

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/82/68
Supplement 1

CONFIDENTIAL

May 24, 1982

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

Attached for the records of the Executive Directors is the text of the stand-by arrangement for Mali agreed at Executive Board Meeting 82/68, May 21, 1982.

Att: (1)

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 May 21, 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).

^{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 1/, 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.

<u>Tax increases</u>	<u>Expected Yield</u>
	<u>(In millions of Mali francs)</u>
(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>

1/ 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

1/ 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.

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,

^{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, Hotelleries 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 1/ will not exceed MF 18.6 billion in 1982 2/. 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

1/ 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.

2/ 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	1982			1983	
	Dec. Actual	March Provisional	June Performance criteria	Sept. Performance criteria	Dec. Performance criteria	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.