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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/160

3:00 p.m., September 19, 1986

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	Mawakani Samba
	M. Lundsager, Temporary
	G. Seyler, Temporary
	T. Alhaimus
	T. Morita, Temporary
	A. Bertuch-Samuels, Temporary
Huang F.	
	Z. b. Ismail, Temporary
	J. R. N. Almeida, Temporary
	R. Fox, Temporary
	O. Isleifsson, Temporary
	O. S.-M. Bethel, Temporary
	J. A. K. Munthali, Temporary
	J. J. Dreizzen, Temporary
	J. E. Suraisry
	J. E. Rodríguez, Temporary
	V. Rousset, Temporary
	J. de Beaufort Wijnholds
	H.-S. Lee, Temporary
	B. Tamami, Temporary
	A. Vasudevan, Temporary
	L. Tornetta, Temporary

L. Van Houtven, Secretary
S. L. Yeager, Assistant

Also Present

IBRD: C. Poortman, Western Africa Regional Office. African Department: A. D. Ouattara, Director; E. A. Calamitsis, J. A. Clement, K. Enders, S. M. Nsouli, L. Schmitz, P. Ugolini. Exchange and Trade Relations Department: S. Kanesa-Thasan. IMF Institute: O. B. Makalou. Legal Department: H. Elizalde. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: L. P. Ebrill, K. Yao.

1. MALI - REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered a staff paper (EBS/86/200, 8/22/86) on the second review under the 17-month stand-by arrangement for Mali in an amount equivalent to SDR 22.86 million approved on November 8, 1985 (EBM/85/161, 11/8/85).

The staff representative from the African Department stated that the Malian authorities had advised the staff that the prior actions indicated in the staff paper had been implemented and that all the performance criteria for end-June 1986 had been observed.

Mr. Mawakani made the following statement:

> As reported by the staff, the main economic indicators point to a continuing improvement in the economic and financial position of Mali; in particular, a much stronger expansion of GDP is expected while inflationary pressures are expected to subside. The fiscal and external current account deficits in relation to GDP are also projected to decline, and all performance criteria for end-March and end-June have been observed.
>
> The economic expansion is expected to be strong, reflecting more buoyant activity in the agricultural and livestock sectors as well as in the construction and food processing industries. Such an improvement is due to the favorable impact of supply-side measures implemented earlier, coupled with better weather conditions. In their efforts to enhance the efficiency of resource allocation and reduce the role of government in the economy, my authorities have further liberalized prices and the marketing of major commodities, as well as eased the regulations governing the creation of new business ventures.
>
> On the fiscal front, all the measures envisaged under the program have been implemented. However, the expected impact on the budgetary deficit has been slow to materialize as a result of a further decline in cotton export prices. Consequently, a number of additional measures are being contemplated by the authorities in order to offset the expected shortfall in revenue. These measures include further increases in duties on rice imports, and a change in the tax base of custom duties. In addition, the authorities have stepped up their efforts to collect arrears and have kept unchanged the domestic price of oil even though oil import prices have declined. On the expenditure side, efforts to restrain expenditure growth, especially the wage bill, are being continued and, as my chair mentioned at the time of the first review (EBM/86/60, 4/4/86) the Malian authorities are monitoring expenditure more closely, and clear instructions have been given to spending ministries that all nonbudgeted expenses will not be paid for by the Treasury.

My authorities are aware that the continuing decline in cotton prices, combined with the underlying financial weaknesses of state enterprises, underscore the urgency to formulate a comprehensive program with a view to reforming the public enterprise sector. In that context, progress has been achieved in their negotiations with the World Bank. While awaiting the launching of the program, the Malian authorities have introduced a wide range of measures aimed at either improving the financial situation of the public enterprises through reducing their subsidies and number of workers, or reducing their role in the economy by terminating their monopoly and monopsony position over the marketing of several commodities.

Monetary and credit policies have been implemented in a flexible way and have been largely influenced by the strong expansion of the agricultural sector and the scheduled reduction of arrears in the economy. This flexibility has been consistent with the balance of payments objectives and the inflation targets.

Reflecting the cautious demand management policy and a good harvest in 1985/86, the external sector performance is projected to improve despite the continuing decline in the export prices of cotton. As reported by the staff, the current account deficit--after grants--is expected to be CFAF 37 billion in 1986, down from CFAF 57 billion in 1985 as a result of a substantial drop in imports, compensating the sharp decline in export earnings. Despite this improvement, the Malian authorities are concerned about the medium-term outlook because of the relatively high debt service ratio. In that regard, they intend to pursue a cautious debt management policy.

The Malian authorities recognize that deficiencies in past policies have contributed to the structural problems facing the country. They are therefore fully committed to restructuring their economy and laying the foundation for sustainable economic growth with the financial and technical assistance of donors and creditors. It is hoped that this support would be forthcoming to alleviate the heavy social and economic cost this adjustment entails.

Mr. Munthali made the following statement:

I am in broad agreement with the staff appraisal. It is clear from the staff report that the implementation of the program has so far proceeded satisfactorily mainly because the authorities have been taking all necessary action to keep it on track. The authorities deserve to be commended for their determination to strengthen the adjustment effort at each point when adverse exogenous factors threatened to push it off course. The principal threat to the success of the program has been the precipitous, persistent decline in the price of cotton, Mali's main export commodity. In 1984/85, this decline was accompanied by shortfalls in external budgetary assistance as well as a poor agricultural harvest caused by the third successive year of drought. It is therefore not surprising that real output in 1985 was almost stagnant.

These adverse developments undermined the principal assumptions on which the program was based. Although initial success was achieved in meeting the end-September ceilings, those for end-December 1985 were exceeded despite additional measures taken to strengthen the adjustment effort. To their great credit, the authorities took further adjustment measures, which brought the program back on track by end-March 1986. Consequently, the authorities' good record has been maintained, as the end-June ceilings have also been met with a margin that is better than had been expected at the time of the previous review. I am therefore confident that the remainder of the program will be successfully completed, as the authorities have demonstrated a clear willingness to take additional measures whenever necessary. Even though the price of cotton fell in 1986 by as much as 40 percent, resulting in a shortfall in export earnings equivalent to 3.7 percent of GDP and a loss of government revenue equivalent to 1.2 percent of GDP, the authorities were still able to avert the derailment of the program. The international community should reward the authorities with more aid for their courageous actions.

In 1986 economic activity was boosted by the return of good weather conditions combined with the expansion of agricultural production by as much as 16 percent. Thanks to the increases in producer prices implemented in the context of the program, the agricultural sector was well placed to benefit from favorable climatic conditions. I would therefore urge the authorities to continue to provide adequate incentives and to eliminate any remaining distortions in order to further stimulate production. However, the cotton sector, which remains important to the economy, has been sustaining heavy losses in recent years, precipitated, in part, by consecutive declines in export prices. Could the staff elaborate on some of the measures being contemplated to ensure the medium-term viability of that sector; in particular, what measures are the authorities considering, in consultation with the World Bank, to restructure the sector?

The authorities should also be commended for the progress achieved thus far in reducing severe distortions in the economy that arose as a result of some long-standing, elaborate controls. Nevertheless, further action is needed to foster economic efficiency and growth. In the area of pricing, for example, the list of commodities subject to administrative controls remains long and contains products that might not necessarily be either strategic or essential. The authorities should re-examine this list with a view to further liberalization and should limit it to only a few truly essential commodities.

I agree with the staff that further work will be required in the area of public enterprises to reduce their need for budgetary support. The discussions currently being conducted with the World Bank aimed at formulating a comprehensive reform program for this sector are therefore welcome, and I am pleased to learn from Mr. Mawakani that all elements of the program have been agreed and that it is ready to be launched. A problem to be dealt with promptly and decisively is that of cross arrears. Meanwhile, steps being taken to increase prices and tariffs and to liquidate those enterprises that are clearly unviable are in the right direction. The winding down of Air Mali has indeed been a courageous step, and the authorities should be encouraged to remain steadfast in this regard.

Mali is eligible for assistance under the structural adjustment facility, and the authorities have already initiated discussions to reach agreement on an appropriate program to be supported by that facility. According to the staff paper, further discussions will be held during the forthcoming Annual Meetings. Since the staff has already elaborated on Mali's medium-term prospects, could an agreement on a possible program be expected soon?

I would like to take this opportunity to make a few observations on the various elements of a program to be supported by a structural adjustment arrangement. The baseline scenario indicates that GDP growth will average about 3.1 percent annually between 1987 and 1990. This modest rate of growth is similar to the rate adopted in other programs supported by structural adjustment arrangements that have so far been considered by the Executive Board. At this rate of growth, little room exists for real increases in per capita income or expansion of the productive base to ensure adequate debt-servicing capacity. I recognize that Mali, and indeed, many other eligible member countries, face severe constraints in trying to attain higher levels of growth. Yet these very countries should serve to challenge the staff's ingenuity and imagination to venture beyond traditional thinking and practice, perhaps along the innovative lines that led to the Mexican program. Nevertheless, even at the projected rate of growth, it is important that efforts should be made to underpin production sectors and to attain the level of investment that will provide the impetus for achieving such growth. I therefore look forward to seeing in the framework paper, a detailed exposition of those sectors that will give the initial push to the economy together with the accompanying investment. I should hasten to add that, because of severe dislocations that have emerged over the years, a continuation of the stabilization process will also be appropriate.

In this connection, the World Bank's involvement in drawing up the public sector investment program is welcome. So far, the authorities have taken a correct step in strengthening the planning process. For example, a comprehensive list of public investment programs has been compiled and integrated with the budgetary process. In selecting projects for implementation, the authorities are well advised to establish each project's viability and to define clearly its counterpart costs as well as recurrent cost implications.

This chair supports the proposed decision, and I would like to request that Mr. Mawakani convey to his authorities in Bamako, my authorities' wish for success in their task ahead.

Mr. Rousset made the following statement:

The staff report clearly indicates that the progress already recorded at the time of the first review has continued thanks to improved weather conditions and also, to a large extent, to the adjustment and structural measures implemented by the authorities. I am pleased to note that the authorities have implemented all the measures envisaged under the program and that all the performance criteria have been observed, including those for the end of June. Regarding the authorities' commitment to this program, it is noteworthy that they reacted promptly to the sharp drop in the export price of cotton, and that, pending the preparation of a restructuring plan, they took immediate measures both to reduce the losses of the cotton sector and to offset the shortfall in budgetary revenue.

The main issues and areas of future action appear to be pricing and marketing policies and the public enterprise sector. Substantial, far-reaching changes have been introduced in 1986 to the liberalize the pricing system and marketing policy. The authorities moved from a system of price control, which included all commodities, to one in which prices of most goods are freely determined by market forces apart from a few exceptions. As the authorities gain more experience in the functioning of the new system, they should decontrol prices further and introduce more flexibility for products presently listed as essential goods. As to marketing practices, the abolition of a number of monopolies and monopsonies of the state trading agency, SOMIEX, was indeed a courageous decision, and has been instrumental in stimulating private sector activity and improving resource allocation. This momentum must be maintained and strengthened by the complete suppression of SOMIEX monopolies as well as the completion of studies reviewing the role of the agency including its possible liquidatio if warranted by the outcome of these studies. Regarding the public enterprise sector, I welcome the decisive progress made in preparing the reform program--to be supported by several financing agencies--which involves as many as 36 public enterprises. I look forward to the implementation of this comprehensive program and would be interested to hear from the staff or the World Bank representative any comments on its content. In particular, what are the possibilities for privatization of some of these enterprises?

I urge the authorities to pursue the work under way to identify all arrears and to continue to repay them as scheduled. I also encourage them to maintain their effort to monitor credit closely. In that regard, I understand that the procedures have been strengthened and sanctions have been imposed so as to avoid slippages such as those experienced at the end of 1985. Finally, I strongly encourage the authorities to pursue their efforts to tighten budgetary and investment procedures and to strictly monitor all expenditures so as to avoid any extrabudgetary expenditures.

The presentation of several scenarios in the staff paper is welcome. Although it is regrettable that their outcomes are less optimistic than had been previously reported, I hope that the preparation of the scenarios has paved the way for an early presentation of Mali's request for use of the structural adjustment facility. Finally, I support the proposed decision.

Mr. Suraisry made the following statement:

For the past few years, the Malian authorities have been implementing a wide range of adjustment measures, with a view to reducing structural distortions and financial imbalances. The positive impact of these adjustment efforts was, to some degree, counterbalanced in 1985 by a number of unforeseen, adverse exogenous shocks. The most notable of these was the sharp decline in cotton prices. The authorities' intensification of adjustment efforts in response to these developments was commendable, courageous, and demonstrates their commitment to sustaining the adjustment effort. As this chair has stressed on other occasions, it is precisely by responding flexibly to changing circumstances and by maintaining the continuity of adjustment efforts that countries such as Mali will be able to be return to a path of sustained growth. Since I am in broad agreement with the thrust of the staff report, I will restrict myself to a few comments.

According to the staff paper, of the 36 public enterprises ered under the reform program, only 6 are to remain in the ic sector. Successful implementation of this program will, d, be a commendable achievement. However, I would be interto know more about the capacity of the private sector to both the activities and the capital of these enterprises.

Even though the authorities have implemented a number of courageous measures to redress the financial imbalances of the state trading company, SOMIEX, its financial situation remains precarious. The authorities are continuing to adopt corrective measures--notably the abolition of SOMIEX's remaining import and export monopolies. I commend the authorities for these measures. However, the financial drain associated with SOMIEX is large; I wonder whether a more permanent solution to SOMIEX's problems could not be sought? I understand that the completion of the government study on SOMIEX is imminent, and I hope that this study will lead to a final resolution of this matter.

It is important that the authorities continue to maintain strict control over expenditures. In this connection, I commend the authorities for the introduction of a comprehensive system to monitor all government arrears, which should enhance expenditure controls. Further, it is notable that Mali currently has no external arrears and is on track in eliminating its internal arrears.

The Malian authorities have introduced a number of welcome tax reform measures. However, these measures resulted in an immediate reduction in revenue by about CFAF 1 billion; that shortfall is being compensated by a U.S. Government grant. It would be interesting to know the revenue implications of these changes over the longer term, and whether accommodating fiscal adjustments have been made.

Mali still faces major structural and financial problems. As indicated by all four scenarios presented to characterize medium-term prospects, with the exception of 1986, only modest growth rates and output can be expected in the next few years. Given Mali's annual population growth rate of 2.5 percent, the prospect is for a negligible increase in living standards over the near term. It continues, therefore, to be very important for the authorities to persist in their efforts to diversify Mali's productive base and to ensure a more realistic pricing structure. For example, the authorities should persist with their tax reform efforts: the tax system remains complex and that complexity could have unfortunate disincentive effects on the private sector. More specifically, Mali retains what is effectively a scheduler system of income taxation, whereas a simplified global approach might be preferable. In this context, I understand that discussions on a medium-term policy framework paper have been initiated and I would welcome any further information the staff may have on a possible request for use of resources under the structural adjustment facility.

The Malian authorities are to be commended for all they have achieved thus far. Their efforts deserve the recognition of the Board. I encourage them to sustain the momentum they have established, and I support the proposed decision.

Mr. Bertuch-Samuels made the following statement:

I am in broad agreement with the staff's assessment and recommendations. All measures envisaged under the program have been implemented, and the performance criteria for end-March as well as for end-June have been observed; I can therefore support the proposed decision. I warmly welcome the further progress made by the Malian authorities in their comprehensive adjustment program, although the considerable discrepancies between the original program targets and actual and prospective outcomes appear less than satisfactory. Those discrepancies reflect the difficult external environment in 1985, which had an unfavorable impact on overall economic performance. Viewed in that light, the authorities' flexible and vigorous response to these adverse factors deserves to be commended; the results actually achieved thus far clearly demonstrate that unfavorable external developments can indeed be mitigated considerably through a combination of appropriate financial policies and far-sighted reforms.

Mali is also an encouraging example of particularly fruitful cooperation with the World Bank, which has been assisting the authorities in designing a wide range of structural adjustment measures. I therefore look forward to a continuation of this cooperation in the context of a program supported by the structural adjustment facility.

Recent developments clearly demonstrate that Mali's economy remains extremely vulnerable because of its heavy dependence on the primary sector, and more specifically, on cotton production. Moreover, the alternative medium-term scenarios underscore the high sensitivity of the balance of payments to external circumstances and climatic conditions. I therefore agree with the staff that the planned restructuring of the cotton sector and the formulation of an appropriate medium-term investment program, combined with the continuation of adequate financial policies, should greatly enhance Mali's growth prospects in an environment of increased stability.

As to specific aspects of the program, I have little to add to the staff's comments. Following the setbacks experienced in 1985, Mali is now moving in the right direction on all fronts, including overall growth and price developments, while at the same time, both fiscal and external accounts are improving. It is equally encouraging that progress continues to be made in restructuring the public enterprise sector and in fostering private sector activity through more market-oriented marketing and pricing policies. In that regard, the number of goods and services still subject to administrative price regulation remains substantial. In view of the distorting effects of such regulations on resource allocation, I would encourage the authorities to increase the scope of liberalization even further. In that context, it was surprising to see movie tickets, tobacco, and cigarettes included under items considered as "essential or strategically important."

The plans to reduce the role of the state trading company, SOMIEX, which apparently remains a heavy burden on the budget and the banking system, are welcome. Any information on the status of the current study regarding SOMIEX and prospective recommendations would be appreciated.

Mr. Alhaimus made the following statement:

Mali has a commendable record of adhering to adjustment programs even in the face of severe and often unexpected adverse developments. During the years 1982-84 and despite the drought that prevailed in the region, all performance criteria under Mali's arrangements with the Fund were observed. Again, during the first part of the 1985-86 program, all measures under the program were implemented despite the continued effects of the drought, the sharp plunge in cotton export prices, and the fall in external assistance. In such circumstances, the key quantitative objectives could not be attained, even though the policies pursued by the Malian authorities contributed to reduce distortions and financial imbalances.

Prospects for 1986 and beyond were significantly affected by the fall in the export price of Mali's main export--cotton--in the latter part of 1985, and an average price fall of 40 percent in 1986, which means a shortfall in cotton export proceeds equivalent to 3.7 percent of GDP and a loss of government revenue of 1.2 percent of GDP. Much of the harsh impact of this external adversity, however, has been alleviated through the additional measures that the authorities have taken and the improved weather conditions. Real GDP growth is now expected to be even higher than 9.1 percent, as projected in the program; the inflation rate, however, will be somewhat higher than projected and the overall external surplus will be lower.

The adherence of the authorities to tight financial policies and the additional measures taken in the cotton sector, the budget, and public enterprises, certainly contributed to alleviating the impact of the sharp shortfall in cotton proceeds. The major improvement in weather conditions, however, seems to have played a crucial role in raising agricultural output for 1985/86 by 35 percent and, consequently, is expected to cause a large reduction in imports, an abatement of inflationary pressures, and an easing of budgetary constraints. The question remains whether the present program could have been kept reasonably on track in the absence of improved weather conditions in view of the significant impact of the cotton price fall. That question might shed some light on the ability of economies such as Mali's to keep adjustment programs on track without additional contingency financing in the event of such major setbacks as a sharp fall in the price of a major export product.

I agree with the staff that in light of the medium-term outlook, Mali still faces major structural and financial problems that have to be addressed through continued implementation of appropriate adjustment policies over the next several years supported by concessional financial assistance. Debt relief is certainly needed in light of Mali's high debt service obligations. Further financial assistance, however, is also needed from the Fund. The staff appraisal already refers to a possible program supported by use of the structural adjustment facility, and it is hoped that procedures in that direction can be expedited. Finally, I support the proposed decision.

Ms. Lundsager made the following statement:

Substantial progress is being made in Mali, and it is encouraging to see real economic growth so high after several lean years. Good weather and important policy adjustments have led to the strong recovery of the productive sector.

The staff paper provides much useful data on adjustment in specific areas, particularly in respect to structural adjustment, including reforms aimed at strengthening the performance of the agricultural sector. I continue to attach importance to putting the cotton sector back on a viable path, while at the same time I recognize the difficulties caused by the drop in the world market price of cotton.

The general steps taken toward price decontrol continue to merit support. Even though the scope of price controls has already been substantially reduced, additional steps could prove useful in promoting further diversification of the productive base of the economy. According to the staff paper, the authorities do not plan additional steps at this time, but instead prefer to evaluate progress to date. I would therefore encourage the authorities to reconsider further decontrol in view of the extensive list of items that remain subject to control.

The general reform of the public enterprises that will soon begin with the assistance of the World Bank is particularly welcome. This reform can build on a number of improvements already initiated with respect to a few specific entities. The authorities' commitment to reform is underscored by their intention to keep only 6 of 36 enterprises covered in the World Bank program in the public sector. Supporting measures to liberalize the commercial code will facilitate private sector participation in the divestment exercise. A number of marketing and distribution agencies would be obvious candidates in this regard. The authorities' strong commitment to strengthen the role of the private sector is commendable and could have important benefits in the medium term.

As to fiscal policy, a number of measures have been implemented to ensure attainment of the program's goals. In fact, the overall fiscal effort may exceed expectations this year. Particularly welcome is the tax reform now under way, which my authorities are supporting directly. That reform aims at strengthening incentives for the private sector by reducing the payroll tax by one half; lowering the top marginal tax rates on business and personal incomes; reducing the turnover tax; and realigning customs duties with a view to lower effective rates of protection. Although an initial drop in revenues is expected following implementation of these measures, the U.S. Agency for International Development is compensating for that shortfall, in part, by direct cash grants. Furthermore, that agency is coordinating closely with the World Bank and the Fund to ensure that administrative reforms to improve revenue collection are also put in place simultaneously. Thus, the grant aid combined with administrative reform is expected to yield an amount equivalent to about twice the amount of the revenue shortfall resulting from the implementation of the tax reform. The authorities' containment of expenditures is also broadly appropriate, with economies being made in a number of areas and with the exercise of tighter authorization controls. The realistic approach toward investment spending, which emphasizes priority of projects, is particularly welcome.

In sum, I support the proposed decision and look forward to a speedy conclusion of discussions on the use of the structural adjustment facility. In view of the high level of external debt--over 100 percent of GDP--I strongly encourage the authorities to utilize concessional financing of payments needs, including such means as the structural adjustment facility and World Bank policy-based lending. That approach could help alleviate the difficult medium-term outlook.

The staff representative from the African Department remarked that good progress had been made in negotiations between the Malian authorities and the World Bank staff on a comprehensive reform program for the public enterprise sector. The cost of that program was estimated at about

$154 million, of which the World Bank and cofinancers would provide about $72 million. The strategy to be pursued under the reform program involved three essential points. First, the scope of the sector would be reduced: of the 36 enterprises identified and included in the program, only 6 were to be retained in the public sector. The remaining enterprises would either be partly privatized, liquidated, or totally privatized. Although the program had not yet been launched, it was expected that the private sector would show an interest in participating in those enterprises that were regarded as viable and had been earmarked either for partial or total privatization. Moreover, the authorities had been exploring with private investors the possibility of their participation in setting up a new airline company.

The second element of the reform strategy involved improving the economic, financial, and institutional framework within which public *enterprises operated, the staff representative continued. In that* connection, the World Bank staff had been working closely with the authorities to identify and verify the existing cross-arrears in the public sector. It was a complex process, and initial tables had been prepared showing the cross-debts between the various public enterprises, the Government, and the private sector. A commission, which had been set up in May to review and verify the data collected, was expected to complete its work by end-November 1986.

The third element of the reform strategy involved the rehabilitation of specific enterprises under follow-up projects--namely, the six enterprises in the areas of transportation, energy, and telecommunications that would remain in the public domain, the staff representative explained. If negotiations on the program were completed by the end of 1986, the reform could be launched early in 1987.

The authorities had taken a number of measures over the past few years to improve the financial situation of SOMIEX, the staff representative observed. More recently, in the first half of 1986, SOMIEX's selling prices had been increased; its personnel had been reduced by nearly one third; certain of its monopolies and monopsonies had been abolished; and the substantial costs involved with keeping larger stocks of sugar had been reduced through the sale of those stocks. Nevertheless, as of end-June 1986, SOMIEX's outstanding credit from the banking system amounted to about CFAF 5 billion and tax arrears amounted to about CFAF 3 billion. Clearly, the situation of SOMIEX remained precarious, and the authorities shared the staff's concerns regarding its potential future losses. For that reason, the Government had decided to prepare a detailed study of the role and function of SOMIEX, including the possible consequences of its liquidation for the distribution of certain essential goods to remote areas of the country. This study was expected to be completed in December 1986. Pending completion of the study, the scope of SOMIEX would be reduced even further in the second half of 1986. Personnel would be further reduced by about 20 percent, so that, between June 1985 and end-1986, the number of personnel would have been reduced from about 1,200 to about 500.

All of the remaining import monopolies of SOMIEX--particularly with regard to sugar, salt, and tea--had been abolished, effective August 1, 1986. Finally, to avoid any further losses, the purchases of SOMIEX in the period from August 1 to December 1986 would be limited to CFAF 1 billion, compared with purchases of about CFAF 6 billion in the corresponding period of 1985.

The authorities had introduced a significant liberalization of pricing and marketing policies in 1986, the staff representative remarked. Previously, all commodities had been subject to a rigorous system of price control. Under the new system, only 47 commodities and services remained subject to price controls, while the prices of all other commodities were to be determined freely by market forces. Of the 47 remaining controlled commodities, about one half were subject to a system of preset profit margins whereby producers or merchants set their prices on the basis of costs and a predetermined profit margin without government authorization. The prices of the remaining commodities were subject to a system of homologation, whereby the price was determined administratively on the basis of prior costs. The authorities had indicated that the pricing system for the remaining 47 commodities was being implemented in a flexible manner. However, they intended to continue the process of liberalization. The new system had been adopted by the Government in February 1986 and had been ratified by Parliament in July 1986. The staff intended to review the operation of the system with the authorities toward the end 1986 and to agree on a timetable for the progressive liberalization of pricing policies with respect to the remaining 47 commodities.

Marketing policies had also undergone considerable liberalization, the staff representative noted. The monopolies and monopsonies of SOMIEX over a wide range of goods and services had been officially abolished. As to the cereal marketing system, paddy rice marketing would be fully liberalized with the coming harvest, and the purchase and sale of coarse cereals would also be fully liberalized, as a result of the abolition on August 1, 1986 of the monopsony of the public cereals marketing board, OPAM, on the purchase of cereals vis-à-vis rural development agencies. The authorities were continuing to review with a group of donors supporting the reform of the cereal marketing system--and in consultation with the World Bank staff--the role of OPAM with regard to price stabilization. It was expected that a decision would be taken in that regard toward the end of 1986.

The authorities had been working closely with the World Bank staff to strengthen the system of public investment programming, the staff representative remarked. A Bank staff mission to review public expenditure had recently visited Mali, and work on the review was expected to be completed toward the end of 1986. A consultant supported by the World Bank was also assisting in preparing recommendations to improve planning and associated budgetary procedures. The Fund had also provided technical assistance to help develop an investment budget that would be integrated into the regular budgeting and expenditure control processes.

The authorities had taken a number of short-term measures to reduce losses in the cotton sector, the staff representative commented. However, there was still a need to devise a medium-term plan to restructure the cotton sector, and the World Bank and the French Caisse Centrale were providing assistance in the preparation of the second phase of a study that was to identify measures to that end. The study was expected to be completed in November 1986. In that context, it was important to identify alternative financing for noncotton rural development activities that were at present financed by the semipublic cotton enterprise, CMDT, from previous profits of the cotton sector.

The restructuring of the tax system essentially aimed at simplifying the system and reducing the burden on the private sector so as to stimulate private sector economic activity, the staff representative explained. Measures were also being put in place to offset the potential revenue losses that might occur; on balance, a net gain in revenues was expected amounting to about CFAF 0.5 billion in 1987.

As to improvements in expenditure control, the authorities had set up a comprehensive system, with technical assistance from the Fund, to monitor all government expenditures and to alert them when any arrears were being incurred, the staff representative remarked. Under the new system, the difference between all payment orders issued and those paid was monitored on a continuous basis. As to improvements in credit controls, the National Agency of the Central Bank of West African States (BCEAO) had made major efforts to improve credit control in Mali. Regular meetings with commercial banks had been increased to ensure that credit developments remained in line with the objectives of the BCEAO, and sanctions had been imposed on those banks that exceeded the amount of credit authorized by the BCEAO.

In view of the high debt service burden facing Mali, the authorities were pursuing a prudent debt management policy, the staff representative noted. In that regard, the authorities had not contracted any new nonconcessional loans with a maturity of up to 12 years; they had centralized all government external debt at the Amortization Fund; and they had given the Amortization Fund responsibility to evaluate conditions placed on potential loans in light of the country's debt servicing capacity. Those steps should help improve Mali's debt management policy.

Discussions on a possible medium-term policy framework for a program under the structural adjustment facility had been initiated during the last staff mission to Mali, the staff representative from the African Department commented. At that time, it was agreed that further discussions would be held at the time of the Annual Meetings with a view to concluding discussions during a staff mission to Mali that was tentatively scheduled for December 1986. In view of the authorities' concern about Mali's modest growth prospects, the program to be supported by the structural adjustment facility was expected to focus on structural measures to stimulate economic activity. Thus, the program was expected to include the thrust of the measures that were already being pursued in the context of the present stand-by arrangement: there would be a further liberalization of pricing and marketing policy; the reform of the public enterprise sector would be pursued; the development process would be further strengthened to improve the efficiency of investment; the improved fiscal performance, together with the reduction of government arrears, would release resources to the nongovernment sector; the restructuring of the tax system would continue in order to enhance production incentives; and greater emphasis would be placed on provision of credit to the private sector.

The Chairman remarked that, according to the staff report, negotiations were under way with a French company, SODETRAF, on a new mixed airline company, which, if established, would "initially operate internal flights. It will undertake regional or other international flights only if feasibility studies clearly establish their profitability." He asked whether the constraint of profitability would also apply to internal flights; if not, how would the airline's deficit be financed, and, what impact would there be on the fiscal position of the Government, which was to hold a minority share in the new airline company?

The staff representative from the African Department responded that a study prepared by various consultants had shown that internal flights on a very limited scale would be profitable and that an airline company with internal flights would be viable. The authorities, however, were interested in the possibility of flights to neighboring countries. As the study had not considered that possibility in detail, the authorities had agreed that international flights would not take place until new studies were undertaken and then only if the studies showed that such flights would be profitable. It had also been agreed that, in any event, before the formation of a new company, consultations would be held with the managements of the Fund and the World Bank.

Mr. Mawakani remarked that he wished to assure the Executive Board of his authorities' commitment to pursuing their efforts to address the structural and financial imbalances being experienced by the Malian economy. In view of the poor outlook for cotton export prices and the high level of Mali's debt service obligations, his authorities were convinced that prudent demand management policies, combined with restructuring of the public enterprise sector, would remain the central elements of their adjustment effort. In that connection, the continuing financial support of the Fund and the World Bank would be necessary.

The Executive Board then took the following decision:

1. Mali has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Mali (EBS/85/241, Sup. 1, 11/14/85) and paragraph 4 of the letter dated August 21, 1985 from the Minister of Finance and Commerce of Mali, in order

to review progress made by Mali in implementing its program and to reach understandings with the Fund regarding policies and measures that the authorities intend to pursue during the second half of 1986, and to establish performance clauses for the second half of 1986.

2. The letter dated July 11, 1986 from the Minister of Finance and Commerce shall be attached to the stand-by arrangement for Mali, and the letters dated August 21, 1985 and January 24, 1986, together with their annexed memoranda, shall be read as modified and supplemented by the letter of July 11, 1986.

3. Mali will not make purchases under the stand-by arrangement for Mali that would increase the Fund's holdings of Mali's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota during any period in which the data at the end of the preceding period indicate that:

(i) the limit on total domestic bank credit as specified in paragraph 18 of the attached letter dated July 11, 1986; or

(ii) the limit on net bank credit to the Government as specified in paragraph 18 of the attached letter dated July 11, 1986; or

(iii) the target for the elimination of external payments arrears as specified in paragraph 17 of the attached letter dated July 11, 1986; or

(iv) the target for the reduction of payments arrears of the Government as specified in paragraph 17 of the attached letter dated July 11, 1986; or

(v) the limits on contracting or guaranteeing of nonconcessional external loans as specified in paragraph 19 of the attached letter dated July 11, 1986

have not been observed.

4. The Fund decides, pursuant to paragraph 4(b) of the stand-by arrangement, that the second review provided for in paragraph 4 of the letter from the Minister of Finance and Commerce, dated August 21, 1985, is completed.

Decision No. 8406-(86/160), adopted
September 19, 1986

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/86/159 (9/19/86) and EBM/86/160 (9/19/86).

2. THE GAMBIA - PURCHASE TRANSACTION - COMPENSATORY FINANCING FACILITY

1. The Fund has received a request from the Government of The Gambia for a purchase of SDR 4.71 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979, as amended).

2. The Fund notes the representation of The Gambia and approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii). (EBS/86/193, Sup. 1, 9/18/86).

Decision No. 8407-(86/160), adopted
September 19, 1986

APPROVED: June 5, 1987

LEO VAN HOUTVEN
Secretary