

EBS/82/68

CONFIDENTIAL

April 20, 1982

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 paper on a request from Mali for a stand-by arrangement equivalent to SDR 30.375 million. A draft decision appears on page 27.

It is proposed that this subject be brought to the agenda for discussion on Monday, May 24, 1982.

Att: (1)



INTERNATIONAL MONETARY FUND

MALI

Request for Stand-By Arrangement 1/

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

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

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

April 19, 1982

I. Introduction

In the attached letter dated March 12, 1982 the Government of Mali requests a stand-by arrangement for a period of one year in an amount equal to SDR 30.375 million, representing 75 per cent of Mali's quota of SDR 40.5 million. The Fund's holdings of Mali francs 2/ as of March 31, 1982 amounted to SDR 38.17 million, or 94.25 per cent of quota; excluding purchases under the compensatory financing facility (SDR 5.10 million) and the oil facility (SDR 1.25 million), the Fund's holdings totaled SDR 31.82 million, or 78.57 per cent of quota. The proposed stand-by arrangement, if fully utilized, would increase the Fund's holdings of Mali francs of 166.79 per cent of quota, or 153.58 per cent of quota excluding holdings relating to the oil and compensatory financing facilities (Table 1). The entire arrangement would be financed from ordinary resources.

Purchases under the arrangement will be phased in four quarterly installments equivalent to 40 per cent, 22 per cent, 22 per cent, and 16 per cent of the amount of the stand-by arrangement. 3/ This phasing is in recognition of several factors; the adjustment measures already initiated by the authorities and the importance for the domestic financial system of an early reduction of current payment arrears of the Treasury and the Postal Checking System.

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1/ Discussions that provided the basis for the proposed stand-by arrangement were held in Bamako during the period November 26-December 9, 1981 and concluded in Washington during the period January 27-February 3, 1982. The staff team comprised Messrs. Francois, Faria, Rothman, Sacerdoti, Tahari, and Ms. Elwell (secretary), all from the African Department, and Mr. Abisourour (ETR). Messrs. Alfidja (Alternate Executive Director) and Mr. Humphreys (World Bank) participated in some of the meetings. Messrs. Nana-Sinkam (Executive Director), Bornemann (AFR), and Conrad (FAD) participated in most of the discussions held in Washington.

2/ MF 697 = SDR 1 (March 31, 1982).

3/ Summaries of Mali's relations with the Fund and with the World Bank Group are shown in the Appendices.

Table 1. Mali: Proposed Schedule of Purchases and Repurchases  
Under the Stand-by Arrangement, 1982-83

(In millions of SDRs)

	1982		1983 Jan.-April	Stand-by period Total
	April-June 1/	July-Sept. Oct.-Dec.		
<u>Purchases</u>	12.150	6.613	5.000	30.375
Stand-by arrangement	(12.150) 2/	(6.313)	(5.000)	(30.375)
<u>Repurchases</u>	0.249	0.249	0.249	(.996)
Oil facility	(0.249)	(0.249)	(0.249)	(.996)
<u>Net purchases</u>	11.901	6.364	4.751	29.379
<u>Fund holdings 3/ (cumulative, end period)</u>				
Total	50.072	56.436	62.799	67.550
Holdings excluding CFF, oil facility	43.974	50.587	57.199	62.199
In per cent of quota				
Total holdings	123.63	139.35	155.06	166.79
Holdings excluding CFF, oil facility	108.58	124.91	141.23	153.58

Sources: IMF Treasurer's Department; and proposed stand-by arrangement (Attachment A).

1/ After Board approval.

2/ Includes SDR 10.125 million in the first credit tranche.

3/ Excluding the possible use of the reserve tranche available (SDR 8.68 million as of March 31, 1982).

Section II summarizes the economic background and developments in 1981. Section III discusses the principal elements of the program in support of which the Malian authorities have requested a stand-by arrangement. Finally, Section IV contains the staff appraisal and decisions for consideration by the Executive Board.

## II. Background and Recent Economic Developments

During the period 1972-80 Mali experienced an increasingly difficult economic and financial situation. <sup>1/</sup> 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 consolidated government deficit <sup>2/</sup> (excluding grants) also widened considerably in 1978-80 to about 4 per cent of GDP, engendering acute financing difficulties (Table 2). 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 2.3 per cent of GDP in 1980.

Since 1980 the Malian authorities have become increasingly convinced that an alleviation of the acute economic and financial difficulties facing the country would require comprehensive reforms involving all sectors of the economy, especially public finances, state enterprises, and agriculture. To that end, they have conducted a broad reexamination of their policies, identified the main issues, and explored alternative solutions. The new

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<sup>1/</sup> For a more detailed review of economic developments during the past decade, see the staff report (SM/81/206) and the report on recent economic developments (SM/81/216), which were discussed by the Board on November 16, 1981.

<sup>2/</sup> Includes the operations of the central and regional government budgets, major special funds, and extrabudgetary receipts and payments including interest charges on the operations account, but not the operations of rural development agencies and development expenditures financed directly by external assistance.

Table 2. Mali: Selected Economic and Financial Indicators, 1979-82

	1979 Actual	1980 Actual	1981 Estimates	1982 Program
(Annual per cent changes, otherwise specified)				
National income and prices				
GDP at constant price	10.0	-1.2	-0.7	4.0
GDP deflator	8.8	7.4	7.9	8.0
Food price index	-0.1	20.2	14.0	12.0
National minimum wage	--	18.6	--	--
External sector				
Exports, f.o.b. (in SDRs)	28.6	38.0	-16.4	1.7
Imports, c.i.f. (in SDRs)	18.6	24.7	-3.1	-5.1
Non-oil imports, c.i.f. (in SDRs)	14.2	20.3	-3.1	-5.3
Export volume	31.6	21.5	-15.9	-0.1
Import volume	-3.2	11.8	-1.5	-8.3
Terms of trade	-3.1	-4.7	-4.7	-1.7
Nominal import-weighted effective exchange rate (depreciation, -)	0.8	-0.3	-6.5	...
Central government budget				
Revenue (excluding grants)	5.0	8.2	16.3	14.2
Total expenditure	18.5	9.5	4.6	7.0
Money and credit				
Domestic credit	11.5	5.9	8.8	10.4
Of which: Credit to Government	8.0	3.5	7.7	10.0
Money and quasi-money (M2)	15.1	7.2	5.1	10.9
Velocity (GDP relative to M2)	4.1	4.0	4.1	4.3
Interest rate <u>1/</u>	4.0	4.0	4.0	5.0
(In per cent of GDP)				
Overall consolidated budget deficit <u>2/</u>				
Including grants	3.4	1.7	3.5	2.4
Excluding grants	4.5	4.0	4.6	3.6
Domestic bank financing	0.8	1.1	1.5	2.8
Foreign financing (net)	1.6	3.0	1.3	3.1
Current payment arrears (change)	1.3	1.5	2.8	-1.6
State enterprises net operating losses	4.4	2.6	1.6	0.9
Gross domestic investment	18.7	17.3	17.6	20.7
Gross domestic savings	-0.3	-2.6	-5.2	0.8
Resource gap	-19.0	-19.9	-22.8	-19.9
Current account deficit				
Excluding official transfers	17.7	18.6	21.9	18.8
Including official transfers	10.5	10.2	12.9	9.0 <u>3/</u>
External debt (inclusive of Fund resources)/GDP	45.3	50.5	63.8	65.1
Debt service ratio <u>4/</u>	5.0	4.9	8.1	9.2
Interest payments <u>4/</u>	1.8	1.9	2.1	2.3
(In millions of SDRs; unless otherwise specified)				
Overall balance of payments	-16.2	-22.7	-35.3	-13.2
Gross official reserves (months of imports)	1/2	1/2	1/2	1/2
External payments arrears	26.2	39.6	56.5	21.7

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

1/ One year savings deposit.

2/ Includes the operations of the central government, special funds and interest charges on the operations account, as well as extrabudgetary receipts and payments reflected in the Treasury accounts, but not operations of the rural development agencies and development expenditures financed directly by external aid.

3/ Including debt relief resulting from the expected consolidation of the operations account with the French Treasury and rescheduling of three loans.

4/ In per cent of exports of goods and services and private transfers.

policies, which are partly embodied in the recently adopted Five-Year Development Plan for 1981-85, aim at stimulating production, improving the efficiency of economic management, and increasing domestic savings. Accordingly, the authorities have adopted a set of actions to revive agricultural production, restructure the public enterprise sector, and reduce the fiscal and external deficits to sustainable levels. In this connection the authorities have taken initial steps to encourage greater participation of the private sector in all economic activities and to reduce the share of public expenditures in aggregate demand with a view to promoting a balance between the responsibilities of the Government, the mixed enterprises, and the private sector.

Economic and financial developments in 1981 were mixed. As regards production, insufficient rainfall caused a sharp decline in the output of food and export crops. The decline in agricultural output, together with lengthy electricity stoppages, caused a falling off in manufacturing production. Although increases were recorded in the services sector, real GDP is estimated to have declined by 0.7 per cent. On the basis of very preliminary data, <sup>1/</sup> consumption growth appeared to have outpaced that of nominal domestic product, while domestic savings turned more sharply negative. As at the same time gross capital formation grew by an estimated 10 per cent, the resource gap widened to MF 134 million, or 23 per cent of GDP, compared with an average of 20 per cent during 1978-80. In the wake of significant adjustments in administered prices and inadequate supply conditions of basic foodstuffs, food prices rose by 20 per cent in 1980 and by 14 per cent in 1981. During 1978-81, reflecting the price increases and the tight wage policy, the real minimum wage declined by almost one third.

During the last two years, the authorities have taken a number of measures and initiated reforms which represent a clear and courageous re-orientation of policy. These include: sharp increases in official agricultural producer prices for 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) to bring them into line with those of neighboring countries; the de facto liberalization of cereals marketing for both import and domestic production since February 1981; the initial steps to restructure the cereals marketing agency (OPAM); and the establishment of an Agricultural Development Bank with foreign capital. Substantial progress was also made in restructuring the state enterprise sector with the decision to open up a number of public enterprises to private participation, to close down others, and to scale down the distribution activities of the largest state enterprise, the import export agency (SOMIEX). Retail prices of a number of essential goods were increased by amounts ranging between 10 and 30 per cent to bring them in line with costs. As a result of these measures, the aggregate operating losses of the major enterprises is estimated to have declined by one third in 1981 to about MF 9.3 billion or the equivalent

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<sup>1/</sup> As Mali's statistical base is relatively weak and data are available only with considerable delays, some estimates, especially of the national account aggregates, are tentative.

of 1.6 per cent of GDP. The price of all petroleum products was raised by 125 per cent over the period 1980-81 to reflect the increase in import costs and the new excise taxes; these increases brought the price of regular gasoline to MF 520 per liter (equivalent to about US\$3.50 per gallon).

Strong efforts were also made in 1981 to improve the fiscal performance. Budgetary revenue growth is estimated to have doubled to 16 per cent in 1981, largely because of a considerable tightening in tax administration leading to an increase in collections of import duties and tax arrears. Indirect taxes on foodstuffs and petroleum products were raised in June to compensate fully for an earlier decrease in tax rates on wage incomes. Moreover, budgetary expenditure growth was halved to 4.6 per cent because of a sharp reduction in payments for scholarships, windfall savings in other education expenditure due to a temporary closure of schools during the first half of the year, a more modest growth in the wage bill due in part to a wage freeze, and the containment of maintenance expenditure. Consequently, the central government budget deficit is estimated to have narrowed by nearly one third to MF 14 billion, or 2.4 per cent of GDP (Table 3). Due to a smaller surplus of special funds and much larger interest payments on the operations account resulting from higher interest rates in France, the consolidated government deficit increased by 20 per cent to MF 27 billion, or 4.6 per cent of GDP. Because of a drop in net foreign assistance and statutorily limited access of Government to central bank credit, the Treasury experienced severe difficulties in meeting its commitments, resulting in a further accumulation of current payment arrears. At the end of 1981 the current payments arrears of the Treasury (including the Autonomous Amortization Agency) are estimated at MF 29 billion, or one third of consolidated government revenue in 1981.

The Malian authorities have continued to pursue a basically restrictive credit policy in 1981, although the rate of growth of monetary aggregates was somewhat higher than in 1980. The rate of expansion of credit to the Government increased from 3.5 per cent in 1980 to 7.7 per cent in 1981, reflecting mostly the use of the counterpart of Mali's 1980 drawing under the Fund's compensatory financing facility and a substantial increase in accrued interest charges on the operations account. Credit to the economy increased at a rate of 6.5 per cent (7.8 per cent in 1980) because of strict limits on the expansion of nonseasonal credit, lower crop financing associated with the reduced cotton crop, and technical delays in approving credit facilities in December 1981. When adjustment is made for this technical delay, which is estimated to have reduced credit expansion by MF 5 billion in 1981, credit to the economy increased by about 10 per cent. As a result, total domestic credit increased moderately by 8.8 per cent (7 per cent without technical adjustment) in 1981, compared with 6 per cent



Table 3. Mali: Consolidated Government Deficit, 1979-82

(In billions of Mali francs)

	Billions of Mali francs				In per cent of GDP			
	1979	1980	1981 Preliminary	1982 Program	1979	1980	1981 Preliminary	1982 Program
Central government budget	-17.6	-20.0	-13.9	-9.9	-13.4	-3.6	-2.4	-1.5
Revenue	54.9	59.4	69.1	78.9	10.6	10.8	11.7	11.9
Expenditure	-72.5	-79.4	-83.0	-88.8	-14.0	-14.6	-14.1	-13.4
Special funds	0.5	6.7	2.1	1.5	--	1.2	0.4	0.2
Other net extrabudgetary payments	-2.2	-4.0	-2.6	-2.0	-0.4	-0.8	-0.4	-0.3
Interest charges due on the operations account	-3.8	-4.7	-12.7	-13.0	0.7	-0.9	-2.2	-2.0
Total consolidated deficit								
Incl. interest on op/ac	-23.1	-22.0	-27.1	-23.4	-4.5	-0.9	-2.2	-2.0
Excl. interest on op/ac	-19.3	-17.3	-14.4	-10.4	-3.7	-3.2	-2.4	-1.6
Financing requirements	23.1	22.0	27.1	23.4	4.5	4.0	4.6	3.6
External financing	8.4	16.2	7.8	20.8	1.6	3.0	1.3	3.1
Grants	(5.5)	(12.4)	(6.5)	(7.2)				
Gross borrowing	(3.3)	(5.7)	(3.5)	(4.0)				
Amortization	(-0.4)	(-1.9)	(-2.2)	(-5.0)				
External refinancing	--	--		14.6 <sup>1/</sup>				
Domestic credit (net)	5.8	7.1	8.9	12.6	1.1	1.3	1.5	1.9
Banking system	(4.1)	(5.8)	(8.9)	(18.6) <sup>2/</sup>	(0.8)	(1.1)	(1.5)	(2.8)
CCP	(1.7)	(1.6)	(--)	(-6.0)	(0.3)	(0.2)	(--)	(0.9)
Change in payments arrears	6.8	8.4	16.2	-10.6	1.3	1.5	2.8	-1.6
Treasury <sup>3/</sup>	(5.6)	(5.5)	(8.7)	(-7.7)				
Public enterprises	(--)	(--)	(--)	(-2.9)				
Unpaid interest charges on operations account	(1.2)	(3.0)	(7.5)	(--)				
Others <sup>4/</sup>	-1.0	-9.7	-5.8	0.6	--	-1.8	-1.0	-

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

<sup>1/</sup> Includes provisional estimate of interest charges due in 1982 on the operations account with the French Treasury, pending the consolidation of the debt outstanding in the context of Mali's entry into WAMU, and other debt service being rescheduled.

<sup>2/</sup> Excluding interest payments on the operations account financed by the Central Bank but including special advances from the Central Bank representing counterpart of Fund resources.

<sup>3/</sup> See Table 7.

<sup>4/</sup> Obtained by difference; includes variation in other assets and liabilities of the Treasury and Special Funds, adjustments to a cash basis, and errors and omissions.

in the previous year. Taking into account the increase in net foreign liabilities, money and quasi-money grew by 5 per cent, a rate 2 percentage points below that of nominal GDP.

Reflecting the increase in imports of goods and services financed by tied foreign assistance and the much higher interest payments on the operations account, the current account deficit of the balance of payments widened from SDR 185 million (19 per cent of GDP) in 1980 to SDR 203 million (22 per cent of GDP) in 1981 (Table 4). However, when these elements are excluded, the current account deficit so adjusted was reduced from SDR 57 million (5.7 per cent of GDP) to SDR 46 million (5.0 per cent of GDP). Merchandise exports declined markedly in 1981, largely as a result of falling cotton production due to unfavorable weather conditions. However, this decline was offset by a reduction in nonproject-aid merchandise imports because of reduced demand for petroleum products following the sharp increase in domestic prices, and of lower imports of consumer goods and intermediate goods. As net capital inflow other than project aid declined, the overall deficit widened considerably from 2.3 per cent of GDP in 1980 to 3.8 per cent in 1981 and was financed by increased drawing under the operations account with the French Treasury and a further buildup in external current payments arrears of the public sector, including technical delays on payment of interest charges on the operations account. At the end of December 1981, the level of external arrears is tentatively estimated at SDR 56 million, an amount equivalent to 43 per cent of total exports.

Despite some bilateral debt cancellation in 1979, Mali's disbursed external public debt (including liabilities under the operations account and repurchase obligations to the Fund) is estimated at US\$901 million at end-1981, or 83 per cent of GDP (Table 5). Liabilities under the operations account amounted to US\$209 million, or about one fifth of total debt; of this amount US\$82 million represents accrued interest payments. Mali's debt service ratio doubled in 1981 to 18 per cent, because of rising interest rates in France (averaging 15 per cent in 1981), and an increasing level of liabilities under the operations account, including accrued interest. However, if these interest charges are excluded, the debt service ratio, which was relatively modest in recent years, owing to the concessional nature of most of its debt, increased to 8.1 per cent in 1981.

Mali's exchange system is similar to those of other French franc zone 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 French franc zone, Mali's nominal effective exchange rate remained virtually stable during the 1970s. The strong export performance, during that period suggests that Mali's competitiveness has been adequate.

Table 4. Mali: Balance of Payments, Analytic Presentation, 1979-82

(In millions of SDRs) 1/

	1979	1980	1981 Preliminary	1982 Forecast
Exports, f.o.b.	114.1	157.4	131.6	133.8
Cotton	(61.7)	(79.1)	(53.7)	(43.4)
Livestock	(27.5)	(45.6)	(43.8)	(52.1)
Other	(24.9)	(32.7)	(34.1)	(38.3)
Imports, c.i.f.	-271.4	338.4	-328.0	-311.5
Imports, project aid	(-100.8)	-99.5	(-113.8)	(-114.9)
Other imports	(-170.6)	238.9	(-214.2)	(-196.6)
Petroleum	(-42.9)	-63.6	(-61.6)	(-59.3)
Foodstuffs	(-37.1)	-60.6	(-71.9)	(-49.0)
Other	(-90.6)	-114.7	(-80.7)	(-88.3)
Services (net)	-34.5	-30.0	-33.0	-39.5
Private transfers (net) 2/	25.2	25.6	26.9	27.1
Current account balance	-166.6	-185.4	-202.5	-190.2
Related to project aid 3/	-115.3	-118.7	-136.7	-137.9
Related to interest on op. acc.	-6.4	-9.4	-19.9	-19.9
Related to other transactions	44.9	57.3	45.9	32.4
Project aid	115.3	118.7	136.7	137.9
Grants	(53.5)	(55.6)	(55.7)	(53.6)
Concessional loans	(61.8)	(63.1)	(81.0)	(84.3)
Refinancing of debt	--	--	--	22.4 4/
Other transf. and capital (net)	35.1	44.0	30.5	16.7
Food aid	(4.6)	(6.0)	(17.4)	(12.3)
Budgetary aid	(12.0)	(32.9)	(15.7)	(17.2)
Debt repayments	(-6.0)	(-7.8)	(-9.1)	(-12.7)
Other	(11.3)	(4.8)	(3.8)	(--)
Trust Fund loans	(6.7)	(5.6)	(0.2)	(--)
SDR allocations	(2.5)	(2.5)	(2.5)	(--)
Overall balance	-16.2	-22.7	-35.3	-13.2
Central Bank	10.2	5.3	18.4	21.9
Operations account	(13.3)	(9.1)	(23.4)	(--)
IMF (net)	(-4.0)	(5.1)	(-3.9)	(23.2)
Other (net)	(0.9)	(-8.9)	(-1.1)	-1.3
Deposit money banks	-2.4	3.9	-3.5	0.5
Changes in arrears	8.4	13.5	20.4	-9.2
(In per cent of GDP)				
Memorandum items:				
Current account excl. off. transfers	17.7	18.6	21.9	18.8
Related to project aid	12.2	11.9	14.7	13.6
Related to int. on op. acc.	0.7	0.9	2.2	2.0
Related to other transactions	4.8	5.7	5.0	3.2
Overall balance	1.7	2.3	3.8	1.3

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

1/ 1979: SDR 1=MF 549.7; 1980: SDR 1=MF 550; 1981: SDR 1=MF 636.8; 1982: SDR 1=MF 652.5.

2/ Including errors and omissions.

3/ Including goods and services.

4/ Includes interest charges (SDR 19.9 million) due in 1982 pending consolidation of operations account and debt service (SDR 2.5 million) on loans being rescheduled.

Table 5. Mali: External Public Debt, 1979-82

(In millions of U.S. dollars; end of period)

	1979	1980	1981 Preliminary	1982 Forecast
External debt	771.7	888.7	900.6	960.0
Suppliers of credits	9.6	6.2	5.7	5.3
Financial institutions	12.4	10.9	9.3	7.9
Multilateral institutions	137.8	165.3	196.8	228.1
Bilateral loans	371.1	446.0	452.5	462.2
Operations account	220.0	233.0	209.0	200.0
Fund credit	20.8	27.3	27.3	56.5 <u>1/</u>
Debt service payments	19.6	26.9	42.1	44.5
Principal	7.8	10.2	10.7	12.1 <u>2/</u>
Interest	3.9	4.5	8.0	9.5 <u>2/</u>
Interest on operations account	7.9	12.2	23.4	22.9 <u>3/</u>
Memorandum item:				
External debt/GDP	63.4	68.4	83.1	82.3
Operations account	(18.1)	(17.9)	(19.3)	(17.2)
Other debt	(45.3)	(50.5)	(63.8)	(65.1)
Debt service ratio <u>4/</u>	8.6	9.1	18.1	18.9
Operations account	(3.6)	(4.2)	(10.0)	(9.7) <u>3/</u>
Other debt	(5.0)	(4.9)	(8.1)	(9.2)

Sources: Malian authorities, IBRD Debtor Reporting System, and staff estimates.

1/ Including anticipated purchase under proposed stand-by arrangement (US\$ 29.2 million).

2/ After the rescheduling of three loans.

3/ Expected to be consolidated during 1982 in the context of Mali's entry into WAMU.

4/ As a percentage of export of goods and services, and private transfers.

Following the sharp appreciation of the U.S. dollar and the increasing proportion of the oil bill in total imports, Mali's nominal effective exchange rate depreciated by 12 per cent between mid-1980 and March 1982. During the same period the Mali franc depreciated, pari passu with the French franc, by 53 per cent against the U.S. dollar and by nearly 30 per cent against the SDR. Because of the lack of appropriate price and cost indices in Mali, it is not possible to calculate a significant index of real effective exchange rates.

### III. The Economic and Financial Program for 1982

#### 1. Introduction

Recognizing toward the latter half of 1980 that internal and external imbalances were structural in nature and had attained proportions that threatened Mali's economic stability and the success of its development efforts, the Malian authorities launched a number of policy initiatives described in Section II. Extensive discussions have taken place with Fund staff, starting in August 1980 and continuing through to the most recent contact in March 1982, to prepare an adjustment program which could reduce the economic and financial imbalances and be supported by the use of Fund resources. Parallel with these discussions, Mali has been preparing, with World Bank technical assistance, projects covering key areas of the economy such as cereal marketing, public enterprises, and agricultural development agencies. Because the reversal of past trends entails significant policy reorientation and institutional reforms, the Malian authorities recognize that to be feasible the program must be cast within a medium-term frame. The discussions with the Fund and the World Bank took place in the context of the preparation of the new Five-Year Development Plan 1981-85, which was approved last September.

The medium-term strategy takes into account the prospect of Mali's entry into the West African Monetary Union (WAMU) now envisaged for the later part of 1982. As indicated in the policy memorandum (Attachment C) in connection with this entry Mali expects to receive from France large financial assistance on concessional terms to strengthen the financial position of the Central Bank, the deposit money banks, and the principal public enterprises. In addition, it expects the liabilities on account of both principal and accumulated interest under the operations account with the French Treasury to be consolidated in the form of a long-term loan at a very low rate of interest. In view of the proximity of this entry and the expected consolidation, the interest charges accruing in 1982 (MF 13 billion or about SDR 20 million) are assumed to be refinanced in the balance of payments and budget data in the program.

The attached letter of intent signed by the Minister of Finance and the supporting policy memorandum set forth Mali's economic and financial objectives for the period of the program and present details of the policies being followed to achieve them. In addition to precise targets and performance criteria established for 1982, the memorandum contains the authorities' medium-term economic and financial strategy and associated policy commitments.

The principal objective of the program is to reinforce ongoing efforts to reduce over the medium term the structural imbalances of the Malian economy. The program aims at reestablishing a positive savings ratio by limiting the growth of public consumption and wages and by reducing the consolidated budget deficit and the losses of public enterprises. Aggregate supply is to be fostered by increasing the scope of the private sector's participation in the economy, by reorganizing and increasing the efficiency of public enterprises, and by reducing the pricing and market distortions that have hampered a proper allocation of resources. The operations of the country's financial system are to be normalized by reducing payment arrears, restoring the proper functioning of the Postal Checking System, and preventing the accumulation of new arrears because of stronger financial performances by the Government and public enterprises. The implementation of this demand-management and supply-side strategy should help to reduce the external payments imbalance further in the coming years to a level consistent with a sustainable inflow of external assistance.

The financial program for 1982 (see Attachment C) contains detailed sectoral targets and measures for government finance, public enterprises, monetary policy, economic (including agricultural, energy, and investment) policies, and external payments, and is summarized in Table 6. In addition to the measures taken in 1981 and described above, a number of other measures that are part of the program for 1982 were already implemented in the first quarter of the year. These measures, which are outlined below and described in detail in the Economic and Financial Policy Memorandum of the authorities are related to taxation, price adjustments, tariff increases, the liberalization of the groundnuts market and the restructuring of public enterprises.

## 2. Financial policies

The principal emphasis in the 1982 program is on reinforcing the measures initiated in 1981, as well as on the adoption of new measures and steps to improve the viability of the financial system.

### a. Fiscal policies

Corrective measures in this area are reflected in the 1982 central government budget which was approved in January. It aims at reducing the deficit from MF 14 billion, or 2.4 per cent of GDP, in 1981 to MF 10 billion, or 1.5 per cent of GDP in 1982. Revenues are budgeted to increase by 14.2 per cent over provisional 1981 figures, after a 16 per cent increase

Table 6. Mali: Summary of Financial Program for 1982

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1. Assumptions

- Real GDP growth of 4 per cent, reflecting the impact of favorable weather conditions on the 1981/82 agricultural crop, mainly cereals, which is estimated to have increased by 25 per cent. However, cotton fiber production has declined by 20 per cent mainly because of a shift to cereal production.
- External terms of trade depreciation in domestic currency terms of 2 per cent, representing increases of 4 per cent and 6 per cent in export and import prices.
- Project aid imports: SDR 124.1 million (1981: SDR 113.8 million)
- Entry into WAMU by end of 1982, accompanied by major financial restructuring of the public enterprise and banking sectors and consolidation of operations account liabilities (including accrued interest) with the French Treasury.

2. Targets

- Balance of payments current account deficit, net of imports related to project aid and interest on the operations account, to decline to SDR 32 billion, or 3.2 per cent of GDP, (1981: SDR 46 million, or 5 per cent of GDP). Without netting out these elements, the deficit (excluding official transfers) would decline from 22 per cent of GDP in 1981 to 19 per cent in 1982.
- Balance of payments overall deficit to decline to SDR 13 million or 1.3 per cent of GDP (1981: SDR 35 million, or 3.8 per cent of GDP)
- Rehabilitation of payments mechanism through a reduction of arrears and through a freeing of nongovernment deposits with the Postal Checking System.

3. Principal elements

Budget: Reduction of consolidated government deficit (netting interest charges on the operations account) to MF 10.4 billion (1.6 per cent of GDP) as compared with MF 14 million in 1981 and MF 17 million in 1980. Including these interest charges, the deficit would decline from MF 27 billion in 1981 (4.6 per cent of GDP) to MF 23.4 billion in 1982 (3.6 per cent of GDP). Revenue will increase by 14 per cent due to new tax measures and improvement in administration. Total expenditure will grow by 7 per cent by restricting outlays on personnel (especially for new recruitment) and on educational scholarships. No general wage increase. Strengthening of government financial organization and procedures especially on expenditure control.

Table 6 (continued). Mali: Summary of Financial Program for 1982

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Current payments arrears: Reduction by about one half (MF 28 billion) of total public sector payments arrears (domestic and external), of which MF 14 billion through cash settlements by the Treasury and MF 14 billion through anticipated consolidation and rescheduling of external arrears.

Public enterprises: Rehabilitation of the public enterprise sector through reduction by one third of aggregated operational losses; closure of nonviable enterprises; transfer of nonstrategic industries to the private sector; increase in sales prices and containment of production costs; strict limitation on access to bank credit.

Monetary policy: Credit expansion limited to 11 per cent implying expansion of money and quasi-money of 11 per cent given the overall balance of payments target; restrictive credit policies for noncrop financing credit (maximum rate of increase: 14 per cent); increase in interest on savings rates on deposits of 1 per cent and a shift to flexible rates on larger time and demand deposits.

Economic policies: Formal decontrol of cereals marketing; scaling down of official marketing and flexible price policy to limit government subsidies; continuing review of producer prices to ensure profitability; review of operations of rural agricultural development agencies; prompt readjustment of petroleum prices, electricity, transportation tariffs and other main products to reflect cost increases. Improved maintenance of existing productive facilities and infrastructure; better selection and preparation of new projects to increase the economic return of investment.

External sector: No new borrowings on nonconcessional loans with original maturities of less than 12 years; no exchange and trade restrictions; consolidation and rescheduling of a substantial portion of external debt.

4. Monitoring procedure:

A staff visit in July 1982 followed by a Fund review in November 1982 in order to establish the performance criterion on credit to the economy for December 1982 and to discuss the budget and other policies for 1983. In addition, an earlier review would take place when the terms of Mali's WAMU membership are known. At the request of the Malian authorities, a Fund resident representative will be assigned to Bamako.

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in 1981, while expenditure growth will be limited to 7 per cent (4.6 per cent in 1981).

One half of the large increase in budgetary revenues will stem from discretionary tax measures already adopted and the balance from ongoing reform of tax assessment and collection procedures. Discretionary tax measures, which are expected to yield MF 4.7 billion, include a 20 per cent increase in the tax on cattle, a 20 per cent increase in the development tax, an increase in stamp duties, the adjustment of the administrative values on imports, and a supplementary tax on wages paid by employers (Appendix Table 11). Tax administration is being strengthened by more accurate controls on customs clearance, more precise assessment of direct taxes (relying on actual income rather than presumptive amounts), better coordination between assessment and collection services, and strict limitations on import and indirect tax exemptions. A new scale for the global income tax will be prepared, with Fund technical assistance, for adoption in 1983.

The growth of budgetary expenditures will be contained by limiting the expansion of the wage bill and education expenditures (Appendix Table 12). The rate of growth of expenditures on personnel will be cut from 10.7 per cent in 1981 to 5.2 per cent in 1982 by not granting a general wage increase and by cutting by half budgetary appropriations for new recruitment. Expenditures on scholarships will be cut by 20 per cent from the 1980 level by reducing individual entitlements for secondary school students. However, expenditures in 1982 will be higher than in 1981 because of the normalization of school activities. The monitoring of expenditures on supplies and maintenance will be considerably strengthened, and their appropriations have been frozen at 1981 levels.

The consolidated government deficit, excluding interest on the operations account, will be contained to MF 10.4 billion, or 1.6 per cent of GDP, about one third below that of 1981. The surplus of the Special Funds is expected to decline from MF 2.1 billion in 1981 to MF 1.5 billion in 1982, mainly because the Road Fund will resume normal operations, after having been blocked in 1981 for liquidity shortage; at the same time the surplus of the Price Stabilization Fund (ORSP) should increase, as its subsidies to the cereal sector will decline from MF 3.7 billion in 1981 to about MF 2 billion in 1982. The authorities expected to finance the consolidated government deficit entirely financed by identified foreign budgetary assistance and statutory advances from the Central Bank, without any further increase in current payments arrears.

To eliminate the liquidity impediments to the proper functioning of the Treasury, the Postal Checking System, and the public enterprises, the authorities are undertaking substantial corrective measures under the program to reduce the existing stock of current payments arrears and to guard against new accumulations. Total current payment arrears of the public sector, including public enterprises, at end-1981 were estimated to amount

to MF 55 billion, of which two-third represent external arrears (Table 7). Under the program, there will be a reduction of arrears by an amount of MF 13.9 billion, through direct settlement by the Treasury financed by special advances from the Central Bank. The distribution will be as follows:

	<u>1982</u> <u>April-Dec.</u>	<u>1983</u> <u>Jan.-April</u>	<u>Total</u> <u>program</u> <u>period</u>
<u>(In billions of Mali francs)</u>			
External arrears	6.0	2.1	8.1
Of which: Treasury	(3.1)	(2.1)	(5.2)
Post Office	(1.5)	(--)	(1.5)
Public enterprises	(1.4)	(--)	(1.4)
Domestic arrears of the Treasury	<u>4.6</u>	<u>1.2</u>	<u>5.8</u>
Total arrears	<u>10.6</u>	<u>3.3</u>	<u>13.9</u>

In addition, a reduction of MF 1.6 billion would be effected through a bi-lateral rescheduling of certain debts owed to foreign governments; the elimination of the interest arrears under the operations account (MF 12.7 billion) would take place through consolidation as part of the entry into WAMU. Thus, the total reduction of payments arrears both through cash settlement and refinancing will be MF 28 billion, or about half of the outstanding level.

The steady deterioration in the fiscal situation has led to the illiquidity of the claims of the Postal Checking System on the Treasury (MF 16 billion), which in turn has prevented the encashability of postal deposits. Under the program, the liquidity of the Postal Checking System will be restored through the establishment of a MF 6 billion reserve fund with the Central Bank, which will be used exclusively to cover a possible withdrawal of nongovernment deposits (MF 5.7 billion as of September 30, 1981). The balance of the deposits, which pertain to public entities, will be consolidated as a long-term debt of the Treasury to them. At the same time, the authorities have undertaken to ensure that the Treasury will not in the future absorb any part of the deposits with the Postal System (including funds related to international postal transfers). These arrangements are expected to improve markedly the functioning of the financial system in the country and to contribute to improved mobilization of financial saving.

The authorities are strengthening the control of the Treasury over the special funds by gradually limiting their financial autonomy which has grown steadily in the past. In the near future, they will establish, with Fund technical assistance, a unit in the Ministry of Finance to monitor the special funds' operations. This unit will be also responsible for

Table 7. Mali: Current Payments Arrears, 1978-81

(In millions of Mali francs; end of year)

	1978	1979	1980	1981
Treasury <u>1/</u>	10,231	15,828	20,891	28,605
Domestic arrears	(6,650)	(10,288)	(13,565)	(20,556) <u>2/</u>
External arrears	(3,581)	(5,540)	(7,326)	(8,049)
Autonomous Amortization Agency (AAA)	--	--	378	1,192
Interest	--	--	(61)	(122)
Principal	--	--	(317)	(1,172)
Central Bank <u>3/</u>	1,019	2,190	5,169	12,700 <u>3/</u>
Post Office (International postal transfers)	1,281	2,838	3,520	4,820
Public enterprises <u>4/</u>	3,946	3,824	5,366	7,683
Total arrears	16,477	24,680	35,324	55,000
Domestic arrears	6,650	10,288	13,565	19,000
External arrears	9,827	14,392	21,759	36,000
<u>Annual changes</u>				
Total arrears	3,747	8,203	10,644	19,676
Domestic arrears	342	3,638	3,277	5,435
External arrears	3,405	4,565	7,367	14,241
Treasury arrears (+AAA)	526	5,597	5,441	8,655

Source: Data provided by the Malian authorities.

1/ The distribution of domestic and external arrears for the period 1978-80 has been derived on the basis of the actual distribution on June 30, 1981.

2/ Excluding wage arrears at year end which were settled in early 1982.

3/ Unrecorded interest accruing on the operations account with the French Treasury.

4/ External payments arrears only.

drawing up an overall accounting system covering the budget, special funds, extrabudgetary items reflected in the Treasury accounts, revenues earmarked for rural development operations, and wholly externally financed development expenditures, so as to enable an effective Treasury control of overall public sector operations. A system of timely quarterly analytical statements covering the Treasury's operations has been established.

b. Monetary policy

Monetary and credit policies in 1982 will remain broadly restrictive to help ensure the attainment of the program's principal objectives and to enforce discipline on the performance of public enterprises. Domestic credit is expected to expand at a rate of 10.4 per cent in 1982 against about 8.8 per cent in 1981 (Table 8). The expansion of credit to the Government is expected to accelerate to 10 per cent from 7.7 per cent in 1981; the increase in credit will be used mostly to reduce payment arrears of the Treasury, establish the Postal Checking Reserve Fund, decrease liabilities to foreign postal administrations, and provide special advances to public enterprises to reduce their external arrears. In view of the small amount of nongovernment deposits with the Postal Checking System and the difficulty of forecasting their movements, only total bank credit to the Government is subject to a ceiling.

Credit to the economy is projected to increase at a rate somewhat higher than in 1981 (10.6 per cent against 9.6 per cent). There will be an acceleration in the growth of credit other than crop financing, resulting mainly from a more rapid expansion of credit for exports and for small- and medium-sized enterprises. Credits will not be provided to finance structural operating deficits of public enterprises. Crop financing is expected to expand less rapidly than in 1981, partly because of the smaller cotton crop. Taking into account the projected deficit of the balance of payments, money and quasi-money are expected to grow by 11 per cent, a rate slightly below that projected for nominal GDP (12 per cent), implying that the income velocity of money will increase slightly. The ceiling on credit to the economy for end-December 1982 will be set before end-November 1982 in the course of a planned Fund review of the program, at which time financing needs for the 1982/83 crop year will be known. The ceiling on credit to the economy for the period up to end-September 1982 are expressed in terms of upper and lower limits. The margin of flexibility was introduced 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. Under the program, the authorities would consult with the Managing Director whenever a lower limit is exceeded.

The authorities have recognized the need to raise the level of interest rates, in order to promote savings and to bring the rates more line with those in neighboring countries. For this purpose they have decided to raise deposit rates by the beginning of May 1982. The interest on sight

Table 8. Mali: Monetary Survey, 1979-82

(In billions of Mali francs; end of period)

	1979 Dec.	1980		1981		1982		Annual increase (in per cent)	
		Dec.	Sept.	Dec.	Sept.	June	Dec.		
				Provisional			Program	1981	1982
Foreign assets (net)	-103.9	-112.1	-120.9	-121.6	-124.1 1/	-127.7 1/	-133.2 1/	-136.2 1/	-8.5 -12.0
Domestic credit	266.1	281.9	293.2	306.7 2/	316.3	319.6	321.1	338.4	8.8 10.4
Claims on Government	113.9	117.9	124.0	127.0	127.1 1/	133.1 1/	137.0 1/	139.7 1/	7.7 10.0
Banking system	109.8	112.2	118.3	121.3	121.4	129.4	135.3	139.7	8.1 15.2
Postal checking system	4.1	5.7	5.7	5.7	5.7	3.7	1.7	--	--
Claims on the economy	152.2	164.0	169.2	179.7 2/	189.2	186.5 4/	184.1 4/	198.7 3/	9.6 10.6
Ordinary	103.1	115.1	122.3	121.8	127.1	130.3	134.2	138.8	5.8 14.0
Crop financing	49.1	48.9	46.9	57.9 2/	62.1	56.2 4/	49.9 4/	59.9 3/	18.4 3.6
Money and quasi-money	129.4	138.7	137.5	145.8	154.5	153.2	150.2	161.6	5.1 10.9
Other items (net)	32.8	31.1	34.9	39.3	39.7	40.7	40.7	42.7	-- --

Source: Data provided by the Malian authorities.

1/ Interest on the operations account accruing due in 1982 are excluded in anticipation of the consolidation of the total liabilities under operations account.

2/ Including an upward adjustment of MF 5 billion to take account of technical delays in granting crop financing facilities at the end of 1981.

3/ Provisional estimate which will be appropriately adjusted before November 1982 at the time of a Fund review to take account of the volume and value of marketed production in the fourth quarter of 1982.

4/ Data corresponding to the lower limits under the credit ceilings.

deposits, which at present is zero, or 0.15 per cent for large deposits, will be raised to a range between 2 and 3 per cent according to the size of deposits. Interest rates on large time deposits of all maturities and on small deposits of maturities higher than one year will be freely negotiable above minimum levels to ensure the prevalence of market determined rates, whereas at present they are fixed at a level between 5 and 6 per cent for large deposits and 4 to 5.5 per cent for small deposits. Interest on savings accounts will be raised from 4 to 5 per cent. On the other hand, lending rates, which range from 9.5 per cent to 15 per cent (with lower rates for agriculture crop credits), approximate those which prevail in neighboring countries. In view of the magnitude of the public enterprises' indebtedness to the banking system, the authorities do not propose to change these rates at present. However, regional harmonization of the interest rate structure, together with a further increase in rates, will take place at the time of Mali's entry into WAMU.

### 3. Economic policies

The anticipated reduction of government and state enterprise deficits should contain the growth in consumption expenditures and lead to a return to positive gross domestic savings. Investment, mainly agrobased and less capital-intensive than in the past and still to be financed largely from external resources is expected to increase to 21 per cent of GDP with the entering into effect of the new Five-Year Development Plan.

In line with their stated objectives of bringing about a financial equilibrium in the state enterprise sector by 1985 and encouraging private sector participation in the economy, the Malian authorities intend to continue with the implementation of a number of adjustment measures, which are specified in the attached policy memorandum. The overall operating deficit for the 13 major state enterprises, which showed a substantial narrowing between 1979 and 1981, is to be further reduced by 30 per cent to MF 6 billion in 1982 (Appendix Table 10). A major part of this improvement will come from the ongoing restructuring of SOMIEX's distribution activities and improved price adjustments; an increase in official whole-sale prices and a reduction in the operating losses of the public cereals marketing agency (OPAM); a reduction in the deficit of the public railroad enterprise (RCFM) following a two-stage increase in its tariffs; an improvement in the financial position of the electricity agency (EDM) through substantial tariff increases; and a temporary scaling down of the operations of the groundnut oil processing company (SEPAMA). Furthermore, state enterprises' activities relating to groundnut oil refining (SEPOM), road transport (CMTR), tanning and shoe manufacturing (TAMALI), hotels (HDM), road building construction (SEMA, SONETRA, and SEBRIMA), and wood manufacturing (EMAB), are to be wholly or partially turned over to private participation. Finally, for the sector as a whole, bank credit is to be limited to legitimate operational needs; sale prices are to be realistically adjusted; operating costs compressed, receivables more promptly collected, and mutual claims among public enterprises and between them and the Treasury cleared. In addition, a comprehensive review of the whole

sector is being undertaken with World Bank assistance and is expected to be completed by the end of 1982. The progress made in restructuring the public enterprises sector will form a part of the mid-term review.

With regard to agriculture, the authorities intend to maintain remunerative producer prices and to eliminate possible price distortions in private trade resulting from public marketing arrangements. Producer prices were raised sharply over the past two years to levels deemed remunerative and consistent with world market prices, and the authorities will ensure that they remain so through continuous monitoring. They have already agreed to review the producer price for paddy to stimulate production in irrigated areas and to curb smuggling. Despite some political resistance, the official retail price of millet and maize has been raised in December 1981 by 36 per cent to MF 116 per kilogram, a price which at the beginning of 1982 was close to the free market price in urban areas. At the same time, the scope of public marketing of cereals has now been substantially restricted, and legal restraints to private trading of cereals other than rice from irrigated areas have been removed. The retail sale of cereals (other than rice) by private traders is now subject to a maximum price of MF 125 per kilogram, but the authorities are committed to follow flexible policies in enforcing this limit, taking into account intra-annual and geographical market price fluctuations. The increase in the official cereal sale price, and the increased participation of private traders' efforts to cut OPAM's operating costs should lead to an improvement in its financial position resulting in a substantial reduction in the level of subsidies from the Price Stabilization Fund (ORSP). OPAM's pricing policies and its financial position will be analyzed during the Fund review so as to ensure that further progress is being made to bring official retail prices in line with market prices and to reduce further government subsidies to public cereals marketing.

In December 1981 the commercialization of groundnuts was completely liberalized. As a result, the role of the public enterprises (SEPAMA and SEPOM), which purchase groundnuts from the rural development agencies to process it into oil, has been reduced, and the expected losses of SEPAMA, due to unfavorable export prices, will be severely curtailed. The operation of rural development agencies will be reviewed during 1982 with World Bank assistance, with the purpose of finding ways to improve their efficiency and reduce their financial needs.

An improvement in the formulation, implementation, and management of investment projects is essential to the medium term recovery of the economy. As explained in the last staff report, the marked increase in the investment ratio during the last decade, from 12 per cent of GDP in 1972 to 17 per cent in 1980, has not been accompanied by a commensurate growth and diversification of the economy. A number of measures included in the program, especially in the areas of agriculture and public enterprises, will contribute to improving the economic return of existing infrastructure and equipment. In addition, the new Development Plan gives increased emphasis to high yielding small projects which can be carried out by local communities and private investors, with minimal government

assistance. Priority will be assigned to labor intensive investment, with low recurring costs, aiming at both export promotion and import substitution. To improve the efficiency of investments, the authorities will strengthen the selection and preparation of projects. In this connection they intend to work closely with the World Bank to improve planning procedures.

#### 4. External policies

The steady widening of the current account deficit of the balance of payments (excluding official transfers) between 1979 and 1981 is forecast to be reversed in 1982, when the deficit is expected to decline by 6 per cent to SDR 190 million, or 19 per cent of GDP. Moreover, the current account deficit, net of imports tied to project aid and of interest on the operations account to be consolidated, is forecast to decline further in 1982 from SDR 46 million (5 per cent of GDP) to SDR 32 million, or 3.2 per cent of GDP. The decline is expected to stem essentially from the fall in nonproject-related imports, reflecting lower imported volumes of petroleum products because of increased prices and of cereal imports following the good 1981/82 harvest. Exports, which declined sharply in 1981, are forecast to recover only marginally in 1982. The decline in cotton production in crop year 1981/82 will be reflected in lower export volume (19 per cent) of cotton fiber in 1982 and be accompanied by a slight price decline. This development would be offset by increasing livestock export following herd reconstitution. Deterioration in the terms of trade is anticipated to be 2 per cent. An increase in the inflow of net official transfers and capital of some 28 per cent is projected, reflecting mainly the refinancing of the interest payments accruing under the operations account. As a result, the overall deficit is forecast to decline sharply by about two-third to SDR 13 billion in 1982. The inflow of Fund resources under the proposed stand-by program should cover both the overall financing needs of the deficit and the repayment by cash settlement of an amount of accumulated external current payments arrears equivalent to SDR 9 million. Taking into account external arrears on debt service to be rescheduled and consolidated in 1982 (SDR 22.4 million) and the amount of external arrears to be repaid during the first quarter of 1983, the total reduction during the period of the stand-by arrangement will be SDR 35 million, or two-thirds of the estimated amount at the end of December 1981.

Mali's public external debt (including the operations account and repurchase obligations to the Fund), is expected to increase further in 1982 to US\$960 million as a result of an inflow of external project aid and purchases under the proposed stand-by arrangement. The debt service ratio, excluding interest on the operations account, is projected to increase to 9.2 per cent in 1982 after the envisaged rescheduling of three bilateral loans. As the authorities do not intend to make any recourse to nonconcessional borrowing and expect to benefit from sizable debt relief, especially from France, the People's Republic of China, and the U.S.S.R., the debt service ratio is projected to remain broadly stable at about 10 per cent through 1985 (Appendix Table 13).



5. Performance criteria under the stand-by arrangement

The performance criteria in the proposed stand-by are: (i) quarterly ceilings on net bank credit to the Government, (ii) quarterly ceilings on bank credit to the economy; these ceilings are expressed in terms of a band of upper and lower limits. While the upper limits constitute the performance criteria, any excess over the lower limits will result in consultations with the Fund's management; (iii) quarterly reductions in both total and external payment arrears; (iv) a provision that no new non-concessional external loans with initial maturities of 1 to 12 years will be contracted or guaranteed by the Government during the program period; and (v) the standard provision relating to trade and exchange practices. In addition, there will be a full review with the Fund before the end of November 1982, during which the ceiling on bank credit to the economy for December 1982 will be established. During this review, the staff will examine closely the budget for 1983, including progress made in restructuring the public enterprises, in strengthening taxation and expenditure control, and in improving the administrative capability of the Ministry of Finance; it will also discuss the agricultural pricing policy and further measures to improve the official cereal marketing system and reduce government subsidies. An additional review would be needed when the terms of Mali's entry into WAMU are known, unless such a review can be conducted concurrently with the November review. The quantitative performance criteria and targets for 1982-83 are shown in Table 9.

IV. Staff Appraisal and Proposed Decision

Recognizing the seriousness of the economy's structural economic and financial imbalances, since 1980 the Malian authorities have conducted a comprehensive reexamination of their policies and initiated wide-ranging reforms especially relating to public finances, state enterprises, and agriculture. This process has involved a close relationship between the Malian officials and the Fund and World Bank staff over a long period of discussions. The reforms are being effected within the framework of the recently adopted Five-Year Development Plan for 1981-85 and Mali's entry into the West African Monetary Union, now envisaged for the later part of 1982. As a first step in the implementation of these reforms, in 1981 the authorities adopted important adjustment measures consistent with the clearly required reorientation of economic and financial policies. As a result, the consolidated budget and balance of payments deficits appear to have been significantly reduced, despite a decline in economic activity induced by unfavorable weather conditions. Nevertheless, Mali still faces major economic and financial problems, which are compounded by the further weakening of the terms of trade and a high level of payments arrears of the public sector.

Table 9. Mali: Quantitative Performance Criteria and Targets Under The Proposed Stand-by Arrangement, 1981-83.

(In billions of Mali francs; end of period)

	1981 Dec. Actual	March Provisional	1982 June Performance criteria	Sept.	Dec.	1983 End of program target
Net bank credit to Government <u>1/</u>	121.3	121.4 <u>2/</u>	129.4	135.3	139.7	
Bank credit to the economy <u>1/</u>						
Lower limit <u>4/</u>	179.7 <u>3/</u>	189.2 <u>2/</u>	186.5	184.1	198.7 <u>5/</u>	--
Upper limit <u>6/</u>		191.2 <u>2/</u>	188.5	187.1		
Reduction in payment arrears (cumulative amount) <u>7/</u>						
Total arrears			4.0	7.3	10.6	13.9
Of which: external arrears			3.4	4.2	6.0	8.1
External borrowing <u>8/</u>		--	--	--	--	--

Sources: Data provided by the Malian authorities and proposed stand-by arrangement (Attachment A).

1/ For a precise definition of net bank credit to the Government and bank credit to the economy, see Attachment C, page 49.

2/ There will be no adjustment in credit ceilings for a difference between actual and provisional figures for end-March 1982.

3/ Includes an upward adjustment of MF 5 billion to take account of technical delays in granting crop financing facilities at the end of 1981.

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

5/ Represents the planned limit; the performance criterion will be set during the program review scheduled before end-November 1982.

6/ The upper limits constitute the quantitative performance criteria.

7/ For the definition of arrears, see Attachment C, page 45.

8/ Nonconcessional loans contracted or guaranteed by the Government with initial maturities of 1 to 12 years. The stock of outstanding nonconcessional borrowing at December 31, 1981 was only FM 1.2 billion (SDR 1.79 million), and there would be no such borrowing during the period of the program.

The program of adjustment for 1982, in support of which the authorities are requesting a one-year stand-by arrangement, contains an interrelated set of policies, of both a short-term and a structural nature, geared toward reducing further the fiscal imbalance, improving the performance of the state enterprise sector, strengthening the country's payments system, and stimulating agricultural production.

An important element of the program is a further reduction in the consolidated government deficit (excluding interest charges on the operations account, which would be refinanced) from 3.2 per cent of GDP in 1980 and 2.4 per cent in 1981 to 1.6 per cent in 1982, a level which could be financed by identified concessional foreign financing and statutory advances from the Central Bank. This objective will be achieved by a combination of revenue-raising and expenditure restraining-measures. The former includes new tax measures, while the latter includes a general wage freeze, a strict limitation on new recruitment, a curb on education outlays (especially scholarships), and a reduction in price subsidies. To facilitate a close monitoring of fiscal objectives and policies, the administrative structure of the Ministry of Finance will be strengthened, partly with foreign technical assistance. In view of the crucial importance of restoring confidence in the Government's payments system, the program includes a precise mechanism to reduce substantially the level of current payments arrears of the public sector and to free part of the private sector deposits absorbed by the Treasury through the Postal Checking System. In the view of the staff, this is a prerequisite for a resumption of normal economic activities and for an improvement in financial intermediation and private savings.

While the planned rehabilitation of the relatively large public enterprise sector of Mali might well take several years, the program includes a number of specific measures to improve significantly the performance of the key enterprises and to reduce the aggregate losses in 1982. Most of the various measures, which are described in detail in the attached policy memorandum, have already been implemented in early 1982. In parallel with the implementation of these measures, the Government intends to proceed as expeditiously as possible with the transfer to the private sector (or to the opening up to private participation) of several small enterprises, which are identified in the attached memorandum. A comprehensive survey of the public enterprise sector, which is now being conducted with the assistance of the World Bank, will facilitate the formulation toward the end of 1982 of additional measures to be implemented at the beginning of 1983.

The liberalization of the cereals market introduced in early 1981 and instituted formally in recent weeks constitutes a major policy change which will stimulate domestic production under normal weather conditions and improve the efficiency of the marketing system. Progress already made in the restructuring of OPAM's activities is important but should be pursued with determination in 1982 so as to reduce further the need for subsidy payments. To support these reforms effectively, it is essential, as envisaged in the program, that official wholesale prices for cereals be flexible and

adjusted periodically to underlying market conditions. Following the marked increases in 1980/81 and 1981/82, agricultural producer prices (with the exception of paddy produced in irrigated areas) are broadly in line with world market prices. The Malian authorities have stated that producer prices will be reviewed and, if necessary, adjusted before June 1982 to ensure that they remain sufficiently remunerative. They have already concluded that the producer price for paddy will likely require adjustment.

Despite the fall in cotton production, the adjustment policies adopted for 1982 and the increase in cereal production will permit a reduction in the ratio of the current account deficit of the balance of payments to GDP from 22 per cent to about 19 per cent. To finance this deficit Mali is expected to continue to benefit from a steady inflow of grants and concessional loans in association with development projects and to obtain substantial refinancing mainly of interest due to the operations account. Nevertheless, the current account deficit will remain very large, and further reduction will be necessary in the years ahead before a sustainable level is reached. Even though the effective depreciation of the Mali franc that has occurred since mid-1980 will help to reduce balance of payments pressures, a durable improvement in the external position will have to be achieved through a combination of continued demand restraining measures and structural policies to increase efficiency in economic management and develop Mali's agricultural potential. As the authorities do not intend to make recourse to nonconcessional borrowing and expect to benefit in the medium term from sizable debt relief, especially from France, the People's Republic of China, and the U.S.S.R., the debt service ratio is projected to remain at around 10 per cent over the next few years.

Given the structural character of the existing imbalances and the social and climatic constraints, the amount of adjustment being sought for 1982 is substantial and will require strong political resolve. Moreover, the authorities will have to continue to show serious determination over a number of years in implementing the intended reforms in order to achieve viable fiscal and balance of payments positions. In this respect every effort must be made to implement at the earliest the reforms of the public sector recruitment policy and the education system, and to restore the integrity of the budget. Decisive action will still be needed to make public enterprises financially viable and to increase their contribution to government revenues, and to move towards the elimination of government subsidies to public cereal marketing. Determined efforts will also be required to increase private savings and to encourage greater private initiative in directly productive activities in agriculture and manufacturing.

In view of the comprehensive nature of the program and Mali's relatively weak administrative capability, the implementation of the program will need to be carefully monitored. The Malian authorities are aware of this and, in the course of the discussions on the present program, have demonstrated to the staff their strong commitment to implement the measures and have provided for appropriate steps to ensure close monitoring. The

program provides for a staff visit in July and a Fund review before the end of November. An earlier review would become necessary when the terms of Mali's entry into WAMU are known, in order to integrate them into the program. Furthermore, the Fund resident representative, to be appointed shortly, will assist the authorities in the implementation and monitoring of the program. The staff believes that the proposed program contains substantial and yet realistic short-term and structural adjustment measures and deserves support. Accordingly, the following decision is proposed for adoption by the Executive Board:

1. The Government of Mali has requested a stand-by arrangement for the period from May \_\_ 1982, to May \_\_, 1983 for an amount equivalent to SDR 30.375 million.

2. The Fund approves the stand-by arrangement attached to EBS/82/68.

Relations with the Fund  
(As of March 31, 1982)

Fund data

Date of membership:	September 27, 1963
Quota:	SDR 40.5 million
Intervention currency and rate:	French franc; MF 100 = FF 1
Fund holdings of local currency:	SDR 38.17 million (94.25 per cent of quota) of which, SDR 1.25 million (3.08 per cent) under the oil facility and SDR 5.10 million (12.59 per cent) under the compensatory financing facility. Excluding purchases under these special facilities, the Fund holdings are 78.57 per cent of quota.
SDR position:	Holdings amounted to SDR 0.04 million (0.24 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 Article 1981 IV consultation discussions were held in Bamako during the periods April 27-May 14 and September 10-16, and the staff report (SM/81/206) was discussed by the Executive Board on November 16, 1981.

Relations with the World Bank Group

1. Lending operations through February 1982 1/

	<u>Committed</u>	<u>Disbursed</u>	<u>Undisbursed</u>
	<u>(In millions of U.S. dollars)</u>		
Agriculture and rural development	79.3 2/	62.6	16.7
Rainfed agriculture	(32.5)	(22.4)	(10.1)
Irrigated agriculture	(29.0)	(27.5)	(1.5)
Livestock and forestry	(17.8)	(12.7)	(5.1)
Transportation	78.8	58.0	20.8
Roads	(52.5)	(35.7)	(16.8)
Railways	(26.3)	(22.3)	(4.0)
Education	15.0	11.5	3.5
Urban development	12.0	3.9	8.1
Industry	8.0	0.8	7.2
Energy	3.7	1.0	2.7
Telecommunications	17.1 3/	3.6	13.5
 Total	 213.9	 141.4	 72.5
 Repayments	 0.7	 0.7	 --
 Debt outstanding	 213.2	 140.7	 72.5

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 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 have been selected; the terms of reference for a study of agricultural development agencies have been drawn up and consultant have been selected.

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1/ IDA lending only.

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

3/ Includes US\$13.5 million approved but not yet effective.

Table 10. Mali: Net Operating Results of the  
Major State Enterprises 1/, 1979-82

(In millions of Mali francs)

	1979	1980	1981 Provisional	1982 Target
SOMIEX (Import-export)	-7.740	-636	730	100
Export activities	(600)	(4.710)	(2.467)	(111)
Domestic distribution	(-8.300)	(-5.346)	(-1.737)	(-11)
SCAER (Agricultural inputs)	-3.500	--	--	--
OPAM (Cereals marketing)	-5.936	-6.795	-4.390	-3.000
Air Mali (Air transport)	-1.293	-1.790	-2.000	-1.400
EDM (Electricity)	-480	-222	-150	--
RCFM (Railways)	-1.215	-2.193	-1.885	-300
COMATEX (Unbleached textile fiber)	-87	-570	-570	-300
ITEMA (Textiles)	-354	-380	-380	--
PPM (Pharmaceuticals)	85	218	410	400
SEPAMA (Groundnut oil processing)	-1.709	-1.754	-1.000	-1.000
SEPOM (Refined groundnut oil)	-2.549	-619	-839	-1.000
SMECMA (Agricultural equipment)	113	203	200	200
SONATAM (Cigarettes and matches)	211	194	507	500
Total	-22.603	-14.377	-9.367	-5.800

Source: Data provided by the Malian authorities.

1/ Most of the losses are financed, outside the Central Government budget, by foreign assistance, increases in domestic credit, accumulation of tax arrears and unpaid bills, and utilization of capital. Government subsidies consist only of direct transfers from the Price Stabilization Fund (ORSP) to OPAM.



Table 11. Mali: Budgetary Revenues, 1979-82 <sup>1/</sup>

(In millions of Mali francs)

	1979	1980	1981 Provisional	1982 Proj.
<u>Taxes on net income and profits</u>	<u>12,253</u>	<u>11,840</u>	<u>11,458</u>	<u>12,744</u>
Enterprises	7,496	5,802	6,221	7,116
Of which: state enterprises	(1,799)	(1,407)	(1,542)	(1,400)
private sector	(5,697)	(3,147)	(3,449)	(4,000)
Individuals	4,757	6,038	5,237	5,628
Of which: assessment	(2,779)	(3,063)	(3,086)	(4,462)
withholding	(1,724)	(2,381)	(1,706)	(700)
<u>Taxes on property</u>	<u>481</u>	<u>456</u>	<u>510</u>	<u>1,120</u>
<u>Taxes on goods and services</u>	<u>9,553</u>	<u>9,347</u>	<u>10,943</u>	<u>11,960</u>
Of which: general sales tax	7,398	7,249	8,653	8,313
Of which: state enterprises	(...)	(5,299)	(2,250)	(3,000)
private sector	(...)	(1,300)	(3,825)	(4,590)
Excises	2,155	2,098	1,544	2,708
<u>Taxes on international trade</u>	<u>18,770</u>	<u>24,667</u>	<u>31,057</u>	<u>33,952</u>
Of which: custom duties	1,248	1,252	1,485	3,020
other import charges	5,708	5,692	8,062	9,000
sales taxes on imports	9,400	9,038	10,960	12,870
petroleum taxes	413	5,090	5,253	5,392
liquidation	703	1,537	4,000	2,520
export tax	2,160	1,644	1,297	1,150
<u>Other taxes</u>	<u>11,269</u>	<u>10,731</u>	<u>13,359</u>	<u>15,401</u>
Of which: head tax	4,991	5,089	5,446	6,847
cattle tax	1,060	1,095	1,325	1,561
stamp duties	1,409	1,788	1,906	2,300
previous years receipts	3,201	2,042	4,153	3,620
<u>Nontax revenues</u>	<u>2,534</u>	<u>2,361</u>	<u>1,724</u>	<u>3,710</u>
<u>Total revenues</u>	<u>54,920</u>	<u>59,402</u>	<u>69,091</u>	<u>78,887</u>
Percentage change:	(5.0)	(8.2)	(16.3)	(14.2)

Source: Data provided by the Malian authorities.

<sup>1/</sup> Central and regional government budgets only.

Table 12. Mali: Budgetary Expenditures, 1979-82 1/  
(In millions of Mali francs)

	1979	1980	<u>1981</u> Provisional	<u>1982</u> Program
Personnel	43,060	50,846	56,311	59,238
National budget	38,288	44,749	50,084	51,844
Regional budget	4,772	5,737	6,227	7,394
Scholarships	7,529	7,850	5,400	6,326
Maintenance	14,309	12,944	13,641	14,897
National budget	13,806	12,532	13,241	14,449
Regional budget	503	412	400	448
Miscellaneous	7,649	8,070	7,641	8,339
National budget	5,094	5,612	4,248	4,447
Regional budget	321	405	447	499
Equipment	2,334	2,003	2,946	3,393
Total expenditures	72,647	79,350	82,993	88,800
Percentage change	(18.5)	(9.5)	(4.6)	(7.0)

Source: Data provided by the Malian authorities.

1/ Central and regional government budgets only. No subsidies to public enterprises are included in these budgets.

Table 13. Mali: Debt Service, 1980-85 <sup>1/</sup>

(In millions of U.S. dollars)

	1980	1981 Provisional	1982	1983	1984	1985
				Projections		
<u>Suppliers' credit</u>	0.639	0.582	0.573	0.563	0.554	0.545
Amortization	0.497	0.460	0.460	0.460	0.460	0.460
Interest	0.142	0.122	0.113	0.103	0.094	0.085
<u>Financial institutions</u>	1.826	1.919	2.203	2.074	1.945	1.816
Amortization	1.066	0.997	1.388	1.388	1.388	1.388
Interest	0.760	0.922	0.815	0.686	0.557	0.428
<u>Multilateral loans</u>	1.800	3.904	5.464	6.870	10.382	11.860
Amortization	0.492	1.470	2.314	3.432	6.721	7.786
Interest	1.308	2.434	3.150	3.438	3.661	4.074
<u>Bilateral loans</u>	6.752	9.919	14.378	19.633	45.922	45.384
Amortization	5.295	6.089	9.182	13.996	40.236	39.968
China, People's						
Republic of	(--)	(--)	(--)	(--)	(12.074)	(11.571)
U.S.S.R	(0.967)	(--)	(--)	(1.339)	(16.487)	(15.450)
Interest	1.457	3.830	5.196	5.637	5.686	5.416
U.S.S.R	(--)	(0.323)	(1.021)	(1.178)	(1.259)	(1.188)
<u>IMF Trust Fund</u>	0.106	0.136	0.136	0.136	2.567	4.838
Amortization	--	--	--	--	2.434	4.718
Interest	0.106	0.136	0.136	0.136	0.133	0.120
<u>Other IMF</u>	3.545	2.223	1.621	3.100	3.117	0.825
Repurchases	2.860	1.680	1.219	2.771	2.932	0.733
Oil facility	(2.860)	(1.680)	(1.219)	(0.575)	--	--
CFF	(--)	(--)	(--)	(2.196)	(2.932)	(0.733)
Charges	0.685	0.543	0.402	0.329	0.185	0.092
<u>Operations account</u> <sup>3/</sup>	12.232	23.376	22.936	--	--	--
<u>Total debt service</u>	26.900	42.059	47.311	32.376	64.487	65.268
Amortization	10.210	10.696	14.563	22.047	54.171	55.053
Interest	16.690	31.363	32.748	10.329	10.316	10.215

Sources: Caisse Autonome d'Amortissement, IBRD; and staff estimates.

<sup>1/</sup> Projections based on debt outstanding as of December 31, 1981.

<sup>2/</sup> Without taking into account the anticipated bilateral rescheduling.

<sup>3/</sup> Interest payments only. Debt service payments after the consolidation of total liabilities are not yet known but are expected to be modest.

Mali - Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated March 12, 1982, from the Minister of Finance and Commerce requesting a stand-by arrangement and setting forth the objectives and policies which the Government of Mali intends to pursue for the period of this arrangement. 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 of one year from \_\_\_\_\_ 1982, Mali will have the right to make purchases from the Fund in an amount equivalent to SDR 30.375 million, subject to paragraphs 2, 3 and 4 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 12.150 million until June 30, 1982, SDR 18.763 million until September 30, 1982, and SDR 25.375 million until December 31, 1982.

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.

3. 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:

a. during any period in which:

- i) the limits on net bank credit to the Government specified in the table attached to the policy memorandum (Annex I); or
- ii) the upper limits on bank credit to the economy specified in the table attached to the policy memorandum; or
- iii) the performance criteria for the reduction of payments arrears specified in the table attached to the policy memorandum.

are not observed; or

b. during any period in which the intentions in paragraph 3 of the attached letter are not carried out, or after understandings pursuant to such intentions have been reached, while they are not being observed; or

c. if Mali were to undertake any new nonconcessional external borrowing contracted or guaranteed by the Government with initial maturities of 1 to 12 years; or

- d. if Mali:
  - i) imposes restrictions on payments and transfers for current international transactions; or
  - ii) introduces 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 3, 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.

4. 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 4, 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.

5. 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.

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

7. 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.

8. 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.

9. 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 3 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.

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

March 12, 1982

Sir:

The Government of the Republic of Mali has given top priority to rehabilitating the country's economy and finances. As is stressed in the Fund's latest consultation report, internal and external imbalances have grown to the point that they compromise economic stability and jeopardize the success of the development efforts undertaken by the Government. We are aware that this situation results not only from factors beyond the country's control, especially weather conditions and external price increases, but also from difficulties caused by some of the economic policies pursued in the past. To correct these imbalances, whose nature and magnitude are structural, the Government is firmly resolved to adopt the required reforms and implement the necessary reorganization and adjustment measures. In 1981, in the context of discussions with the IMF, the Government adopted a number of concrete measures attesting to its resolve.

As the next step along the path toward medium-term recovery, the Government has just adopted an economic and financial program in specific terms for 1982, which you will find enclosed. To facilitate the execution of this stringent program and mitigate the external payments difficulties it entails, the Government seeks the Fund's assistance in the form of a one-year stand-by arrangement in the amount of SDR 30.4 million.

The Government of Mali is currently negotiating for membership in the West African Monetary Union (WAMU) and expects the successful conclusion of negotiations in the coming months. Mali's entry will entail both added financial responsibilities as well as benefits, both of which would have implications for the proposed program. Therefore, immediately after the decision on Mali's entry into the WAMU has been made and the precise terms of Mali's entry are known, the Government would consult with the Fund on the implications for the effective implementation of the program and would reach understandings with the Fund on any revisions of performance criteria and on the adoption of any supplemental performance criteria that may be required. In view of the important policy adjustments that are being implemented, we intend to remain in close contact with the Fund staff and to conduct a review of the program with them in July 1982. Moreover, before the end of November 1982, the Government will consult with the Fund on progress made in achieving the program's objectives and reach understandings on the ceiling for bank credit to the economy for December 1982.

The Government of Mali believes that the policies and measures described in the attached memorandum are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. In addition, the Government will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the Fund's policies.

Very truly yours,

Drissa Keita  
Minister of Finance and Commerce

Enc.: Memorandum of the Government of Mali on Economic and Financial Policy  
for 1982



Memorandum of the Government of Mali on Economic and  
Financial Policy for 1982

Under the recently adopted Five-Year Development Plan for 1981-85, the Government of Mali has established the following objectives for rehabilitation of its economy:

a. Re-establish a positive domestic savings rate by limiting the growth of private and public consumption to a rate appreciably lower than that of gross domestic product. This goal is to be attained by curbing the growth of nominal wages, limiting recruitment in the public sector, reducing the consolidated budget deficit and the operating losses of public enterprises, and encouraging the generation of private savings.

b. Create conditions conducive to economic development and to a more efficient operation of economic institutions. This goal, on which a sustained recovery of the Malian economy in the medium term depends, necessitates a reorganization of public enterprises, adoption of appropriate price policies, promotion of private initiative, and an improvement in the productivity of public investment.

c. Strengthen the country's financial situation by reducing payment arrears, improving facilities for payments through the Post Office, and expanding the equity resources of banks and enterprises.

d. Reduce the external payments imbalance to a level consistent with a sustainable level of external assistance.

To carry out this rehabilitation effort, which must extend over a number of years and involve all sectors of the economy, the Government has drawn up an economic and financial program for 1982 that includes the following specific targets and measures:

I. Government Finance 1/

The Government finance objectives of the financial program for 1982 are as follows:

a. Reduce the consolidated budget deficit 2/ (excluding interest charges on the operations account) from MF14.4 billion (2.4 per cent of GDP) in 1981 to MF 10.4 billion (1.6 per cent of GDP) in 1982, i.e., to a level about one third lower than that of 1980 (MF 17.3 billion).

b. Restore the liquidity of private deposits with the Postal Checking System by means of a special advance from the Treasury to the Postal Checking System (MF 6.0 billion).

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1/ The 1981 figures are preliminary estimates.

2/ Includes the operations of the central and regional government budgets, special funds, and extrabudgetary receipts and payments reflected in the Treasury accounts. The operations of rural agencies and development expenditures directly financed by external aid are excluded.

c. Reduce the Treasury's payment arrears and the external arrears of public enterprises and agencies by MF 13.9 billion during the program period, of which MF 10.6 billion would be in 1982.

d. Improve government finance management methods.

The consolidated budget deficit will be financed and payment arrears and liabilities to the Postal Checking System reduced by an increase no greater than MF 18.6 billion in bank credit and by an estimated MF 11.2 billion in external budget aid in 1982.

To achieve these targets, the following decisions have been taken and the accompanying measures have already been adopted.

1. The government budget

The government budget deficit, narrowly defined <sup>1/</sup>, will be reduced from an estimated MF 13.9 billion in 1981 to MF 9.9 billion in 1982 through a 14 per cent increase in revenue and a 7 per cent limit on expenditure growth. A quarterly cash budget will be drawn up to enable a close monitoring of the budget's execution and financing, trigger the adoption of corrective measures when necessary, and ensure observance of the performance criteria pertaining to government borrowing and reduction of arrears.

a. Revenue

About half of the MF 10 billion increase in revenue in 1982 will come from tax rate increases already adopted in the 1982 budget and the remainder from a widening of the tax base and continued efforts to improve collection and reduce tax evasion.

Tax increases

Expected Yield

(In millions of Mali francs)

(1)	20 per cent increase in the tax on cattle	260
(2)	20 per cent increase in the development tax	1,247
(3)	Increase in stamp duties	500
(4)	Adjustment of administrative values ( <u>valeurs</u> <u>mercuriales</u> ) on imports	500
(5)	Tax on wages paid by employers (other than the the Government) (temporary measure pending introduction of the new IGR rate schedule)	2,000
(6)	Miscellaneous regional taxes	263
		<u>4,770</u>

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<sup>1/</sup> Includes only the central government and regional budgets.

Measures to improve tax administration 1/

Customs

(1) Strict limitation of direct removals of goods from Customs without prior safeguard of associated duties and taxes.

(2) Limitation of the concession of removal of goods on credit, together with a restriction on the value of such removals to within the credit allowed.

(3) Timely revision of the administrative values used to compute duties for imported goods and a reduction in their number to bring them more into line with the real value of the goods.

(4) Collection by Customs of duties and taxes pertaining to removals on a cash basis.

Direct taxes

(1) Drawing up of a new scale for the global income tax (IGR) for adoption with the 1983 budget. A Fund technical assistance mission will assist in this reform in April-May 1982.

(2) Improved assessments of taxes (BIC, IGR, IAS), based on actual results rather than presumptive amounts.

(3) Better coordination (e.g., flow of information, cross checking, etc.) and a clearer division of work between the Tax Department, the Treasury, and the Customs Directorate to improve the efficiency of assessment and collection services.

(4) Strict limitation of new exemptions on imports and on indirect taxes (especially the IAS), and review of the impact of prevailing exemptions.

(5) Review of certain exemptions on profits and earned income and of all exemptions granted under the Investment Code.

(6) Strengthening of sanctions for nonpayment of taxes due (closing of shops, notification of third-party holders).

b. Expenditure

Budgetary expenditure in 1982 will be held to a level of MF 88.8 billion by limiting the growth of expenditure on personnel (including new recruitment) to 5.2 per cent and that of expenditure on supplies

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<sup>1/</sup> Some of these measures have already been adopted and implemented in 1981 and their full effect should be registered in 1982. They are in line with the recommendations of a Fund technical assistance mission that visited Mali in February/March 1981.

and equipment to 9.2 per cent. In this context, the following measures have been adopted:

Personnel expenditure

(1) Maintenance of wages and other benefits at their current level, except for normal promotions and the granting of delayed merit increases for 1980 and 1981 (equivalent to 4 per cent of base wages) estimated to cost MF 2 billion.

(2) Strengthening of control over the number and assignment of government employees.

(3) Strict limitation of the cost of new recruitment in 1982 (school graduates, employees on contract, and civil servants) to MF 500 million.

(4) Development of a rational recruitment policy for the future in 1982.

Scholarship expenditure

(1) Reduction of scholarships for secondary school students by about one half by restricting food and housing allowances to needy students.

(2) Strict limitation of scholarships for study abroad.

(3) Limitation of outlays for scholarships to the budgetary appropriation of MF 6.3 billion.

Expenditure on supplies and equipment

(1) Freezing of appropriations at their 1981 level.

(2) Strict monitoring of water, electricity, and telephone expenditures to achieve savings in these areas.

(3) Elimination of subsidized gasoline coupons for government employees.

(4) Introduction of new regulations to tighten control by the Ministry of Finance of bidding on government contracts.

Common administrative expenses

(1) Strict containment of these expenses to the budgetary appropriations provided for 1982 (MF 8.6 billion).

(2) Reduction of relocation expenditures of staff attached to the Ministries of Education and the Interior.

Ministry of Education

The Government has begun to reorganize the educational system, on the basis of a report prepared with the assistance of UNESCO experts, in order to adapt it better to development needs and to curb the rate of expansion of educational expenditure. Together with the measures taken to limit scholarships, the reorganization of the educational system will make it possible to restrict the growth in aggregate educational expenditures. A technical memorandum will be prepared by the Government highlighting those measures adopted in 1981/82 that are likely to have a significant financial impact at the primary, secondary, and higher education levels.

2. Special funds

The overall position of the special funds, taking account of amortization payments on the foreign debt, should remain in balance in 1982. Measures will be taken to improve control over existing special funds, to halt their proliferation in the future, and to facilitate a consolidated presentation of their operations. 1/

Autonomous Amortization Fund (Caisse Autonome d'Amortissement)

- (1) Elimination of external payment arrears for 1981 through bilateral rescheduling of the loans from three countries.
- (2) A balanced budget in 1982, taking account of item (1) above.
- (3) Improvement of domestic and foreign debt service forecasting methods with World Bank assistance.

Price Stabilization Fund (Office de Régulation et de Surveillance des Prix)

- (1) Imminent adoption of new by-laws and of regulations governing allocation of export proceeds.
- (2) Limitation of cereal grain support expenditures, including those of the Office du Niger, to a maximum of MF 2.0 billion. The economy measures planned by the Government for OPAM, could, however, make it possible to cause this figure to be reduced to MF 1.5 billion.
- (3) Forecasting of revenue and expenditure for 1982, using a realistic estimate of oil revenues and of the Government's commitments to OPAM, SEPAMA, and CMDT.

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1/ A Fund technical assistance mission visited Bamako in October 1981 to analyze the financial operations of the special funds and formulate recommendations for their eventual integration within the budget.

Road Fund (Fonds Routier)

(1) Resumption of normal operations, primarily as a result of an improved flow of payments through the Postal Checking System.

(2) A reduction of MF 500 million of frozen claims by the Road Fund on the Treasury.

Improvement of management methods

(1) Limitation of the special funds' financial autonomy and their progressive return to Treasury control.

(2) Restoration of administrative control over existing agencies. Establishment of an office in the Directorate of the Budget to monitor the special funds' revenues and expenditures.

(3) Case-by-case consideration of the scope for incorporating existing special funds in the budget. For those whose current status is warranted, maintenance of administrative autonomy should not entail maintenance of financial autonomy.

(4) Stricter handling of new requests to establish special funds within the institutional framework of the government budget, except for industrial and commercial entities able to finance their operations with their own resources rather than with tax or nontax receipts.

3. Restoration of postal checking operations

In order to re-establish the proper functioning of the Postal Checking System and ensure the liquidity of private sector deposits and transfers, the following steps have been or are being prepared to be taken:

a. Adoption of administrative regulations making it possible to avoid commingling of postal checking operations with those of the Treasury and the Post and Telecommunications Office (OPT).

b. Consolidation of the deposits of government agencies with the OPT (MF 13.7 billion on September 30, 1981) in the form of medium-term claims on the Treasury.

c. The Government will undertake in the future not to absorb the counterpart of funds sent abroad or funds received from abroad to finance Treasury or Post Office operations.

d. Establishment of a MF 6 billion reserve fund at the Central Bank to cover exclusively the possible withdrawal of frozen nongovernment deposits (MF 5.7 billion as of September 30, 1981). The reserve fund will be constituted by a Treasury advance to the Postal Checking System financed by a special central bank credit and will reduce the Treasury's liabilities to the Postal Checking System in a like amount.

e. Reduction of Mali's net debtor position vis-à-vis foreign postal administrations (MF 4.5 billion as of September 30, 1981) by a minimum of MF 1.5 billion during the program period. A payment plan is to be established to reduce the debt progressively.

f. Steps have been taken to restore the financial balance of the Post Office, chiefly by increasing postal rates and strengthening procedures for collecting fees from users.

4. Reduction of public sector payment arrears

a. The level and nature of payment arrears of the public sector have been estimated at MF 53 billion as of September 30, 1981 and, tentatively, at MF 55 billion as of December 31, 1981. For this purpose, arrears have been defined to include all the domestic arrears of the Treasury; the external arrears of the Treasury, the Autonomous Amortization Fund, the Post Office, and the public enterprises; and outstanding interest charges under the operations account. Domestic payment arrears of the public enterprises and other government agencies are, however, not included; they could not be determined because of accounting deficiencies and the existence of the reciprocal claims of the public enterprises one with another and with the Central Government.

b. The Malian authorities will ensure that there is no new accumulation of arrears as defined above, other than that relating to interest on the operations account which is to be included in the consolidation linked to Mali's entry into the West African Monetary Union (WAMU).

c. Treasury arrears will be reduced by payments of at least MF 11 billion, including MF 5.2 billion of external payment arrears, during the program period. A rescheduling of payments on the external arrears of the Autonomous Amortization Fund in connection with its external debt (MF 1.2 billion as of December 31, 1981) is now being negotiated on a bilateral basis.

d. The Treasury will allocate MF 2.9 billion to the Post Office and public enterprises for reduction of their external payment arrears, to be distributed roughly as follows: MF 1 billion to Air Mali, MF 400 million to the other public enterprises, and MF 1.5 billion to the Post Office.

e. The Directorate of the Treasury has developed a quarterly plan for the payment of arrears during the program period.

5. Improvement of management methods 1/

Directorate General of the Treasury

a. Improvement of the Treasury balance sheet through adoption of a simple system of classifying accounts, elimination of frozen accounts,

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1/ Malian staff will be assisted at the Treasury by a French expert who has already arrived and at the Budget Directorate by an IMF expert whose recruitment is being finalized.

and preparation of a monthly general balance sheet. Improved communication of data between the regions and the Directorate General of the Treasury.

b. Preparation of a regular inventory of payment arrears.

c. Preparation monthly of an analytical statement of Treasury expenses and receipts and liabilities to banks, the Post Office, and other creditors.

#### Directorate General of the Budget

a. Better surveillance over the execution of all expenditure; more systematic analysis of budget operations, from the standpoint of better accounting and policy formulation.

b. Establishment in the Ministry of Finance of an economic and financial analysis and forecasting unit to be particularly responsible for drawing up a consolidated accounting statement covering the operations of the government budget, special funds, extrabudgetary revenue and expenditure reflected in the general balance of Treasury accounts, parafiscal revenues earmarked for development operations, and development expenditures financed directly by foreign grants and loans.

c. Preparation of a consolidated statement of development operations, as part of the reorganization of these operations, which is currently under study with World Bank technical assistance.

## II. Public Enterprises

In accordance with the general plan for rehabilitating the public enterprise sector, the Government has targeted a reduction in 1982 of the consolidated operating deficit of the principal government enterprises by MF 3 billion (or about 30 per cent). It would be possible to finance the sector's losses in 1982 through exceptional financial assistance, notably from the Price Stabilization Fund. To attain these objectives in 1982 and to complete the rehabilitation of the sector by 1985, the Government has adopted a number of general and specific measures.

### 1. General measures

a. Limitation of bank credit to public enterprises to their needs and ruling out the repeated financing of their structural operating deficits.

b. Transfer to the private sector (or opening up to private capital) of certain public enterprises deemed nonstrategic; the Government has already decided to do this with respect to SEPOM, CMTR, TAMALI, Hôtelleries du Mali, SEMA, SONETRA, EMAB, and SEBRIMA.



c. Closing or technical shutdown of enterprises of dubious viability which cannot be transferred to the private sector. Such measures have already been effected in regard to SCAER, SOMBEPEC, and SEPAMA.

d. Reduction of production costs by measures which limit staffing levels and improve productivity. Specific monitorable targets will be set for each enterprise.

e. Reduction of government payment arrears vis-à-vis enterprises, or offsetting of such tax arrears not collected as of December 31, 1981.

f. Strict limitation of tax exemptions and rebates.

g. Clearance of the mutual claims and debts of public enterprises under the auspices of the Ministry for State Enterprises.

h. Improvement of the rates of collection of sales proceeds and limitation of credit extended to customers.

i. Appropriate adjustment of selling prices to reflect costs.

j. Strengthening of finances through rescheduling and external assistance in connection with membership in WAMU, thus making it possible to reduce the excessive financial burden on enterprises.

A broadly based study on the general prerequisites for rehabilitation of the public enterprises will be completed by December 30, 1982 with technical assistance provided by the World Bank.

## 2. Measures relating to individual enterprises

### Agricultural Products Office (OPAM)

The target proposed is that of limiting operating losses to a maximum of MF 3 billion in 1981/82, most of which will be financed by the net sales proceeds of food grants, and the remainder by a subsidy from ORSP covering roughly the interest charges incurred on the bank debt. This financial objective will be achieved through implementation of the following measures:

a. Savings of MF 0.6 billion in operating costs, including MF 360 million in personnel expenditure and MF 260 million in transportation costs.

b. Limitation of grain sales at official prices to deficit areas only and to public interest entities as defined in the law rescinding and replacing Law No. 65-7 of March 1, 1965 establishing OPAM.

c. Adjustment of official selling prices for grains (especially rice) by the end of October 1982 to further reduce OPAM's operating losses in 1982/83.

Mali Electric Company (EDM)

Increase in electricity tariffs by 11 per cent on January 19, 1982; a further increase of 19 per cent is provisionally proposed for July 1982.

Malian National Railways

a. 20 per cent increase in international passenger fares in March 1982 and 30 per cent increase in domestic passenger fares in July 1982; 20 per cent increase in freight rates on July 1, 1982.

b. Settlement by the Government of the Railways' payment arrears, in part by offsetting of taxes owed, and prompt payment of current bills.

c. Measures have been taken to maximize shipping volume and utilize fully infrastructural capacity.

SEPAMA

a. Reduction in supply costs through reduction in administrative and other costs.

b. Temporary personnel layoffs to limit losses, and limitation of tonnage to be processed.

c. A subsidy from ORSP to finance the residual MF 1 billion deficit.

d. Complete decontrol of the groundnut market and products.

SOMIEX

a. Implementation of all measures called for in the program for reorganizing the corporation, including transfer of shops and granting of administrative and financial autonomy to the self-service facilities, to ensure eventual financial equilibrium in the distribution sector.

b. Prompt approval of price adjustments proposed by the corporation.

c. Steps have been taken to restore the financial equilibrium of the export activities in 1982.

d. Steps have also been taken to improve cash flow and to limit borrowing from banks.

CMDT

The ORSP will refrain from collecting taxes allocated to it under the cotton reimbursement schedule (up to MF 500 million) while continuing to fulfill its obligations to the CMDT.

Air Mali

Plans for restructuring and reorganization are still under study. However, the Government anticipates a partial reduction of external payment arrears.

III. Monetary Policy

Monetary and credit policies during the program period will be designed to promote achievement of the economic development and financial reform objectives taking account of the need to reduce the external payments disequilibrium and internal inflationary pressures. To this end, the monetary authorities have adopted the following decisions:

1. The expansion of bank credit to the Government <sup>1/</sup> will not exceed MF 18.6 billion in 1982 <sup>2/</sup>. Only MF 2.0 billion of this amount will be allocated to the financing of general budget operations. The major portion of this expansion will be used to establish the Postal Checking Reserve Fund, reduce the payment arrears of the Treasury, decrease liabilities to foreign postal administrations, and provide a special advance to public enterprises to enable them to reduce their external arrears. The maximum available amount of bank credit to the Government during the December 1981-December 1982 period, which will constitute a performance criterion, is indicated in Annex I.

2. Outstanding credit to the rest of the economy, including ordinary credits and seasonal crop credits to public enterprises and the private sector, will be limited during the program period. Maximum levels for these credits have been set for the end of March, June, and September 1982 (see Annex I). The ceiling for end-December 1982 will be set by the end of November 1982 in the course of a planned review with the Fund, when financing needs in connection with crop-year 1982/83 become known.

3. The growth rate of bank credit to the economy, excluding seasonal credit, will not exceed 14 per cent in 1982. The Government will continue to apply strict and selective credit policies, reserving

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<sup>1/</sup> The increase in credit to the Government under the program includes the net claims of the Central Bank and deposit money banks on the Government. The Central Bank's net claims include statutory advances to the Government and special advances against funds obtained from the IMF, less government deposits. Claims on the Government relating to interest to be paid on the operations account in 1982 are not included, pending the anticipated consolidation of all operations account liabilities.

<sup>2/</sup> If account is taken of the maximum possible reduction in private deposits with the Postal Checking System, through withdrawals from the Postal Checking Reserve Fund, the combined increase in net claims of banks and the private sector on the Government will not exceed MF 12.6 billion.

most of the increase for the financing of productive activities; credit will not be provided to finance the structural operating deficits of public enterprises. Hence, credits for exports and for small- and medium-sized enterprises are expected to increase at a more rapid pace than in the past. Ordinary credit to the major public enterprises will be held strictly within the limits of production requirements.

4. Close surveillance over the level of crop credits will continue in order to make sure that these are repaid soon after the marketing and processing stages. Thus, crop credits for 1981/82, after peaking in March 1982, are expected to decline steadily from April to September. However, because of possible leads and lags in the different stages of domestic and foreign marketing of agricultural commodities, especially due to shipping problems, a technical margin of MF 2.0 billion has been added to the levels for seasonal credit outstanding in March and June 1982. This margin has been raised to MF 3.0 billion for end-September 1982 to take account of prefinancing requirements for crop year 1982/83. These margins are included in the level of maximum outstanding credit to the economy for the period March 1982 to September 1982. The Government intends, however, to keep outstanding credit to the economy to an operational limit below that of the aforementioned technical margin; it will consult with the Managing Director of the Fund if the operational limits are exceeded.

5. New crop credits to be granted between end-September 1982 and end-December 1982 are tentatively estimated at MF 10 billion but, when the program is reviewed prior to the end of November 1982, this estimate will be adjusted appropriately by reference to the volume and value of production to be marketed in the fourth quarter of the year.

6. In the context of membership in WAMU and taking account of the various bilateral financial assistance agreements already assured, the Government intends to strengthen the financial positions of the Central Bank and deposit money banks by eliminating illiquid claims from their respective asset portfolios. This financial restructuring should considerably reduce the levels of bank claims on the Government and major public enterprises as well as the extent of central bank rediscounting to deposit money banks. The authorities also plan to strengthen the capital base of the principal commercial bank so as to diminish its dependence on central bank assistance. This financial reform should ease the financial burden on the major public enterprises and improve their operating results and cash positions.

7. The Government recognizes the need to review the level and structure of bank interest rates. Such a review is scheduled to take place in connection with Mali's entry to WAMU and the concomitant financial restructuring measures. Pending such entry, however, it has decided to raise deposit rates at the beginning of May, 1982, to levels approximating those prevailing within the WAMU so as to encourage mobilization of financial saving by the banking system and to prevent the flight of capital abroad. On the other hand, the Government does

not deem it desirable to raise the Central Bank's discount rate or any other lending rates before the implementation of financial reforms contingent upon the country's entry into the WAMU. In its view, given the magnitude of the public enterprises' current indebtedness to banks and their precarious financial condition, a general rise in lending rates would, under present circumstances, merely aggravate their financial burden and thus increase their recourse to bank refinancing. Finally, the strict controls now in force on bank credit and banking operations will make it possible to offset the disadvantages of the disparity in lending rates as Mali's current lending rates are not much lower than those of the WAMU.

#### IV. Economic Policy

##### 1. Reorganization of the cereals market

The Government has taken the necessary steps for effective decontrol of the cereals market (with the exception of paddy produced in special development areas), encouragement of private sector participation in the marketing process, and reorganization of the activities of OPAM. The chief measures adopted are as follows:

a. Adoption by the Government of all laws and regulations relating to abolition of OPAM's monopoly, participation of the private sector, and a redirection of OPAM's activities. National Assembly approval has taken place in mid-February 1982. This merely formalized the liberalization that has been applied de facto since early 1981.

b. Adjustment of the official intervention price (MF 125 for millet and corn) as appropriate during 1982 to bring official prices more into line with private market prices, taking into account the buffer stocks held by OPAM. There would be an adjustment whenever the intervention price deviated appreciably from the prevailing free market prices. Under this procedure, the needed flexibility of the intervention price can be secured and private sector participation in marketing can be maintained.

##### 2. Agricultural policy

a. The Government will again review producer prices, especially for paddy, so that any required adjustments can be made before the start of the sowing period, usually May-June. The purpose of the adjustment would be to make prices in Mali consistent with those on world markets and in neighboring countries.

b. The groundnuts and groundnuts products market was decontrolled in December 1981.

c. With World Bank assistance, the Government will review Mali's rural development operations in an effort to identify ways and means of raising their efficiency and reducing their drain on the budget. This study will be completed by the end of December 1982, and concrete action should be possible next year.

d. A study will be made, with World Bank technical assistance, on reorganization of the edible oils sector.

3. Energy policy

a. Petroleum product prices will continue to be adjusted promptly to reflect changing world prices and U.S dollar exchange rates. The Government further intends to adjust the level of specific taxes periodically so that the total yield of taxes on petroleum products remains constant in relation to the value of imports.

b. Electricity and transportation tariffs will also be adjusted periodically to reflect changes in the cost of petroleum product supplies.

c. Rationalization measures will also be taken to increase the volume of rail traffic between Bamako and Dakar.

4. Investment policy

The purpose of the policies set forth in the 1981-85 Development Plan is to improve the efficiency of investments. Specifically, they are designed to: (a) consolidate the achievements of earlier plans, in particular by improving the management and maintenance of existing equipment; (b) channel new investment toward higher-yield small projects which can be carried out by private investors or local communities with minimal central government assistance; (c) promote investments which are labor-intensive, involve low recurring costs, and contribute to export expansion or import substitution. The Government intends to work closely with the World Bank to strengthen its planning procedures.

V. External Payments

1. Negotiations looking toward Mali's membership in WAMU have not yet been concluded. Nevertheless, the Malian Government and its future WAMU partners have good reason to expect that the negotiations will be completed in 1982. To facilitate this process, France has agreed to consolidate liabilities to the French Treasury by means of a low-interest intergovernmental loan and to provide substantial financial aid for the financial restructuring of the principal public enterprises. The bilateral monetary agreements with France have been extended pending conclusion of operations account liabilities. The definition of the overall balance of payments deficit for purposes of the present program will, as of January 1, 1982, exclude interest paid on the operations account, which will be regarded as externally refinanced.

2. The Malian franc is pegged to the French franc at the fixed rate of MF 100 = F 1. Because of the appreciation of the U.S. dollar, the Malian franc, like the French franc, depreciated against the SDR by 20 per cent in 1981. The effective exchange rate, weighted by the value of imports from Mali's major trading partners, depreciated by 6 per cent. Even before this depreciation, Malian agricultural production was sufficiently competitive, except in the case of groundnuts. The Government therefore believes that the present deficit of the external accounts can be remedied by means of the measures described above, which seek to reduce the consolidated budget deficit, improve the condition of the public enterprises, expand agricultural output, and reschedule the external debt.

3. The Government intends to maintain an exchange system free of restrictions on current transactions and a liberal trade system. It does not intend to introduce multiple currency practices or conclude bilateral payments agreements with other Fund members.

4. The Government does not intend during the program period to contract or guarantee any nonconcessional foreign loans with original maturities of between one and 12 years.

5. The external payment arrears of Mali were estimated at MF 35 billion as of September 30, 1981 and at MF 36 billion as of December 31, 1981. These arrears will be reduced by MF 8.1 billion, or about SDR 12.4 million during the period according to the schedule shown in Annex I. This reduction does not include interest arrears on the operations account, which will be consolidated as indicated in paragraph 1 above, or the arrears on foreign loans to be renegotiated in 1982.

6. To keep the external debt service burden in relation to exports of goods and services and private transfers at a tolerable level after 1983, the Malian Government intends to undertake bilateral renegotiation with friendly countries of certain large loans falling due between 1983 and 1985.

7. Despite the adverse domestic and external economic environment, application of the measures included in the financial program should make it possible to achieve the following targets:

a. Reduce the balance of payments deficit on current account (including grants) from SDR 99 million in 1981 (10.7 per cent of GDP) to SDR 93 million in 1982 (9.2 per cent of GDP), excluding interest charges on the operations account.

b. Reduce the current deficit, net of imports of goods and services directly connected with development projects financed by grants and official loans on a concessional basis, from SDR 46 million in 1981 (5 per cent of GDP) to SDR 32 million (3.2 per cent of GDP) in 1982, excluding interest on the operations account.

c. Limit the overall deficit to SDR 13.2 million (1.3 per cent of GDP) in 1982.

8. In view of the overall balance of payments deficit and the anticipated reduction of external payment arrears, balance of payments financing requirements will amount to SDR 23 million in 1982, and will be financed by purchases under the proposed stand-by arrangement.

Annex: Quantitative Performance Criteria and Targets Under the Proposed Stand-by Arrangement.



Quantitative Performance Criteria and Targets Under The  
Proposed Stand-by Arrangement

(In billions of Mali francs; end of period)

	1981 Dec. Actual	March Provisional	1982 June Performance criteria	Sept.	Dec.	1983 End of program target
Net bank credit to Government <u>1/</u>	121.3	121.4 <u>2/</u>	129.4	135.3	139.7	--
Bank credit to the economy <u>1/</u>						
Lower limit <u>4/</u>	179.7 <u>3/</u>	189.2 <u>2/</u>	186.5	184.1	198.7 <u>5/</u>	--
Upper limit <u>6/</u>		191.2 <u>2/</u>	188.5	187.1		
Reduction in payment arrears (cumulative amount) <u>7/</u>						
Total arrears			4.0	7.3	10.6	13.9
Of which: external arrears			3.4	4.2	6.0	8.1
External borrowing <u>8/</u>		--	--	--	--	--

Sources: Data provided by the Malian authorities and proposed stand-by arrangement (Attachment A).

1/ For a precise definition of net bank credit to the Government and bank credit to the economy, see Attachment C, page 49.

2/ There will be no adjustment in credit ceilings for a difference between actual and provisional figures for end-March 1982.

3/ Includes an upward adjustment of MF 5 billion to take account of technical delays in granting crop financing facilities at the end of 1981.

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

5/ Represents the planned limit; the performance criterion will be set during the program review scheduled before end-November 1982.

6/ The upper limits constitute the quantitative performance criteria.

7/ For the definition of arrears, see Attachment C, page 45.

8/ Nonconcessional loans contracted or guaranteed by the Government with initial maturities of 1 to 12 years. The stock of outstanding nonconcessional borrowing at December 31, 1981 was only FM 1.2 billion (SDR 1.79 million), and there would be no such borrowing during the period of the program.