

October 3, 2012  
Approval: 10/11/12

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 11/120-3

11:55 a.m., December 12, 2011

**3. Mali—Seventh Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for a Three-Year Arrangement Under the Extended Credit Facility**

Documents: EBS/11/171 and Supplement 1, and Supplement 2, and Supplement 3

Staff: Josz, AFR; Dorsey, SPR

Length: 25 minutes

## Executive Board Attendance

M. Zhu, Acting Chair

Executive Directors	Alternate Executive Directors
	M. Saho (AE)
	N. Yambaye (AF)
	B. Lischinsky (AG), Temporary
	B. Karae (AU), Temporary
	J. Prader (BE)
	M. Arbelaez (BR)
	D. Tao (CC), Temporary
	L. Cosenza Jimenez (CE), Temporary
	J. Rolle (CO), Temporary
A. Fayolle (FF)	
	S. Meyer (GR)
	M. Patra (IN), Temporary
	L. Briamonte (IT), Temporary
	M. Makino (JA)
	M. Daïri (MD)
	M. Zaher (MI), Temporary
	M. Tanasescu (NE), Temporary
	K. Korhonen (NO), Temporary
	A. Tolstikov (RU), Temporary
	F. Alshathri (SA), Temporary
	S. Thamnuvong (ST), Temporary
	A. Ubaidulloev (SZ), Temporary
	E. Meyer (UA), Temporary
	R. Elder (UK)

P. Alonso-Gamo, Acting Secretary  
P. Ramlogan, Summing Up Officer  
I. Teodoru, Board Operations Officer  
M. Yslas, Verbatim Reporting Officer

### Also Present

African Department: M. Farahbaksh, E. Hitaj, C. Josz, R. Nord. Fiscal Affairs Department: N. Belhocine. Human Resources Department: M. Plant. Legal Department: A. Giddings, C. Ogada. Strategy, Policy, and Review Department: T. Dorsey. Statistics Department: L. Jimenez Ramirez. Senior Advisors to Executive Directors: S. Benk (BE), D. Sembene (AF). Advisors to Executive Directors: O. Diakite (AF), F. Dlamini-Kunene (AE), A. Gerdes (GR), G. Nadali (MD), T. Yamuremye (AE).

**3. MALI—SEVENTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY**

The staff representative from the African Department (Mr. Josz) submitted the following statement:

This statement provides information that has become available since the issuance of EBS/11/171 on November 28, 2011. The new information does not alter the thrust of the staff appraisal.

Inflation increased by 4.1 percent year-on-year in November owing to food prices, and by 2.7 percent on average for the 12-month period ending in November 2011.

Preliminary estimates indicate that all the indicative targets were met at end-September with one exception. The indicative floor on priority spending was missed by 0.4 percent of GDP due to the overall under-execution of public spending.

Seasonal rainfall has been much less favorable than expected in some parts of the country and harvests are likely to be significantly lower than usual. As a consequence, food security issues are emerging, potentially affecting about 3 million people. The authorities are taking emergency measures to provide food to regions at risk, in close cooperation with donors. The estimated budgetary cost of the measures that were not included in the 2011 budget is about CFA 5 billion (\$11 million or 0.1 percent of GDP) and will be financed by reallocating resources from under-executed non-priority spending. For 2012, the authorities are currently estimating the full cost of emergency measures needed to ensure food security for people at risk. They plan to request donors' financial support. This weather shock is likely to have a sizeable impact on growth and inflation in 2012; a full assessment and any revision of the program will be addressed on the occasion of the first review of the arrangement.

Mr. Yambaye submitted the following statement:

My Malian authorities are appreciative of the valuable technical and financial assistance and policy advice they have received from the Fund in the context of recent programs. In order to consolidate the key achievements made over recent years, they are requesting a successor Extended Credit Facility (ECF) arrangement which will pave the way for continued

macroeconomic stability and sustainable growth. The new arrangement is expected to draw lessons from past experience, as derived in the consultations between the authorities and the country's stakeholders and the recent Ex-post assessment of longer term program engagement (EPA) in Mali, and effectively support their efforts to promote a more vibrant private sector-led economy.

#### Recent Economic Developments and Performance Under the Current ECF Arrangement

Recent economic developments in Mali were shaped by the uncertain external environment and weather conditions. In 2011, growth is estimated to remain robust, largely driven by production in the cotton sector, while inflation is forecast to be contained. The external current account balance is expected to stabilize, as the effects of higher gold and cotton prices are partly offset by lower grants and remittances.

Underlying the continued macroeconomic stability was the strong program performance during the period covered by the last review of the current ECF arrangement. On the quantitative front, all end-June 2011 performance criteria were met, reflecting the implementation of sound fiscal policies and debt management. However, one out of the three indicative targets was missed, as priority spending was slightly below its program floor due to delays in budget execution. Going forward, the magnitude of such spending is expected to be increased consistent with the authorities' poverty reduction strategy and the indicative target proposed under the new arrangement.

On the structural front, all but one structural benchmark were met, thus translating into better accounting of government's debt contracts and guarantees, improved presentation of fiscal tables, and detailed impact analysis of the transfer of public entities' accounts from commercial banks to the Treasury single account at the BCEAO. That said, it is noteworthy that the authorities intend to pursue the reform of the tax system in line with the spirit of the related structural benchmark that was missed.

In light of Mali's satisfactory performance under the Extended Credit Facility (ECF), I would appreciate Directors' support for the conclusion of the seventh and last review of the current ECF arrangement.

## Policy and Reform Agenda Under the New ECF Arrangement

Building on the priorities of the authorities' poverty reduction strategy for the period 2012-17, formal consultations with the country's various stakeholders, and the recommendations of the recent IMF staff's EPA, the new ECF-supported program aims to promote private sector development and the design and implementation of sound fiscal policies that help to fill the infrastructure gap and to further strengthen public financial management.

In the fiscal sector, preserving fiscal sustainability through the implementation of prudent policies has been and will remain a cornerstone of the authorities' policy framework. In this connection, the basic fiscal balance will continue to be kept in check while spending plans for the proceeds from the privatization of the telecommunication company, SOTELMA, will continue to be executed. In addition to these privatization receipts, the authorities envisage to carry forward a number of revenue-enhancing measures in order to create fiscal space, thereby accommodating the country's much-needed infrastructure investment. These will include steps to further strengthen tax and customs administrations, update tax legislation, and broaden the tax base, notably with the aim of increasing the ratio of tax revenues to GDP by at least 0.5 percent every year. In this connection, it is noteworthy that the draft 2012 budget law submitted to the parliament is aligned with program objectives on the revenue side, as it embodies the authorities' plans to boost revenue mobilization, notably through higher excise taxes on gold production and taxation of some previously VAT-exempt products—albeit at reduced rates.

Revenue performance will also benefit from the planned reduction of tax exemptions. In particular it is expected to be fueled by the recent phasing-out of the preferential import tax regime benefiting some gold mining companies and the value-added tax exemption granted to their subcontractors. Upon taking stock of the various tax exemptions granted by key tax codes early next year, the authorities will aim to evaluate their costs and draw the attention of parliamentarians on the related revenue losses, with the ultimate goal of reducing them.

The authorities plan to undertake a comprehensive reform of the small, medium and large taxpayers' offices with a view to improving the effectiveness of their operations. Most notably, this will involve streamlining these offices to make them more efficient and to increase the number of taxpayers under their respective jurisdictions. In parallel, steps will continue to be taken to ensure transparency in the management of the list of taxpayers,

reduce tax evasion, improve tax audits, and enhance the interconnection between the Treasury and the tax and customs administrations.

The authorities continue to attach high importance to the preservation of debt sustainability.

In this regard, the medium-term debt management strategy to be prepared in the first half of 2012 with the assistance of the Fund and the World Bank will be useful. More specifically, domestic debt management will build on the comprehensive database of domestic debt contracts and government guarantees that is being compiled by the office of public debt management. As regards external debt management, the authorities take good note of the Fund and World Bank staffs' finding that there is scope for Mali to contract non-concessional financing up to about 1 percent of GDP without undermining debt sustainability. Going forward, they will prepare their own debt sustainability analysis and will review with the staffs the level of non-concessional borrowing consistent with debt sustainability.

The authorities' efforts to implement prudent debt management will be accompanied by a number of steps to revamp the process of selecting, budgeting, monitoring and assessing public investment projects. At the same time, steps will be taken to ensure that public investment spending will be subjected to improved budget planning and monitoring.

The implementation of the government's action plan to improve and modernize public financial management (PAGAM-GFP II) will continue over the period 2011-15. Progress will continue to be made toward the establishment of a Treasury Single Account (TSA) at the regional central bank (BCEAO). According to the study commissioned by the authorities, the transfer of the accounts held by public entities in commercial banks to the TSA could undermine the liquidity ratios of some banks while leaving those of other banks adequate. On this basis, the transfer will be phased starting with the accounts held by some key public entities in the latter banks while a strategy is being developed regarding the transfer of accounts opened in vulnerable banks.

More generally, both Malian and regional authorities are firmly determined to safeguard the stability of the financial sector and the banking system in particular. In this endeavor, the authorities stand ready to take necessary actions to mitigate the risks to this sector that stem from the spillover effects of the recent turmoil in some neighboring countries. The

government's financial development strategy which builds on the FSAP will continue to guide the reform efforts to be made in the sector.

In the banking sector, the authorities remain committed to completing the restructuring of the housing bank (Banque de l'Habitat du Mali) and will continue to take steps to achieve this goal in consultation with the World Bank. Banking sector reform will also be geared toward improving small and medium-sized enterprises' access to credit. This will also be served well by the planned establishment of a registry of bank guarantees and reform of land tenure and registration system.

Finally, a number of other areas are covered by the authorities' reform efforts, including the reform of the cotton and energy sectors. In the cotton sector, the privatization of the textile company (CMDT) remains anchored in the authorities' reform agenda. It is also the authorities' intention to devise early in 2012 a proposed mechanism for adjusting domestic oil and electricity prices in line with international oil prices while protecting the most vulnerable segments of the population from rising food and energy prices. In the electricity sector, the steps that are currently being taken to boost production will help reduce fiscal risks arising from the sector.

### Conclusion

As underscored by the EPA, Fund-supported programs have been instrumental in helping preserve macroeconomic stability in Mali. In this light, the Malian authorities are requesting Fund support to their continued reform efforts in the form of a new three-year ECF arrangement. This will go a long way toward maintaining a stable economic environment and achieving growth and poverty reduction objectives.

In view of Mali's good program performance under the current ECF arrangement and the policy objectives under the requested successor arrangement, I would appreciate Directors' favorable consideration of my authorities' request for a new arrangement under the ECF.

Mr. Shaalan and Mr. Zaher submitted the following statement:

Supported by the Extended Credit Facility (ECF), macroeconomic conditions in Mali remained strong in 2011. Commitment to program targets, as well as program implementation, has been encouraging. Accordingly, Mali went a step further towards attaining the millennium development goals. The

outlook is favorable, though subject to downside risks related to weather conditions and the external environment.

We support the authorities' request for a new ECF following the expiry of the current arrangement to address the remaining challenges and to build on progress achieved under the ECF so far. We concur with the thrust of the staff report, and limit our remarks to the following issues:

Under the current ECF, the pace of economic growth fell short of achieving the desired reduction in poverty. Higher growth is needed to improve the living standards and create job opportunities, especially in a country where the population growth has been rapid. As noted by staff, economic growth remains hindered by weak infrastructure and low private sector investment. In this connection, the new ECF rightly focuses on the promotion of the private sector and infrastructure development among other structural reforms. Nonetheless, we note that economic growth over the medium-term will continue to hover around its average level in recent years. There are also downside risks to growth stemming from adverse weather conditions and deterioration in the terms of trade.

The good fiscal performance in the first half of 2011 and the authorities' commitment to achieve the fiscal target for the year are encouraging. Given fiscal pressures and the need to boost infrastructure spending, fiscal consolidation should be a top priority going forward. The tax system continues to suffer from a number of weaknesses that need to be addressed especially the low tax-to-GDP ratio, and the sizeable tax exemptions. On the spending side, there is scope to enhance the quality of public spending by reforming the subsidy system and prioritizing investment. We note that the burden of adjustment in the 2012 draft budget falls mostly on capital expenditures, and we would like to hear from the staff whether this is consistent with the overall targets of the new ECF.

Despite some progress, the assessment of public financial management in Mali reveals a number of major flaws that should be addressed swiftly, especially in relation to monitoring domestic payment arrears. We look forward to the full implementation of the action plan adopted by the government in this regard, and welcome the ongoing negotiations with banks to settle overdue obligations. We also welcome the plan to introduce the single treasury account at the Central Bank of West African States by the end of this year. This measure should help enhance the government's cash management. In this connection, we note the introduction of the single account will reduce the liquidity ratios in many banks below the minimum



requirement. We would be grateful for the staff comment on the impact of the proposed single account, if any, on credit to the private sector and on the deposit/ lending rates.

We welcome the continued progress in reforming and developing the financial sector. The planned measures to improve credit access to the private sector warrant strengthening regulations and financial supervision. Additionally, the persistent high rate of non-performing loans in recent years calls for tailored measures to enhance banks' risk assessment of credit.

Mr. Prader and Mr. Benk submitted the following statement:

The program performance of Mali has been strong, which contributed to the favorable macroeconomic outcome in 2011. All but one indicative targets were met, and all structural benchmarks were observed, except the base-broadening tax reform. We support the 8<sup>th</sup> and last disbursement under the ECF arrangement. We also recognize the authorities' effort to increase growth and reduce poverty. We support a successor three-year arrangement under the ECF. We would like to emphasize the following issues.

The economic and financial policies set out by the authorities in the MEFP are certainly ambitious. It is noteworthy that the arrangement is deliberately launched before the 2012 elections in order to lock in prudent macroeconomic policies. However, we still see a significant political risk for the implementation of the program, especially with regard to the structural benchmarks timed for the first half of 2012 (i.e., before the upcoming elections). We are somewhat skeptical about the political feasibility of adjusting the domestic oil and electricity prices, and the organization of an operational tax intelligence unit by the first quarter of 2012.

Mali fell short of the tax base widening objective and of making satisfactory progress with the tax reform. Can the staff provide an explanation about the reasons for these delays, and whether these pose implementation risks also on the ambitious tax reform envisaged for 2012? The 2012 draft budget is a key first step towards meeting the objectives of the new program. As the revenue side of the budget assumes an increase in tax revenues of at least 0.5 percent of GDP, possible delays in the implementation of various elements of the tax reform would jeopardize meeting the budgetary targets.

Mali's population has been growing rapidly. About eighty percent of Malian workers are employed in the agriculture sector, where seasonal variations lead to regular temporary unemployment. To absorb Mali's

potential labor force there is an urgent need to enhance private sector activity and promote private sector investment. The staff rightly points out that the main impediments to private investments and growth are the poor business environment, the weak infrastructure, high corruption and a feeble judicial system. We encourage the authorities to take further steps to change this regrettable situation.

Mr. Gronn and Mr. Korhonen submitted the following statement:

We thank Mr. Yambaye for his informative buff statement. We agree broadly with the thrust of the staff appraisal and can go along with the proposal. However, we do have certain concerns related in particular to public finances.

We welcome the description of the engines of growth in the PRS review and observe the focus on provision of job skills demanded by businesses. The staff papers appear to capture most of the key longstanding challenges to development in Mali: not sufficiently diversified economy and weak private sector combined with strong demographic growth rate and the more recent deteriorating security situation. We believe that the situation has further been aggravated by an unstable food security situation that could under certain unfortunate scenarios have an impact on the social and economic situation. We take note that the staff links this with disappointing seasonal rainfall and thank the staff for describing the immediate implications.

The pillars of the proposed new ECF arrangement, drawing from lessons of earlier evaluations, seem to be in line with conclusions from the PRS review and the annual review of the General Budget Support. In this latter review, stronger internal resource mobilization—through inter alia tax administration and fiscal reforms as well as increased effectiveness and cost-efficiency of public spending—was at the core of the discussions. We would also reemphasize our previous views on the need for the Malian authorities to take decisive action to broaden the tax base. We remain to be fully convinced about the authorities' commitment to the envisaged policies in the context of the pre-electoral period and beyond in the absence of effective early deliverables.

Against this backdrop, we would be interested in hearing whether the staff assesses that the grant revenue forecast, which to our reading assumes increasing nominal aid for 2011-2014, remains prudent and realistic in light of the external environment characterized especially by forced consolidation in advanced economies whose growth rate forecasts would rarely exceed

1.5 percent annually versus the annual growth forecasts exceeding 5 percent in Mali.

Finally, we have some concerns related to governance and transparency. In particular external audit of public finances is an area that may merit immediate attention. An unclear issue is the claims on legal hurdles related to the establishment of an independent Court of Accounts.

Mr. Yakusha and Mr. Tanasescu submitted the following statement:

We support the completion of the review under the current ECF program, and the request for a new arrangement. The crisis in Libya and Côte d'Ivoire and the current security challenges in northern Mali may have further reaching negative consequences for the economy. In this context, launching a successor arrangement ahead of the presidential and legislative elections would be a good opportunity to continue the prudent macroeconomic policies, and to build domestic ownership of the new program.

While output growth in Mali seems to take a momentum, the economy remains concentrated in few sectors. Risks stemming from a low level of diversification in the economy translate into vulnerability of the financial system. In this context, the authorities need to continue to closely monitor the fallout from the crisis in neighboring countries, and take measures to improve access to bank financing. At the same time, they should accelerate structural reforms in key sectors, including electricity, to attract more private investment and to diversify the economy.

Implementation of the tax policy and tax administration reforms will be essential to meet the objectives of the new program. We welcome the progress made by the authorities in strengthening the fiscal structural reforms, and reforming the tax code, including reducing the tax exemptions, which is an important step in the right direction. At the same time, selecting high yielding infrastructure projects will improve the budget execution and will create more predictable budget allocation for priority spending.

We encourage the authorities to strengthen Mali's governance. To improve Mali's competitiveness and business climate, the government should accelerate the implementation of the strategies which will promote private sector development.

Mr. Meyer and Ms. Gerdes submitted the following statement:

We thank the staff for comprehensive set of papers and Mr. Yambaye for his informative buff statement. We share the staff's view that the performance under the ongoing ECF has been good overall, contributing to macroeconomic stabilization. All performance criteria and all but one indicative targets at end-June 2011 have been met. Growth has been robust and relatively stable, though not reaching medium-term targets. The fiscal performance has been broadly satisfactory. Against this background, we support the completion of the seventh review.

We are also prepared to support the authorities' request for a new three-year arrangement under the ECF. We welcome the envisaged low access under the arrangement which will be Mali's sixth medium-term arrangement in a row, although we would have appreciated a more detailed presentation of financing needs. Our consent is furthermore motivated by the good overall performance under the current program and the reform agenda depicted by the authorities. In particular, we welcome planned tax reforms including the envisaged augmentation of revenues, the increased efficiency of spending and the entry into the reduction of energy price subsidies, although we would have appreciated a more ambitious agenda concerning the latter. Overall, we welcome the authorities' interest in a continued dialogue with the Fund, which can usefully guide macroeconomic policies and serve as a safeguard for donor support.

Furthermore, we are encouraged by the authorities' commitment to sustainable fiscal policies. We welcome that the supplementary 2011 budget is aligned with the program's objectives and that the authorities intend to maintain the basic fiscal balance equal or greater than zero, in line with the framework of the WAEMU.

We also take note of the updated Debt Sustainability Analysis (DSA) which concludes that the risk of debt distress remains moderate. We recall that this assessment was downgraded from "low" in the last DSA, due to increased vulnerabilities. We therefore encourage the authorities to be very prudent when identifying those infrastructure projects that are intended to be financed by non-concessional loans and to strictly observe the agreed envelope for such loans.

We agree with the staff that Mali needs to increase its economic competitiveness by improving the business environment, broadening the sources of growth, and establishing better governance structures. Deepening

financial intermediation and continuing efforts to reform the cotton and electricity sectors are also key for private sector development.

Finally, we would like to commend the authorities on achieving compliance with the Extractive Industries Transparency Initiative (EITI) and we are encouraged by the authorities' commitment to implement all measures necessary to maintain its status of compliance.

Mr. Daïri and Mr. Nadali submitted the following statement:

We thank the staff for a set of well-written papers, and Mr. Yambaye for his informative statement.

Reflecting sound policies under Fund-supported programs, Mali has managed to maintain macroeconomic stability and advance toward the Millennium Development Goals. Strong cotton production and overall satisfactory agricultural season in 2011 have contributed to continued robust growth and low inflation, and along with improvement in terms of trade, to strengthened balance of payments position. Medium-term outlook is also favorable but subject to downside risks from uncertain external environment, tense security situation in the North, and unpredictable weather conditions. We commend the authorities for their strong program performance so far, and given their renewed commitment to continue the ongoing reforms, support the proposed decision, as well as the request for a successor ECF arrangement.

In line with the WAEMU convergence criterion, fiscal policy aims at a basic balance equal to or greater than zero to preserve fiscal and debt sustainability. We welcome the draft 2012 budget which is closely aligned with the new program objectives as well as the next G-PRSP priorities. Widening the tax base, simplifying the VAT system, and strengthening tax and customs administration could go a long way toward achieving the target for tax revenue of 15 percent of the GDP to create the much-needed space for infrastructure spending. The inventory of all tax exemptions and the presentation of their costs in the budget starting in 2013 will help mobilize support for their streamlining. We also support the authorities' intention to introduce more progressivity in mineral taxation.

A credible and effective fiscal policy also requires progress in public financial management, enhanced efficiency in infrastructure spending, reform of the pension system, and improved debt management. We underscore the importance of well-designed targeted cash transfer systems, based on a broad participatory process, before reforming energy and other subsidized product

pricing mechanisms, in order to ensure adequate protection of the most vulnerable segments of the population. The staff indication on the degree of preparedness and the timeline for achieving social consensus in this area would be appreciated.

The DSA update indicates that, under the baseline scenario, Mali remains at moderate risk of debt distress throughout the projection period. However, given the sensitivity of debt sustainability to an export shock in the absence of export diversification, and to a hardening of financing terms, we share the staff view that debt sustainability should remain under close scrutiny, including by limiting most of external borrowing to grants and concessional loans. Amongst other measures, the authorities intend to solicit a sovereign rating from a rating agency by end-2014 to facilitate cautious medium-term non-concessional borrowing. We welcome the staff comment on the experience of regional peers in this context.

The banking system remains adequately capitalized, liquid, and profitable. However, vulnerabilities associated with high NPLs and exposure to fallout from crises in Côte d'Ivoire and Libya warrant greater vigilance. In this connection, we are reassured by Mr. Yambaye that both Malian and regional authorities are firmly determined to safeguard the stability of the financial sector in general and the banking system in particular. We welcome ongoing efforts to implement financial sector development strategy in line with the recommendations of the 2008 FSAP for Mali and WAEMU zone, and wonder if there are plans for an FSAP update in the near future.

Sustainable higher growth and poverty alleviation hinges on maintenance of macroeconomic stability and timely implementation of structural reforms. Improving the business climate, including through a new anti-corruption strategy in 2012, would remove a major impediment to growth by raising private investment to levels achieved in comparable countries. We also welcome continued efforts to reform the cotton and electricity sectors with a view to enhancing efficiency and reducing government support and contingent liabilities, while increasing energy supply.

We note from the staff statement that the seasonal rainfall has been much less favorable than expected and call on the staff to monitor developments in the food security situation, their potential macroeconomic impact, and potential emergency assistance needs, including from the Fund. We wish the authorities success in their endeavors.

Mr. Chia and Mr. Pokharel submitted the following statement:

We thank the staff for the well-written sets of papers and Mr. Yambaye for his insightful buff statement. Mali's strong program performance has contributed to a favorable economic outturn in 2011, although considerable downside risks to implementation remain. We are encouraged by the conclusions from the Bamako Conference and the EPA that Mali's Fund-supported programs have succeeded in maintaining macroeconomic stability and in making progress towards the Millennium Development Goals. On balance, we can support the completion of the seventh review of the current ECF arrangement and as well as the approval of the authorities' request for a new three-year ECF arrangement.

We broadly agree with the thrust of the staff's assessment and offer the following points for emphasis:

Notwithstanding downside risks to the economy and uncertainties with the political cycle, we urge the authorities to continue with reform efforts, particularly to improve the business climate and thereby galvanize private sector development. We note the assessment in paragraph 9 that Fund-supported programs have been less successful in diversifying the economy, increasing tax revenue and boosting annual output growth beyond 5 percent, with the main impediment to higher growth being a poor business environment. In this respect, we support the priorities of the new program, particularly the measures laid out to strengthen the business environment, which we deem critical to anchor future sustainable growth. We also welcome Mali's recent compliance with the Extractive Industries Transparency Initiative (EITI), and urge the authorities to persist with efforts to improve overall governance as well as to safeguard financial stability, so as to promote an enabling environment for private sector activity to take hold.

While we commend Mali's good program performance, we have some concern with the prevailing political and security situation. The staff stated that the authorities have stressed that launching a successor arrangement ahead of the presidential and legislative elections slated for mid-2012 would be an opportunity to lock in prudent macroeconomic policies, whilst preparing the ground for ambitious structural reforms by the next administration. Whilst we welcome this longer-term orientation towards policymaking, could the staff elaborate on whether and how the political cycle and the deteriorating security situation in Northern Mali could impact commitments towards the new program?

With these remarks, we wish the authorities success in future policy endeavors.

Mr. Majoro submitted the following statement:

Mali's economic performance has gradually improved with the implementation of the country's economic program supported under the Extended Credit Facility (ECF) arrangement. Macroeconomic stability has been maintained and the economy has returned to its high growth trajectory following the succession of external shocks. We are encouraged by the authorities' commitment to implementing sound macroeconomic and structural policies and consider the broad policy framework of the proposed successor ECF program appropriately focused on sustaining the growth momentum and reducing poverty. Against this backdrop, we support completion of the seventh review of the program and the authorities' request for a new three-year ECF arrangement.

#### Fiscal Policy

The authorities' continued pursuance of prudent fiscal policies within a sound medium-term macroeconomic framework is commendable. We note that fiscal management has improved, with performance remaining broadly consistent with program targets. However, while domestic revenue mobilization is on the increase, underlying structural weaknesses should be addressed if the much-needed fiscal space for investment in infrastructure and social sector projects is to be created. To this end, we welcome the authorities' plan to pursue wide-ranging tax policy and tax administration reforms aimed at minimizing the huge tax exemptions and energy price subsidies. In addition, progress accomplished in strengthening public financial management is encouraging. However, we urge the authorities to expedite reforms aimed at addressing the buildup of domestic arrears and strengthening budget oversight.

#### Debt Management and Policy

We note that Mali's risk of debt distress remains moderate as assessed by the recent debt sustainability analysis. However, we are concerned that the gains achieved under the enhanced HIPC initiative and the Multilateral Debt Relief Initiative (MDRI) are being eroded by the gradual buildup of external debt. With the vulnerability of the country's exports to external shocks, urgent action is needed to maintain medium to long-term debt sustainability. To this end, the authorities' plan to resort to limited non-concessional borrowing for



exclusively high return infrastructure investment projects is welcomed. Strengthening of the debt management capacity, including development of a medium-term debt management strategy, is thus pivotal. We, therefore, urge the authorities to expedite the process.

### Financial Sector Development

Accelerating financial sector development is critical to enhancing the catalytic role of the financial system in economic development and reducing the impact of recent external shocks, both regional and global. In this regard, the authorities' continued commitment to implementing their financial sector development strategy aimed at strengthening the institutional and operational frameworks of the financial system is encouraging. We, nonetheless, urge that they closely collaborate with the WAEMU monetary authorities to fast-track implementation of the restructuring plan, especially the restructuring of the state housing bank (BHM). Furthermore, we urge them to be mindful of the urgent need to strengthen the prudential framework of the banking system to address systemic fragilities, including the mounting portfolio of non-performing loans.

### Structural Reforms

Efficient functioning of the economy and sustained economic growth would require addressing the structural weaknesses in the economy. The authorities' efforts at improving the business climate could be bolstered by accelerating ongoing reform of the electric power sector. While implementation of the electricity pricing policy appears to have proceeded well, due consideration should be given to allowing a greater pass-through of international fuel prices as this would help create fiscal space for priority investment. Finally, efforts at improving governance should be enhanced. To this end, the authorities' determination to remain compliant with the principles of the Extractive Industries Transparency Initiative (EITI) is welcomed. We urge them to be unrelenting in their fight against corruption.

Ms. O'Dea and Mr. Rolle submitted the following statement:

Mali's solid performance under the current ECF is very encouraging, as is the country's healthy economy outlook. However, much remains to be achieved to reduce poverty and unemployment. Mali will require a sustained program of structural reforms which raise potential growth further, and in line with its relatively steep population trajectory. Additional reforms are also needed to increase the country's resilience to shocks which affect commodity

prices and food production. We agree that progress has to occur within an environment that safeguards fiscal and debt sustainability. Given the authorities' continued commitment, as further articulated by Mr. Yambaye, and their strong track record in program implementation, we support the completion of this review and the proposed successor arrangement.

Since we share the staff's appraisal, we will offer just a few remarks.

We welcome the continued reforms to strengthen the fiscal framework, to create space for social spending and infrastructural investments. In this regard, the importance of sustained progress in making the system of subsidies and transfers more efficient must be emphasized. The authorities are therefore encouraged to swiftly reform the untargeted subsidization of energy costs, and adopt a more flexible pass-through mechanism for oil prices. Given overwhelming infrastructure needs, we are relieved that the debt sustainability analysis justifies some use of non-concessional borrowing for high-return projects. Regular review of the ceiling on concessional borrowing, as is the intention of the authorities, is consistent with this approach.

The authorities have crafted their reforms in the context of the widespread public consultation, and this has certainly helped to strengthen program ownership and the focus on inclusive growth. Can the staff elaborate on how medium-term priorities and program ownership could be affected if there is a change in political leadership following the elections?

Improving the business and expanding the private sector role in the economy are highly compatible with Mali's push for more inclusive growth. Progress on various fronts to stimulate financial sector development and enhance this sector's overall stability is therefore vital, with the foreshadowed benefit of increasing the flow of credit to domestic enterprises. Continued efforts to reduce other costs and impediments to doing business are also critical, including enhancing governance frameworks within the public sector and success at measures to increase the supply of electricity.

Mr. Mac Laughlin and Mr. Lischinsky submitted the following statement:

Mali has satisfactorily managed the Extended Credit Facility (ECF) program. All performance criteria and all indicative targets but one were met through the end of June, as well as all but one structural benchmark for this seventh review and the targets for December are within reach. Based on these merits, on the strong implementation of the program and on the authorities' intentions to reform the tax system, we agree with the staff's recommendation

and support the proposed Decision and the authorities' request for the eighth and last disbursement under the three-year ECF arrangement, a new three year arrangement under the ECF and the first disbursement under the new arrangement.

We commend the authorities for their persistent efforts supporting economic and financial reform and the Growth and Poverty Reduction Strategy for 2012-17. This program should continue to improve social indicators and the quality of both targeting and expenditures to achieve some of the Millennium Development Goals where there is still much to do with half of the population under the poverty line. The program has the ownership of the country with the broad participation of civil society, the private sector, the development partners, and the government, with the objective of promoting inclusive growth, access to social services and good governance.

The economy has remained stable and is projected to grow by 5.4 percent at the end of this year under the impulse of a strong cotton production which represents around 10 percent of exports and improved terms of trade for gold which, although its production has stagnated, represents the bulk of exports, comprising more than 70 percent. In this regard, export diversification is warranted. Production, particularly of food, maintained inflation low while the increase in oil prices did not impact on inflation due to government policies to prevent the pass-through on domestic oil prices. We see from the staff representative statement that the food situation could change due to heavy seasonal rainfall in some parts of the country and the authorities, with donor cooperation, are taking emergency measures to provide food to those at risk.

We learnt from the illustrative buff statement that the authorities are attaching high importance to the preservation of debt sustainability and the country could contract up to 1 percent of GDP of non-concessional financing without undermining debt sustainability. This kind of finance, in the event that it is contracted, should be invested in projects with a rate of return higher than the agreed interest rate. In turn, the improvement of the modernization of public financial management will continue over the period 2011-15. The authorities are not only committed to safeguard the stability of the financial sector and the banking system but also to reform the cotton and energy sectors.

With these comments, we thank the staff for the set of papers, the staff representative for the statement, Mr. Yambaye for his illustrative buff

statement and wish the authorities and the people of Mali all the best in their future endeavors.

Mr. Rediker and Mr. Meyer submitted the following statement:

Mali has made progress under its ECF, weathered shocks well, and posted robust growth and low inflation in 2011. We appreciate the recent ex-post assessment and are pleased to see that the proposed successor arrangement—which we support—incorporates lessons from it and the stakeholders’ conference in Bamako earlier this year.

The thrust of the new ECF seems appropriate, and we urge Mali to work with its international partners and the Fund to address urgently the lack of economic diversification, including through governance reforms. As the staff’s statement highlights, the continued dependence on agriculture presents large risks in the event of drought or other weather-related shocks.

We note that the balance of payments situation has improved markedly in Mali during this most recent ECF, and we continue to support Fund engagement. While we are cognizant of the risks from commodity price volatility, and we appreciate the smaller size of the proposed successor ECF, we would ask the staff to comment on whether other forms of engagement beyond an ECF were considered. Given that this is Mali’s sixth Fund program, thought should be given to the development of an exit strategy.

Mr. Legg, Mr. H. Lee and Mr. Karae submitted the following statement:

We commend the authorities for continued program performance and favorable medium-term outlook, as well as their commitment to broad-based reform agenda suggested by the EPA and the Bamako conference. However, there remain considerable downside risks in the agrarian economy with high dependence on gold exports in terms of weather conditions, terms of trade, and the spillover from the regional socio-political crisis. In this context, we support the completion of the seventh review under the current ECF and approval of the request for a new ECF arrangement.

As Mr. Yambaye noted in his buff statement, we welcome the authorities’ commitment to strengthening public financial management. Improved fiscal performance and debt sustainability will continue to be critical to promoting infrastructure investment and social spending as well as catalyzing external aid from donor countries. We see the need to establish and fully implement a single treasury account at the BCEAO under an integrated

database of all domestic debt and government guarantee. We also note that the electricity price indexation mechanism should be finalized without delay, given the public electricity company's (EDM) accumulated financial losses, while more targeted social assistance measures being devised.

As highlighted in the EPA, the new program should focus more on addressing implementation capacity constraints and on enhancing ownership to ensure that tangible outcomes from reform measures are perceived by the public, as soon as possible. We reiterate the importance of greater consultation and outreach to key stakeholders as a way of strengthening ownership. Given the need for enhanced transparency and anti-corruption in the mining sector, we welcome the authorities' compliance with the Extractive Industries Transparency Initiative (EITI).

We caution that political uncertainty related to upcoming elections in 2012 in addition to persistent terrorism threats could undermine the institutional capacity and the program's eventual chances of success. We would welcome the staff's comments on the political risks both in domestic and regional level to program implementation.

Regarding the DSA, given that Mali's debt sustainability remains highly sensitive to a gold price shock and to a worsening of external financing terms, we encourage the authorities to continue to limit external financing to grants and concessional loans and tightly link any scope for non-concessional borrowing to high yielding infrastructure investment projects.

Mr. Fayolle and Mr. Elder submitted the following joint statement:

We thank the staff for their candid reports and Mr. Yambaye for his informative buff statement. We agree to the completion of the seventh review under the existing ECF and support the authorities' request for a new three-year arrangement.

We are concerned to learn that food security issues are emerging, potentially affecting about 3 million people, and we support the authorities' response through emergency measures. We look forward to a full assessment of this crisis at the first review of the new ECF arrangement.

In light of the satisfactory track record under the program, we support the authorities' request for the completion of the seventh ECF review. We regret however that the indicative target on priority spending had been missed,

due to the overall under execution of public spending. Could the staff elaborate of the reasons behind this under execution?

Given Mali's good track record under the current ECF, its vulnerability to external shocks, and the need to pursue macroeconomic reforms, we support the authorities request for a new ECF-supported program. We welcome the fact that the new program design takes into account the conclusions of the Bamako Conference and the Ex-Post Assessment. We support its four areas of focus, built on the priorities of the authorities' new poverty reduction strategy as stressed in Mr. Yambaye's buff. We agree with the thrust of the staff's appraisal and would like to make the following comments.

### Public Financial Management

Revenue mobilization lags behind in comparison with WAEMU criterion and revenue performance did not improve during the program period. We urge the authorities to accelerate the pace of reforms in this area under the new ECF, especially concerning the reduction in tax exemptions, energy price subsidies, and a more progressive tax regime for mining companies. Establishing a single treasury account and implementing WAEMU's PFM directives into Malian law will also be critical.

### Debt Sustainability

The risk of debt distress is moderate. We support the authorities' plan to access limited non-concessional borrowing for high return infrastructure investment projects. However, this should be accompanied by a strengthening of debt management capacity. We urge the authorities to quickly implement the announced medium-term debt management strategy and the action plan to strengthen the selection, budgeting, implementation, and ex-post assessment of public investment projects.

### Private Sector Development

We commend the authorities for the progress they have made in privatizing public enterprises and urge them to continue in their efforts. We encourage the authorities to rapidly complete the privatization of the CMDT. We look forward to the steps taken to adjust domestic energy prices to international oil prices. We consider the reform of electricity tariffs as critical given the fiscal weight of transfers to EDM and the importance of an efficient energy sector for sustainable growth. We note the Bamako Conference

concluded that the main impediment to growth is a poor business environment and urge the authorities to address the issues identified.

Mr. Luo and Mr. Tao submitted the following statement:

We thank the staff for the comprehensive set of reports, and Mr. Yambaye for his informative buff statement. We broadly agree with the thrust of the staff appraisals and recommendations, and would like to emphasize on the following:

We support the completion of Mali's seventh review of the current ECF arrangement, and the approval of new three-year ECF program. We take note of the authorities' observation of all performance criteria, indicative targets and structural benchmarks except for the target on priority spending and base-broadening tax reform through end-June. Furthermore, Malian authorities have showed their strong commitment to meet all the targets by year-end and plan to implement an ambitious program of economic and financial policies under the successor ECF framework, to support the sustainable growth and poverty reduction.

We commend the overall good fiscal performance, consistent with program targets during the first half of 2011. Revenues appeared to be healthy on the tax side and have met the program target owing to the over-performance of corporate income taxes, while expenditure execution needs to be aligned by cutting non-priority spending under the supplementary budget. We welcome the authorities' continuous commitment to prudent fiscal management, to build up buffers against the volatile price of cotton and gold exports.

Despite of the recent good output growth, Mali is facing challenges with regional instability and political uncertainties, which would probably aggravate the downside risks to the economy. We agree with the staff that launching a successor arrangement ahead of the presidential and legislative elections slated for mid-2012 would be an opportunity to lock in prudent macroeconomic policies, whilst preparing the ground for ambitious structural reforms by the next administration.

With these remarks, we wish the authorities every success in the current and new ECF arrangement.

Mrs. Arbelaez and Ms. Florestal submitted the following statement:

We thank the staff for a succinct report and Mr. Yambaye for his useful buff statement.

Program performance has been solid and the Malian authorities show strong determination in pushing forward with the structural reform agenda and in maintaining the growth momentum through enhanced infrastructure spending and improvements in the business environment. The program for 2012-14 benefits from lessons learnt from long years of Fund engagement with Mali, important participation of stakeholders at both international and domestic levels and, its objective are in line with the new G-PRSP III although it has not been completed yet. In light of these considerations, we support the last review of the ECF and the request for a three year successor arrangement.

The outlook for Mali was favorable before the news came in on the insufficient rainfalls. This development illustrates how the economy remains vulnerable to external shocks in particular to the vagaries of the weather. The volatility of the international prices of its export commodities is another risk factor on the economic outlook. The program's growth projections may be stoutly tempered by the new information on less favorable weather conditions and increased risks to food security. We call on the Fund to monitor closely the evolving situation and see how it can support the authorities' efforts to obtain donors' assistance as well as stand ready to supply emergency assistance if needed.

With the potential shrinking availability of concessional financing if the fiscal situation of donor countries deteriorates, access to other sources of funding for infrastructure and development in general is crucial in achieving growth objectives. Thus, the flexibility introduced in the program to accommodate the contracting of non concessional loans to finance high yielding projects is an important and welcome step. The adoption of a prudent debt management strategy is in this context also essential. Nonetheless, in table 5, the financing of projects through non concessional loans is not anticipated in 2012. Could the staff elaborate on how the 51 million level of sustainable non concessional financing was determined and how this additional room is expected to be used during the program years? Also, we wonder if the staff anticipates the need for an advanced contracting of non concessional loans to replace budget resources for investments which may now be reallocated to finance responses to the drought.



The authorities' program is ambitious and comprehensive but conditionalities are streamlined and focused on the public financial management and fiscal consolidation. We note the World Bank's support in the restructuring of the housing bank (BHM), the non negligible amount of budget support anticipated for 2012 and the Fund and Bank technical support in elaboration of a debt management strategy. However, it would be useful to have additional information on donors' engagement in Mali, in particular with respect to assistance to the government in its efforts in improving the business environment through, for example, an increase in the skills of the labor force.

The level of access seems limited to play the buffer role against the volatility of the prices of Mali's top exports/production goods as intended. The staff's comment would be appreciated.

Finally we commend the authorities' decision to address immediately the financial situation of the CMSS as it represents a great risk to fiscal consolidation and to social stability.

Mr. Alshathri made the following statement:

In spite of an uncertain external environment, growth is expected to remain robust while inflation is forecast to be contained. The authorities are commended for their strong fiscal performance, and their commitment to prudent fiscal management is welcomed. Strong program performance of the current Extended Credit Facility (ECF) arrangement was instrumental in supporting macroeconomic stability in Mali.

The proposed new ECF arrangement that draws on the conclusions of the Bamako Conference and the ex post assessment (EPA) is welcome. The ECF's four areas of focus—built on the priorities of the authorities' new Poverty Reduction Strategy—is encouraging.

We support the completion of the seventh and last review of the current ECF arrangement, and the authorities' request for Fund support to their continued reform efforts in the form of a new three-year ECF arrangement.

Mr. Ubaidulloev made the following statement:

The authorities are commended for their good program performance and we support the conclusion of the seventh review, as well as the request for a new three-year arrangement under the ECF.

The economy remains vulnerable to developments in the country's main export markets for gold and cotton. To mitigate this dependence and to build buffers against possible shocks, policies should aim to diversify economic activity, improve the general business environment and governance, and broaden the tax base to raise the revenue-to-GDP ratio.

More fiscal space will be needed to allow for investments in upgrading fiscal infrastructure. Further reforms in the area of public financial management—such as tax administration, budget planning and execution, audit, and improvement in cash management—will be conducive to effective investment spending. We concur with the staff that the bulk of external financing should be grants or concessional loans.

Continued program engagement with the Fund is timely and also consistent with the new Poverty Reduction and Growth Strategy. This engagement anchors a sound macroeconomic policy framework, and we expect that the broad ownership achieved will not be diluted.

Mr. Daïri asked whether the authorities would solicit a sovereign rating from a ratings agency and whether such a move would be beneficial to Mali.

The staff representative from the African Department (Mr. Josz), in response to questions and comments from Executive Directors, made the following statement:<sup>1</sup>

Directors asked whether the lack of measures devoted to broadening the tax base in the 2012 budget could pose a risk for the 2012 revenue target. The authorities and the staff are confident that the 2012 revenue targets can be achieved, owing to the high profits expected from the gold sector. The staff agrees with Directors that further progress in reducing tax exemptions and broadening the tax base will be needed to meet revenue targets in 2013/14.

Directors asked whether the projections for grants were realistic given the ongoing fiscal consolidation in advanced economies. At the October meeting on budget aid with the authorities, donors confirmed the level of grants projected in the program for 2012. Grant levels for subsequent years will be revised on the occasion of program reviews.

Turning to expenditures, Directors asked whether the decline in capital expenditures observed in 2012 was compatible with the program objective of

---

<sup>1</sup> Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

increasing infrastructure investment. This decline corresponds to the withdrawal of the temporary fiscal impulse financed by the privatization receipts of the telecom company, Sotelma. In 2013/14, capital expenditures are set to grow as higher tax revenue creates fiscal space for infrastructure investment, which is consistent with the objectives of the ECF arrangement.

Directors asked about the reasons behind the under-execution of spending in 2011. Uneven execution of spending is a recurring issue in Mali and illustrates the need for further progress in budget planning and execution. In addition, the cabinet reshuffle in April slowed down budget execution during the second quarter. The authorities are confident that they can execute their budget according to plans by year-end.

Regarding structural reforms, Directors inquired about the degree of preparedness to adjust domestic energy prices, the need for social safety nets, and the scope for a more ambitious reduction in energy price subsidies. In a pre-electoral context, the authorities are sensitive to the social implications of an increase in energy prices, particularly for the urban population.

Under the program, the authorities and the staff will first hold technical discussions on measuring and disseminating the cost of energy price subsidies, options for phasing out these subsidies, and transfers for alleviating social tensions. The result of this preparatory work—which will be the subject of structural benchmarks for the first and second reviews of the program—will be used to build ownership within the new administration for gradually adjusting domestic energy prices to reflect international oil prices.

Directors asked whether the authorities and the staff had discussed other forms of engagement, including the possibility of a Policy Support Instrument (PSI). The authorities expressed preference for a successor ECF arrangement in light of the exogenous shocks to which the country remains exposed, and the success of past ECF arrangements in fostering macroeconomic stability and progress in public financial management.

Despite meeting all seven reviews under the current ECF arrangements on time, the authorities felt that Mali's culture of consensus-building could lead to unpredictable delays in policymaking that would be more difficult to handle under a fixed timetable of reviews under a PSI arrangement.

Directors asked whether the level of access under the arrangement was commensurate with the price volatility of Mali's main exports. The level of access is in line with the projected balance of payments and fiscal needs under

the baseline assumptions of the macroeconomic framework. However, if higher needs arise because of an unanticipated export price shock or other shocks, there is the possibility of augmentation on the occasion of program reviews.

Directors asked about political risks stemming from the upcoming elections. According to the authorities and other development stakeholders, there is a high probability that the new administration will endorse the new program. The new program is built on the consensus reached at the Bamako Conference and is well aligned with the EPA and the priorities of the new Poverty Reduction Strategy Paper (PRSP).

Regarding Mr. Daïri's question about the prospect of a rating by ratings agencies, the authorities are interested in seeking a new rating as a way to upgrade their debt management capacity. This is not the authorities' first priority; their first priority is to strengthen debt management and make good use of the nonconcessional borrowing envelope. The authorities do not plan to raise that envelope by issuing Eurobonds.

However, over the course of the program, they are interested in seeking a new rating to see what is required to access international capital markets. This is a step that they envisage taking toward the end of the program.

Mr. Yambaye made the following concluding statement:

Directors' statements highlight the good progress made by the authorities in bringing forward their policy and reform agenda under the current program. I appreciate Directors' endorsement of the authorities' request for a new ECF arrangement. This arrangement represents a channel for continued Fund support and an opportunity to bring about the completion of the comprehensive reform agenda initiated under the previous Fund-supported program.

The reform agenda under the proposed new arrangement will consolidate the measures implemented in the current program. In particular, the reform agenda aims to consolidate the progress made in boosting revenue mobilization, strengthening debt management, and safeguarding financial-sector stability.

On the fiscal front, prudent policies will continue to be implemented with a view toward preserving fiscal and debt sustainability. Directors have

emphasized the need for broadening the tax base and reducing tax exemptions. The steps recently taken by the authorities to phase out some exemptions move the process in the right direction. However, the authorities are aware that more needs to be done in this regard, as reflected by their decision to identify and evaluate existing tax exemptions for consideration by members of parliament.

In response to Directors' calls for prudent nonconcessional borrowing, the authorities are determined to adhere to the program commitments in the area of debt management. The authorities intend to do this by keeping their borrowing plans consistent with preserving debt sustainability and by developing a medium-term debt-management strategy.

Financial sector reforms will proceed in line with the authorities' financial sector development strategy. A key aspect of the reform is improving access to credit, particularly for small—and medium-sized enterprises. Notable steps in this regard include the creation of a registry of bank guarantees and the reform of land tenure.

Reform will include other areas, such as the cotton and energy sectors. Action will be taken to address the need to contain fiscal risks and foster private-sector development, notably by enhancing private-sector involvement in the cotton sector, increasing electricity production, and improving the business climate. The authorities continue to value Fund policy advice in these and other areas.

The following summing up was issued:

Executive Directors commended the Malian authorities' strong implementation of their economic program, which has contributed to Mali's favorable macroeconomic performance. They welcomed the proposed new program's alignment with the poverty reduction strategy, and the broad public consultations that informed its design. They endorsed the emphasis on macroeconomic stability, revenue mobilization, public financial management, and private sector development to promote sustained and diversified growth with debt sustainability. They urged continued diligent program implementation, noting the risks associated with external shocks, the upcoming elections, and global uncertainty.

Directors supported the authorities' fiscal strategy, which is embedded in the 2012 budget. They underlined the importance of strengthening the revenue base through fewer tax exemptions, full pass-through of international

oil price changes to domestic prices, more progressive tax rates for mining companies, and overhaul of tax administration. They commended the focus on health, education, and infrastructure in spending plans; and they encouraged the establishment of a treasury single account, action to eliminate pension fund deficits and domestic payment arrears, and other reforms to improve the quality of public spending.

Directors supported a limited amount of nonconcessional borrowing, but stressed that it should only finance high-yield infrastructure projects. To safeguard debt sustainability, the authorities should continue to rely primarily on concessional financing and should strengthen debt management capacity.

Directors urged quick progress to improve the business environment and spur private investment. Particularly important will be reforms in the financial, cotton, and electricity sectors. Key measures include strengthening financial supervision and regulation, and deepening the financial sector; completing the sale of the state housing bank and the cotton ginning company; and boosting the production capacity and financial soundness of the electricity company, in part through electricity tariff reform backed by a well-targeted social safety net. Directors welcomed Mali's compliance with the Extractive Industries Transparency Initiative, and pressed for further efforts to strengthen governance, reduce corruption, and increase fiscal transparency.

The Executive Board took the following decision:

#### **Mali—Seventh Review Under the Extended Credit Facility**

1. Mali has consulted with the Fund in accordance with paragraph 4.F(b) of the arrangement for Mali under the Extended Credit Facility (ECF) (EBS/08/52, Supplement 3, 5/27/08) (the "Arrangement") in order to review program implementation.
2. The letter dated November 23, 2011, from the Minister of Economy and Finance of Mali (the "November 2011 Letter"), along with the attached Memorandum on Economic and Financial Policies (the "November 2011 MEFP") and Technical Memorandum of Understanding (the "November 2011 TMU"), shall be attached to the Arrangement, and the letter dated May 5, 2008 from the Minister of Finance, as amended, together with its attachments, shall be read as supplemented and modified by the November 2011 Letter and its attachments.
3. The Fund decides that the seventh review contemplated in paragraph 4.F(b) of the Arrangement is completed and that Mali may request the

disbursement of the eighth loan referred to in paragraph 2(h) of the Arrangement. (EBS/11/171, 11/28/11)

Decision No. 15050-(11/120), adopted  
December 12, 2011

APPROVAL: October 11, 2012

JIANHAI LIN  
Secretary

## Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

1. *In addition to the draft proposed decision to complete the 7<sup>th</sup> Review, should there not be a second draft proposed decision to approve the new arrangement?*

- Since a member cannot have two ECF arrangements effective at the same time under the Poverty Reduction and Growth Trust Instrument, a draft proposed decision approving the new ECF arrangement will be circulated to the Board for adoption on a lapse of time basis after the current ECF arrangement expires upon the making of the eighth and last disbursement there under.

2. *We would be grateful for the staff comment on the impact of the proposed single account, if any, on credit to the private sector and on the deposit/lending rates.*

- Since the banking sector as a whole is very liquid, as attested by the large amount of excess reserves held by banks at the BCEAO, the staff does not expect any major impact of the establishment of the single treasury account at the BCEAO on credit to the private sector.

3. *Are plans for an FSAP update in the near future?*

- Currently, there are no plans for a full FSAP update but there are plans for an FSAP module on financial sector stability and development. This will be done in collaboration with the World Bank on a date still to be determined.

4. *The authorities intend to solicit a sovereign rating from a rating agency by end-2014 to facilitate cautious medium-term non-concessional borrowing. We welcome the staff comment on the experience of regional peers in this context.*

- Several Sub-Saharan countries have received help from an initiative launched by the United Nations Development Program (UNDP) for obtaining sovereign credit ratings. These include Benin, Burkina Faso, Cameroon, Ghana and Mali. Senegal and Cote d'Ivoire have issued Eurobonds on the basis of ratings obtained from some of the main credit rating agencies.

5. *Could the staff elaborate on how the 51 million level of sustainable non concessional financing was determined and how this additional room is expected to be used during the program years? Also, we wonder if the staff anticipates the need for an advanced contracting of non concessional loans to replace budget resources for investments which may now be reallocated to finance responses to the drought.*

- The size of the envelope of non-concessional borrowing was determined with the objective of keeping Mali's risk of debt distress moderate in the joint IDA/IMF Debt



Sustainability Analysis under the Debt Sustainability Framework for Low-Income Countries. As the authorities have not yet identified projects to finance with this envelope, the program expects such projects to be identified in 2012 and disbursements to occur in 2013-14. The staff does not anticipate that emergency measures to provide food to population at risk will displace priority investment spending.

6. *It would be useful to have additional information on donors' engagement in Mali, in particular with respect to assistance to the government in its efforts in improving the business environment through, for example, an increase in the skills of the labor force.*

- Several donors have programs to assist the authorities in improving the business environment including IFC, the World Bank, USAID, and the Netherlands. The World Bank is developing a project on social protection and employment that will include cash or food for work, with a view to improving participants' marketable skills.