policy has been the responsibility of the Banque Centrale du Mali (BCM), under joint Malian and French direction. The agreement provided for the reestablishment of an operations account which gave the new Central Bank overdraft facilities with the French Treasury, and thereby guaranteed the convertibility of the Mali franc. Over the following ten years credit to the Government was strictly kept within the statutory limits of the Central Bank while credit to the rest of the economy was quite accommodating, particularly after 1973. Much of the increase in credit was absorbed by a few large public enterprises and agricultural agencies to finance their operating losses and to alleviate cash flow problems resulting from the increase in Treasury payments arrears and other accounts receivable. A substantial part of seasonal credits was typically diverted for other uses and was then repeatedly rolled over for extended lengths of time. Three fourths of the expansion in domestic credit was financed by advances and rediscounts from the Central Bank. As this increase in credit far exceeded the demand for money, the Central Bank had accumulated substantial short-term interestbearing liabilities under the operations account.

On May 3, 1977 the Malian and French Governments concluded a new monetary agreement aimed at achieving basic financial equilibrium as a prerequisite to Mali's membership in the West African Monetary Union (WAMU). To this end, the agreement called for among other things, the adoption of a stricter credit policy in order to alleviate pressures on the balance of payments, particularly the operations account. Consequently, the Central Bank established more stringent conditions on its rediscount facilities, including seasonal crop credit. In particular, it gradually reduced rediscounting credit to finance operating losses of state enterprises. As a result, net domestic credit expansion decelerated considerably between 1978 and 1980, as indicated in Table 1.

In 1981 the monetary authorities have continued to pursue a restrictive credit policy. They have limited the expansion in non seasonal credit to the economy to 10 per cent while ensuring that seasonal credit is used only to meet legitimate crop financing and marketing needs. As credit to the Government for general budgetary purposes has continued to be limited by Central Bank statutes, most of the increase in credit to the Government stems from the use of the counterpart of Mali's 1980 drawing under the compensatory financing facility and from accrued interest charges on the operations account, which are debited by the Central Bank to the Government. As a result, total credit to the Government will expand by 10 per cent. On the basis of this increase in credit to the Government, the targeted increase in non-seasonal credit to the economy, and the expected seasonal credit requirements, total net domestic credit is projected to expand by 12 per cent in 1981. While this expansion is double last year's record low rate,

it remains modest by historical standards. Taking into account the projected increase in net foreign liabilities the growth in money plus quasi-money is forecast at 11 per cent, a rate slightly above the projected growth in nominal GDP.

In anticipation of the expiration of the Franco-Malian monetary accords (extended in May 1981 for a brief period), the Malian government decided in early 1981 to join the West African Monetary Union (WAMU), and negotiations are now expected to be completed before year's end. The authorities consider that their participation in the monetary union will strengthen Mali's financial structure and monetary policy, thereby promoting domestic and external stability in the medium term. Mali's membership in WAMU will imply, inter alia, the substitution of the CFA franc for the Mali franc (at the present parity of MF 2 = CFAF 1), the integration of the Central Bank of Mali into the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) and a sharp increase in the level of interest rates. In addition, so as to respect the basic requirements of membership and the current rules of the BCEAO regarding access to rediscount facilities, Mali will have to strengthen the capital base of its banks and of some of the state enterprises, write off bad assets of the Central Bank, and find an appropriate arrangement to consolidate the external debt incurred under the operations account. To meet these prerequisites, Mali expects to receive substantial financial assistance from France.

### 3. Balance of payments and external policies

The Malian representatives explained that the sharp widening of the current account deficit of the balance of payments -- from 10 per cent of GDP in 1972 to 19 per cent in 1980 -- reflected more than any other single factor the substantial increase in import of goods and services tied to project aid and technical assistance in the forms of grants and concessional loans. These expenditures, which are directly financed abroad, rose from 5 per cent of GDP in 1972 to about 12 per cent in 1980. In view of the magnitude of this form of assistance, the annual fluctuations in Mali's current balance reflect to a large extent the size of foreign-financed projects under-way and the pace of their implementation. For these reasons the Malian representatives consider that movements in the current account adjusted so as to net out these expenditures are a more appropriate indicator of the balance of payments effects of changes in domestic policies, weather, and world market conditions. In this regard, they emphasized that, in spite of the deterioration in the terms of trade between 1972-80 and the shortfall in agricultural production in 1980 because of bad weather conditions, the adjusted current account deficit widened only moderately, from 5 per cent of GDP in 1972 to 7 per cent in 1980. They attributed this outcome to strong export performance, including increased unofficial exports as estimated from the remittance of CFA banknotes, and to the adjustment policies adopted in recent years, mainly credit, income and pricing policies. The staff commented that, although the deterioration in

the adjusted current account balance was somewhat contained, the sheer size of the deficit was unsustainable in view of the accumulation of current payment arrears and the increasing difficulties encountered in mobilizing untied foreign assistance for budget or balance of payments purposes. It also noted that the notion of "adjusted current account" masked the underlying reduction in the country's saving capacity and the inadequate funding of recurrent costs of foreign-financed investment projects; moreover, project-oriented borrowing on concessional terms would need to be serviced in due course.

Over the last three years Mali's public sector has accumulated a significant amount of external current payments arrears. Although no systematic records have been maintained, the level of all external arrears of the public sector at the end of December 1980 is tentatively estimated at about SDR 37 million, an amount equivalent to about one quarter of exports. Most of these arrears can be attributed to delayed payment for imports of goods and services by the Government and a few public enterprises, mainly Air Mali. The arrears of the Post Office consist of delayed transfers related to private remittances abroad. Arrears are also defined to include technical delays in interest payments on the operations account. As the exchange and trade system is free of restrictions and convertibility of the Mali franc has been continuously maintained, the accumulation of these external arrears was mainly the consequence of the tight liquidity situation of the public sector mentioned earlier. The authorities foresee a reduction in the level of these arrears only within the context of a reduced Treasury deficit and improved financial performance of the public enterprise sector. As progress in these areas will be only gradual, they were seeking external financial assistance to accelerate the reduction of arrears.

Including the import of goods and services financed by tied foreign assistance the current account deficit is projected to decline from SDR 195 million in 1980 to about SDR 181 million (about 19 per cent of GDP) in 1981 (Table 3). When these imports are netted out, the adjusted current account deficit is expected to decline significantly from SDR 70 million in 1980 to SDR 55 million in 1981, despite a decline in the volume of cotton exports due to unfavorable weather conditions. Imports of goods and services, excluding those financed with tied foreign assistance, are projected to decline in SDR terms by 25 per cent, mainly on account of durable consumer goods and intermediate goods. To finance the adjusted current account deficit and debt amortization obligations, the Malian authorities were expecting a gross inflow of official capital and transfers of SDR 36 million, of which SDR 15 million in the form of external budgetary assistance and SDR 15 million in the form of food aid. The overall balance of payments deficit in 1981 is estimated at SDR 26 million, an amount significantly below that of 1980. This deficit, which assumes no further accumulation of external arrears, will be financed mainly by a further increase in liabilities under the operations account.

Despite the very favorable structure of Mali's public external debt, scheduled debt service payments as a percentage of exports rose from 7.3 per cent in 1980 to an estimated 12.5 per cent in 1981 and are projected to rise sharply over the next few years. In addition to the substantial interest charges on the operations account, most of the increase in scheduled payments will be related the amortization of loans contracted with China and the U.S.S.R. before 1967. However, the Malian representatives were hopeful that Mali would benefit from debt relief and concessional assistance so as to keep debt service payments below 10 per cent of the value of exports. In the context of its imminent entry into WAMU, Mali has already received assurances from the French government that shortterm liabilities of the Central Bank under the operations account will be consolidated in the form of long-term intergovernment debt at a very low interest rate.

Mali's exchange system is similar to other French franc area countries which maintain an operations account with the French Treasury and is free of restrictions on payments and transfers for current international transactions. The Mali franc continues to be pegged to the French franc at the rate of MF 100 = F 1. As the bulk of Mali's imports originate from within the franc zone, Mali's import-weighted effective exchange rate remained virtually stable during the period 1977-80. Following the the sharp appreciation of the dollar vis-a-vis the French franc, the effective exchange rate depreciated by about 6 per cent during the period September 1980-September 1981. In terms of the SDR the Mali franc depreciated, pari-passu with the French franc, by about 15 per cent over the last 12 months. The Malian representatives expressed their strong belief that the country's exchange system and current exchange rate were appropriate and that an improvement in the external accounts could be achieved under present circumstances by essentially internal measures, notably a reduction in the budgetary deficit, strengthened performance of the public enterprises, and continued restraint in credit policy. They also stressed that Mali's competitiveness in the production of agricultural commodities (with the exception of groundnuts) was adequate, as evidenced by the strong export performance over the last decade. The recent increase in producer prices to a level broadly consistent with world market prices would provide additional incentives.

The Malian representatives stated that the only bilateral payments agreements still operative were those with the U.S.S.R. and China and that these were part of general economic cooperation agreements. Transactions under other bilateral payments agreements were negligible and in the case of the four agreements with Fund members other than China (Egypt, Morocco, Romania and Viet Nam), related only to final settlements.

### III. Staff Appraisal

Over the last ten years Mali has been experiencing an increasingly difficult economic and financial situation. Despite a substantial increase in foreign-financed public investment, the economy showed slow and erratic growth, a decline in domestic savings, and an erosion in per capita consumption after 1977. Frequent drought conditions and a sharp deterioration in the terms of trade following the steep increase in oil prices were important factors contributing to these difficulties. However, underlying structural problems as well as economic policies pursued by the authorities over a number of years were also partly responsible. With the notable exceptions of cotton and livestock, the performance of agricultural production, in particular for cereals, was well below its potential because of low producer prices and inefficient extension services and marketing arrangements. Concurrently, the extensive and long-established public enterprise sector was engulfed by serious financial problems resulting, inter alia, from excessive hiring, poor management, and inadequate price policies. Reflecting weak tax performance and rapid expansion in expenditure, mainly for social purposes, the Treasury deficit also widened considerably, engendering acute financing difficulties after 1977. Although the authorities have tightened credit policy in recent years, the slowdown in the rate of growth in domestic credit has been partially replaced by an increase in payments arrears of the Government and the public enterprises. As Mali also encountered increasing difficulties in mobilizing external budgetary assistance, the overall balance of payments deficit widened to 3 per cent of GDP in 1980. In these circumstances, performance under the Trust Fund programs during 1978-80 fell well short of expectations.

Since early 1980 the Government has become increasingly convinced that solutions to the country's profound structural difficulties could be achieved only through comprehensive reforms of the public sector. With a view to increasing overall economic efficiency, stimulating production, and reducing financial disequilibria, the authorities are seeking to promote a better balance among the roles of the public sector, the mixed enterprise sector and the private sector. To that end, they intend to encourage the participation of the private sector in all economic activities, convert certain public enterprises into mixed or private companies, and reduce the share of public expenditure relative to aggregate demand. Simultaneously, they intend to implement a program to revive agricultural development, to rehabilitate the key public enterprises, and to reduce the Treasury deficit to sustainable levels. These new policies, which were initiated in 1980 and 1981, will be carried out over the coming years in the framework of the recently approved development plan for 1981-85 and Mali's participation in the West African Monetary Union, scheduled to begin later in 1981.

As a first step toward the implementation of these policies, during 1980-81 the authorities have taken a number of important adjustment measures and have begun to initiate reforms which, in the view of the staff, represent a clear and courageous reorientation of economic and financial policies. The principal measures include a liberalization of the cereals market, sharp increases in official producer and retail prices, the full pass through of increases in petroleum import prices, and initial steps to restructure three key public enterprises. In addition, they have implemented vigorous measures to increase tax revenues and restrain expenditures. As a result, the Treasury and the balance of payments deficits in 1981 are now expected to be significantly reduced, despite a weather-induced decline in agricultural production. However, part of the reduction in the Treasury deficit will be due to savings derived from the temporary closure of schools during 1980-81. Finally, with assistance from the World Bank, the Government has undertaken background studies to formulate further reforms in several areas, with priority given to public enterprises and agricultural development agencies.

The Government's broad strategy to revive the economy and redress the financial situation appears to be appropriate and needs to be pursued rapidly and fully, as the beneficial effects are likely to materialize only with some lag. In order to achieve the stated objectives, it will be essential for the authorities to continue to show great resolve over a number of years in implementing the necessary reforms, including the required strengthening of administrative structure. A strong effort should also be made to increase domestic savings, by improving performance of the entire public sector, mobilizing private savings, and maintaining restraint with respect to income policies. However, the adjustment effort will require continued foreign assistance on concessionary terms, in view of the limited resources of the country and the social constraints. The ability to mobilize foreign financing and restore confidence abroad will depend crucially on future financial policies.

The cornerstone of improved financial situation would have to be a determined effort to strengthen fiscal performance. On the revenue side, measures taken to increase tax collection and reduce the scope of evasion should be consolidated by a further strengthening of tax administration and by an appropriate reform of the tax system. In this connection, the authorities' decision to implement in 1982 tax proposals along the lines of the Fund tax report of May 1981 is welcome. These would help to streamline tax administration and make the tax system more equitable, more buoyant, and more conducive to growth. However, a sustained reduction of the fiscal deficit would not be possible without a determined effort to restrain expenditure. In view of the already high level of public consumption, the authorities should strictly limit the growth in current expenditure, especially for cereals subsidies and for public employment. In this regard, concrete measures are urgently needed to limit new hiring and control the

wage bill bill more effectively. Considering the limited scope for rapidly reducing overstaffing, new decisions regarding wage increases should continue to be reviewed in the context of reducing the fiscal deficit. The authorities have already expressed their intention to limit the expenditures for scholarships and to revise their education policy with a view to increasing the efficiency of the education system and containing the growth in expenditure. Furthermore, it is essential that the structure of expenditure be progressively changed so that a larger proportion of resources is provided for maintenance, necessary supplies, and expenditure in support of development. At the same time, in order to facilitate financial management and a close monitoring of fiscal policies, it will be necessary to prepare a consolidated budgetary statement, including all special funds, to strengthen the Treasury, and to reduce payments arrears.

As time will be needed to restructure the public enterprise sector and the agricultural institutions and to realize the beneficial effects therefrom, the authorities should act soon on the basis of the specific recommendations which will emerge from the abovementioned studies and formulate a timetable with the aim of preparing a new package of measures during 1982 and completing the reform by the end of 1985. The World Bank is expected to assist the authorities in implementing these recommendations.

Despite the strong export performance over the last few years supported by adequate profitability for Mali's major exports, the external current account deficit has widened owing to excessive absorption and inefficient use of resources. Therefore, the staff agrees with the authorities that an improvement in the balance of payments position should be achieved primarily through domestic measures mentioned above to restrain the public sector deficit and increase efficiency in economic management.

The delays in external (and domestic) payments incurred by the public sector (government plus public enterprises) are the result of limits on central bank lending to the public sector. Because of these limits, the public sector did not have adequate domestic currency to purchase foreign exchange from the Central Bank, even though the Central Bank for its part, stood ready to meet all proper requests for foreign exchange. Hence the overdue external payments do not result from a direct government limitation on the availability or use of foreign exchange, and are to be regarded not as arising from a restriction on payments and transfers for current international transactions subject to Article VIII, (Section 2(a), but from a default of the public sector. The staff would urge the authorities to give the highest priority to the elimination of such delays in payments as part of their comprehensive program of economic rehabilitation.

Taking into account the overall government strategy to redress the economic and financial situation, the staff considers that Mali's membership in the WAMU would contribute significantly to a strengthening of Mali's financial structure, an improvement of monetary discipline, and the



maintenance of an exchange system that is free of restrictions on current international payments and transfers. In the context of this membership Mali will have to broaden the capital base of its banks and public enterprises, consolidate the short-term external liabilities of the Central Bank with bilateral financial assistance, and sharply increase interest rates. Nevertheless, the authorities should seek to assure that the appropriateness of common policies within WAMU remains closely monitored and adapted to changing circumstances.

In view of the size of the financial disequilibria and their structural character, the authorities and the staff are in agreement that the effective and orderly implementation of the wide-ranging adjustment policies should be carried out within the framework of a comprehensive program which could facilitate the mobilization of additional external assistance from both bilateral and multilateral sources. Over the last few months, the Fund and Bank staffs have assisted the authorities in elaborating the elements of such a program.

#### IV. Proposed Decision

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

1. The Fund takes this decision in concluding the 1981 Article XIV consultation with Mali, in the light of the 1981 Article IV consultation with Mali conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Mali continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions, and urges the authorities to take early action to terminate the remaining bilateral payments agreements with Fund members.

Relations with the Fund 1/

Fund data

Date of membership:	September 27, 1963
Quota:	SDR 40.5 million
Intervention currency and the rate:	French franc; MF 100 = F 1
Fund holdings of local currency:	SDR 40.15 million equivalent to 99.1 per cent of quota (81.23 per cent of quota excluding purchases under special facilities).
SDR position:	Holdings amounted to SDR 0.09 million (0.5 per cent of the net cumulative allocation of SDR 15.91 million).
Trust Fund loans outstanding:	SDR 21.5 million
Direct distribution of profits from gold sales:	US\$3.48 million
Gold distribution:	18,826.368 fine ounces

Staff contacts and technical assistance

Staff visit, balance of payments statistics:	November 24-December 12, 1980
Staff visit, monetary statistics:	November 24-December 12, 1980
Technical assistance, fiscal area	
Tax system:	February 19-March 13, 1981
Budget:	October 15-November 4, 1981

The 1979 Article IV consultation discussions with Mali were held in Bamako during the period February 8-24, 1979. The staff report (SM/79/100) and the recent economic developments paper (SM/79/100) were discussed by the Executive Board on May 7, 1979, and the following decision was taken:

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1/ As of September 30, 1981.

1. The Fund takes this decision in concluding the 1979 Article XIV consultation with Mali, in the light of the 1979 Article IV consultation conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Mali continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions. The Fund believes that the authorities should continue their efforts to terminate the remaining bilateral agreements with Fund members.

Relations with the World Bank Group

1. Lending operations through end-August, 1981 <sup>1/</sup>

	<u>Committed</u>	<u>Disbursed</u>	<u>Undisbursed</u>
	<u>(In millions of U.S. dollars)</u>		
Agriculture and rural development	79.3 <sup>2/</sup>	57.9	21.4
Rainfed agriculture	(32.5)	(21.1)	(11.4)
Irrigated agriculture	(29.0)	(25.5)	(3.5)
Livestock and forestry	(17.8)	(11.3)	(6.5)
Transportation	78.8	55.5	23.3
Roads	(52.5)	(33.4)	(19.1)
Railways	(26.3)	(22.1)	(4.2)
Education	15.0	10.8	4.2
Urban development	12.0	2.1	9.9
Industry	8.0	0.7	7.3
Energy	3.7	--	3.7
Telecommunications	3.6	3.6	--
 Total	 200.4	 130.6	 69.8
 Repayments	 0.6	 0.6	 --
 Debt outstanding	 199.8	 130.0	 69.8

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 restructure its economy, the Bank is now actively preparing a comprehensive technical assistance project covering, among others, cereals marketing, agricultural development agencies, public enterprises, planning institutions, the civil service, statistical services, management of the external debt, and training in administration. As part of this envisaged project, two long-term technical experts have been provided to assist in the reform of public cereals marketing; the terms of reference for a study of public enterprises have been prepared and consultants are being selected; the terms of reference for a study of agricultural development agencies have been drawn up and sent out for bids.

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<sup>1/</sup> IDA lending only.

<sup>2/</sup> Includes US\$6.5 million approved but not yet effective.

MALI - Basic Data

Area, population and GDP per capita

Area	1,240,190 square kilometers				
Population					
Total (1980 estimate)	6.9 million				
Growth rate (1980 estimate)	2.5 per cent				
GDP per capita (1980)	SDR 145				
	<u>1972</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
					Est.
	(In billions of Mali francs)				
<u>Gross domestic product at constant 1980 prices</u>	386.2	504.9	559.9	553.3	550.3
Primary sector	134.5	159.5	184.5	178.8	175.4
Secondary sector	127.0	164.2	165.8	164.5	162.7
Tertiary sector	124.7	181.2	209.6	210.0	212.4
<u>Gross domestic product at current prices</u>	188.1	432.6	517.6	553.3	600.8
<u>Resource gap</u>	17.8	88.0	98.7	106.7	127.3
<u>Gross domestic expenditure</u>	205.9	520.6	616.2	659.9	728.1
Consumption	176.0	389.6	494.2	538.3	593.1
Gross investment	29.9	131.0	122.0	121.6	135.0
<u>Gross domestic savings</u>	12.1	43.0	23.4	14.9	7.7
<u>Price index of foodstuffs in Bamako (1962/63 = 100)</u>					<u>Six months</u>
Controlled market	196.3	466.9	518.8	592.0	645.0
Uncontrolled market	250.9	630.5	605.9	738.6	785.4
Composite index <u>1/</u>	237.3	589.5	584.1	701.9	750.3

(In billions of Mali francs)

Public finance

Budgetary transactions					
Revenue	20.7	52.3	54.9	59.4	69.9
Expenditure <u>2/</u>	24.6	-64.2	-74.7	-83.4	83.8
Treasury deficit	-3.9	-11.9	-19.8	-24.0	-13.9

1/ Weights 3/4 uncontrolled market, 1/4 controlled market.

2/ Current plus capital expenditure.

MALI - Basic Data (continued)

	<u>1972</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u> Est.
	(In billions of Mali francs)				
Financed by:					
External sources (gross)	2.0	3.8	6.4	14.2	9.7
Banking system (net)	0.7	11.5	10.1	5.0	12.5
Changes in arrears	--	2.0	5.1	6.0	--
Treasury operations (net)	1.2	-5.4	-1.8	-1.2	-8.3
Extrabudgetary transactions <u>1/</u>					
Revenue	7.3	33.0	35.2	38.5	43.8
Expenditure <u>2/</u>	-15.5	-75.4	-91.2	-92.3	-110.8
Deficit	-8.2	-42.4	-56.0	-53.8	-67.0
Financed by:					
External sources (net)	6.5	46.2	57.8	59.2	67.5
Changes in cash balances and other	1.7	-3.8	-1.8	-5.4	-0.5
Consolidated transactions					
Revenue	28.0	85.3	90.1	97.9	113.7
Expenditure	-40.1	-139.6	-165.9	-175.7	-194.6
Deficit	-12.1	-54.3	-75.8	-77.8	-80.9
<u>Monetary survey (end of year)</u>					
Net foreign assets	-33.1	-95.9	-103.9	-112.4	-127.1
Domestic credit	81.9	241.0	270.2	287.7	321.7
Claims on Government (net)	47.7	107.9	118.0	123.7	136.2
Claims on economy	34.2	133.1	152.2	164.0	185.5
Money and quasi-money	35.2	118.4	136.1	144.4	160.1
Long-term foreign liabilities	3.8	5.2	5.2	4.9	4.9
SDR allocation	4.2	4.3	5.8	7.2	8.8
Other liabilities (net)	5.6	17.2	19.2	19.8	19.8
<u>Balance of payments</u>					
	(In millions of SDRs) <u>3/</u>				
Exports, f.o.b.	41.9	88.7	114.1	157.5	125.1
Imports, c.i.f.	-77.8	-227.6	-271.3	-346.0	-313.0
Services (net)	-10.3	-30.1	-34.9	-23.5	-22.0
Private transfers (net)	9.7	29.6	24.9	26.9	29.2

1/ Staff estimates.

2/ Current plus capital expenditure.

3/ Period average.

MALI - Basic Data (concluded)

	<u>1972</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u> Est.
	(In millions of SDRs)				
Current account	-36.5	-139.4	-167.2	-185.1	-180.7
Unrequited public transfers (net)	18.1	83.0	82.6	83.2	81.0
Capital (net)	7.2	41.6	58.6	81.1	73.5
Errors and omissions	3.8	-6.7	1.5	-10.6	--
Overall balance	-7.4	-21.5	-24.5	-31.4	-26.2
SDR allocation	2.3	--	2.7	2.7	2.7
Trust Fund loans	--	9.0	6.7	5.6	0.2
Commercial banks	-0.6	8.6	-2.4	2.6	-1.8
Central Bank	5.7	-1.6	10.2	5.8	25.1
Of which: operations account	(6.5)	(4.4)	(13.3)	(9.1)	(28.0)
Change in arrears	--	5.5	7.3	14.7	...
<u>Official foreign reserves and liabilities (end of year)</u>					
Gross reserves	3.6	6.5	6.7	12.0	13.2
Gross liabilities	67.4	175.8	197.6	205.0	208.8
Of which: operations account	(56.6)	(158.3)	(176.6)	(171.2)	(179.7)
<u>Public external debt (end of period)</u>					
Disbursed	210.5	420.3	418.8	491.7	...
Undisbursed	58.4	169.4	165.5	225.2	...
Total	268.9	589.7	584.3	716.9	...
<u>External payments arrears (end of period)</u>					
	...	17.5	25.6	37.6	...
<u>Exchange rates (period average)</u>					
	(Mali francs per SDR and per U.S. dollar)				
SDR	556.4	565.0	549.7	550.0	September 637.2
U.S dollar	504.4	451.3	425.5	422.6	556.7
	(December 1971 = 100)				
Import-weighted effective rate index	98.0	101.6	101.4	101.4	107.0