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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/70

3:00 p.m., May 3, 1985

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	
	E. L. Walker, Temporary
	G. Ercel, Temporary
	X. Blandin
	M. Z. M. Qureshi, Temporary
	M. Sugita
	B. Goos
	Z. b. Ismail, Temporary
	L. Leonard
	J. R. N. Almeida, Temporary
	E. Olsen, Temporary
	A. Abdallah
	M. A. Weitz, Temporary
	E. M. Taha, Temporary
	J. E. Rodríguez, Temporary
	A. Steinberg, Temporary
C. R. Rye	
	O. Kabbaj
	A. S. Jayawardena
	T. A. Clark
	N. Coumbis
Zhang Z.	Wang E.

J. W. Lang, Jr., Acting Secretary
K. S. Friedman, Assistant

Also Present

IBRD: L. E. Hinkle, Western Africa Regional Office. African Department: A. D. Ouattara, Director; I. A. H. Diogo, Y. Fassassi, M. G. Fiator, C. A. François, S. M. Nsouli, M. Sidibé. Exchange and Trade Relations Department: S. Kanesa-Thasan. Fiscal Affairs Department: E. A. Conrad. IMF Institute: O. B. Makalou; H. Camara, Participant. Legal Department: J. K. Oh. Middle Eastern Department: M. Zavadjil. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: D. Hammann, S. M. Hassan, J.-C. Obame, A. Vasudevan. Assistants to Executive Directors: M. B. Chatah, V. Govindarajan, A. R. Ismael, H. Kobayashi, R. Msadek.

1. <u>MALI - 1985 ARTICLE IV CONSULTATION</u>

The Executive Directors considered the staff report for the 1985 Article IV consultation with Mali (SM/85/91, 3/27/85; and Sup. 1, 4/30/85). They also had before them a report on recent economic developments in Mali (SM/85/109, 4/17/85).

Mr. Alfidja made the following statement:

The economic performance of Mali in 1984 was again adversely affected by the weather. Severe drought again reduced agricultural output, the main contributor to GDP. Despite this unfavorable development, important progress has been made in the rehabilitation of the agricultural sector. Progress was also made in restructuring public enterprises and reducing both internal and external imbalances.

In the real sector, total output in 1984 grew by an estimated 1.3 percent, reflecting higher production of cotton, which grows in the South, where climatic conditions were more favorable, and by increased economic activity in the textile industry. This rather small expansion in total output, while constituting an improvement, is well below the rate of growth of the population. Lack of rainfall again curtailed the production of food crops (especially cereals) in some other regions of the country. For the crop year 1983/84, production of the main cereals fell by more than 10 percent relative to the depressed level recorded in 1982/83. For 1985, real GDP is projected to grow by about the same amount as in 1984, again because of unfavorable weather conditions. Price developments in 1984 have been dominated by the effect of the shortage of cereals. This impact has been somewhat cushioned by the inflows of foreign food aid. The Government of Mali intends to continue to initiate steps to improve the performance of the agricultural sector. In this vein, the marketing and pricing of crops, notably rice, will be further liberalized. The irrigation network is being rehabilitated with the assistance of the World Bank and aid donors, and the efficiency of the Office du Niger and the OPAM is being increased.

On the fiscal side, significant progress has been made. Indeed, the consolidated budget was in balance in 1984, compared with a deficit of CFAF 2.7 billion envisaged under the program and the CFAF 5.8 billion deficit recorded in 1983. This outturn was due essentially to a significant increase in nontax revenue on account of higher profits from cotton exports. Regarding spending, the rise in current expenditure in 1984 reflected mainly higher outlays on personnel and interest payments. This increase in the total wage bill should not be taken as an indication of a relaxation of the restraining fiscal policy pursued by the Government. In this context, it must be noted that no general wage increase has been granted over the period January 1981-March 1985. As a result, real wages have decreased considerably over these years. In order to attenuate somewhat the adverse effects on morale and productivity of the large erosion in real purchasing power, a relatively small wage increase was granted in March 1985. The Malian authorities intend to continue to rein in expenditure growth and to seek ways to expand revenue through appropriate reforms. For 1985, the consolidated government operations (on a cash basis) are projected to register a small deficit, equivalent to 0.3 percent of GDP.

With regard to the public enterprises, as reported by the staff, the Government of Mali intends to continue the task of reorganizing the parastatal sector. In this context, four state enterprises were closed in 1984, and the large trading company SOMIEX has been restructured. The liquidation of the national airline is well in progress, and steps are being taken to create a joint air venture. Pending the successful conclusion of these operations, the Government has initiated cost-cutting measures with a view to reducing considerably the operating loss of Air Mali.

The various measures taken thus far in order to ameliorate the financial performance of the parastatal sector have generally achieved this objective, as illustrated by the considerable decrease in the combined operating deficit of the main public enterprises. However, they are also socially and economically costly. In particular, they have led to a sharp rise in unemployment. This problem is all the more severe considering the extremely limited alternative employment opportunities in the modern private sector. In order to alleviate this unemployment problem, my authorities intend to provide incentives for the affected persons to create small enterprises of their own. This undertaking will be greatly enhanced by timely and adequate foreign assistance.

Developments in the external sector in 1984 were also adversely affected by the drought conditions, which occasioned a doubling of cereal imports from 1983. But improvements in exports, mainly from cotton, helped in reducing the current account deficit (including debt relief) from 7.8 percent of GDP in 1983 to 5.7 percent in 1984. On the capital account, Mali's entry into WAMU encouraged a significant inflow of private capital. However, owing to a considerably lower disbursement of official loans and higher amortization payments, the surplus of the capital account decreased substantially in 1984, thereby contributing to a worsening of the overall external position. For 1985, receipts from cotton exports are projected to decline because of lower production and prices. Other exports are projected to show some increase but not enough to prevent a reduction in total exports. A projected decline in cereal imports should help to keep the level of imports in 1985 below that of 1984. These developments, combined with higher disbursements for project loans and increased amortization, are forecast, on balance, to lead to a small worsening of the overall position of the external sector in 1985. It is the intention of my authorities to expand the export base of the country. In this vein, the entry into operation of a new gold mine is an important step. Weather conditions permitting, the increase in cotton and livestock output and related export earnings is expected to strengthen the debt servicing capacity of the country.

In the monetary sector, the main development in 1984 was Mali's entry into WAMU in June. As a result, there was a cancellation of large amounts of nonperforming loans of the banking system and a consolidation of liabilities with the French Treasury on generous terms. Another favorable repercussion is an improved incentive for capital inflows. Concerning more specifically the evolution of monetary aggregates, all the credit ceilings set in the adjustment program were met. The rate of expansion of domestic credit as a ratio to money stock slowed from just over 14 percent in 1983 to 12 percent in the following year. For 1985, the authorities plan to continue their restrictive monetary policy.

The medium-term outlook, as prepared by the staff, is somewhat more encouraging, as it shows an abatement of the debt service ratio from a peak of nearly 22 percent in 1985 to 13 percent in 1990. Concomitantly, the overall balance of payments position is to improve, reflecting essentially a projected amelioration in the export performance and in the capital account. However, the authorities realize that, for the economy top evolve on a healthy growth path, they need to continue implementing policies to correct the structural imbalances that have developed over many years.

In light of the progress achieved thus far in redressing these imbalances and of the limited resources available, substantial foreign technical and financial assistance will be needed if the ongoing economic readaptation effort is to continue to be successful. It is in this context that the Government of Mali intends to seek in the near future Fund financial assistance in the form of a stand-by arrangement.

Mr. Blandin said that he was pleased with the evolution of the economy in recent months. Owing to the implementation of Fund-supported programs and to Mali's entry into the West African Monetary Union (WAMU) in June 1984, Mali had made more progress than most African countries in achieving short-term and structural adjustment. Problems still remained, particularly the growing debt burden, but the financial performance had been favorable despite the second consecutive year of severe drought: the government deficit had been reduced; the arrears of the Treasury had been eliminated; and the balance of payments developments had been consistent with the program goals. In addition, the authorities had adopted courageous decisions affecting the public enterprise and agricultural sectors.

While the authorities were to be commended for the steps they had already taken, additional improvements were required, and a new stand-by arrangement would be warranted, Mr. Blandin considered. At the same time, it was important to stress that, while the serious adjustment efforts had been beneficial, the time was ripe to resume economic growth in Mali, improve the investment process, strengthen and diversify the industrial sector, and increase the export base. The World Bank should significantly increase its involvement in Mali, particularly its financial support, and the World Bank staff representative should comment on the Bank's schedule for assisting Mali in the coming period. Mali was a good example of a country that had undertaken the policy reforms the support of which was a major aim of the World Bank's recently created special facility for Africa.

Mrs. Walker said that despite unfavorable weather conditions that had adversely affected exports and economic growth and had caused a substantial increase in cereal imports, Mali's overall performance in most of the areas under the existing Fund-supported program had been better than expected. The consolidated government operations--on a commitment basis and excluding public investment--had remained in balance, compared with the deficit forecast under the program. The efforts to contain the size of the civil service and the decline in the growth of spending on personnel and total government expenditure were particularly welcome. The latest available data showed that the overall balance of payments performance in 1984 had been even more favorable than originally projected and that the current account position had significantly improved. The elimination of the domestic and external Treasury arrears was also welcome.

The reform of the public enterprises had gained momentum in 1984, Mrs. Walker observed. The measures introduced thus far had resulted in a substantial decrease in the combined operating deficit of the main state enterprises. Moreover, the authorities' plans to provide incentives to private sector enterprises as a means of dealing with the unemployment caused by the reforms of the public sector enterprises were encouraging. She wondered precisely what kinds of incentives the authorities intended to give and whether the Fund or World Bank planned to provide technical assistance.

The authorities should be urged to continue to implement the measures recommended by the World Bank to decontrol prices, Mrs. Walker considered. The purchasing policies of some of the enterprises seemed to leave producer prices in Mali somewhat lower than producer prices in neighboring countries and were still a cause for concern. She was pleased that the Government intended to continue to take steps to improve the performance of the agricultural sector by liberalizing the marketing and pricing of crops.

Pricing policy was particularly important in view of the labor shortages in the agricultural sector; a better structure of farm prices could provide an incentive for labor to return to farming, thereby helping to increase output for domestic and export markets which would in turn generate an increase in foreign exchange. Since Mali could not independently adjust its exchange rate, maintenance of appropriate official prices was crucial.

Retail prices also must be increased, Mrs. Walker continued. The continued control over retail prices of cereals by the official marketing agency had reduced the marketing of domestically produced millet and sorghum. However, farmers were permitted to sell their crops in the free market, and a further staff comment on the nature of the price controls would be helpful.

The substantial increase in private capital inflows in 1984 apparently was attributable to Mali's entry into WAMU, Mrs. Walker remarked. A further comment on the source of those inflows and on the likelihood of their continuing in the coming period would be useful. The authorities' interest in encouraging foreign investment in Mali was welcome. They were still working on a new investment budget, but she wondered whether any estimates of future investment expenditures were available. Finally, the proposed decision was acceptable.

Mr. Abdallah considered that the authorities were to be commended for the successful implementation of the Fund-supported program. All the performance criteria had been met despite two consecutive years of drought that had adversely affected economic activity in general, and production in particular. The full implementation of the adjustment measures had caused modest growth in 1984, and roughly the same rate of growth was expected in 1985, compared with the negative growth recorded in earlier years. Moreover, inflationary pressures had been curbed despite the price liberalization measures, and the food supply situation had improved, owing partly to generous food aid. At the same time, fiscal balance had been restored in 1984, and the external current account deficit had continued to decline. Indeed, the latest data showed that the balance of payments improvement in 1984 had exceeded the program target.

Nevertheless, there were still significant problems facing the economy, Mr. Abdallah went on. The rate of economic growth had not been sufficient to increase per capita incomes; indeed, living standards had been deteriorating for a long time. In addition, the severity of the drought that had ravaged most African economies underscored the need for continued adjustment. The authorities should introduce measures designed to revive agricultural production by improving and strengthening the structure of incentives. Mali faced the continuous threat of the loss of farmland to desert conditions, and increased external assistance in promoting dry farming techniques and in producing high-yielding drought-resistant seeds was clearly required. At the same time, existing irrigation schemes should be strengthened and the efficiency of water use should be increased, perhaps with technical and financial support from donor agencies and multilateral institutions.

Although considerable progress had been made in reducing the fiscal imbalance, the share of the wage bill in total government expenditure remained large, Mr. Abdallah noted. The authorities had responded by curtailing recruitment for government service and by stepping up their enforcement of retirement procedures. The authorities had also frozen government wages over the previous three years, although, as a general rule, strict wage restraint tended to create certain problems. In Mali, the cost of living had risen by approximately 30 percent in the period of the wage freeze. Some adjustment in civil service wages was warranted, and he was pleased that an increase was planned in the coming financial year; it would undoubtedly improve civil service morale and efficiency.

Mali's entry into the WAMU had been smooth, Mr. Abdallah commented. Although its membership had required Mali to give up some of its control over the issue and disposition of the national currency, there had been good reasons for joining the union, of which Mali had formerly been a member. Mali was familiar with the union--whose members included all of Mali's neighboring countries--and was certain to gain considerable economic advantages from its membership in WAMU.

The balance of payments equilibrium attained in 1984 was encouraging, Mr. Abdallah said. The improvement in the external current account had exceeded expectations, as the volume of cereal imports had been smaller than had been estimated while the volume of workers' remittances had been larger. Capital inflows had exceeded capital outflows, particularly in the private sector. The authorities' adjustment measures had clearly begun to restore confidence both within and outside the country, and the medium-term prospects for the economy were fairly good. Finally, the proposed decision was acceptable.

Mr. Goos considered that the authorities were to be commended for the progress they had made during 1984 in very unfavorable conditions. Mali apparently had benefited from the Fund-supported adjustment programs. The progress made during 1984 seemed to have been due to policies designed to encourage private sector initiative and to reduce government intervention. Agricultural producer prices had been increased, fiscal management had been improved, public sector arrears had been reduced, and the first steps in rehabilitating the public enterprises had been taken. As a result, economic growth had accelerated and the decline in the external current account had exceeded the forecast.

However, Mali was still one of the poorest countries in the world, and its overall economic situation was highly vulnerable and, indeed, precarious, Mr. Goos said. That the decline in per capita income was likely to continue in 1985 was most disappointing. Further steps were urgently needed to consolidate and intensify the progress made thus far.

In 1984 the authorities had presented a balanced budget on a commitment basis, Mr. Goos noted. However, their ability to do so had been bolstered to a significant extent by nonrecurring factors such as exceptional revenues from the currency conversion, and it was clear that the authorities must not relax their efforts to increase the efficiency of tax administration and to broaden the revenue base. The need to strengthen public finances was underlined by the high interest payments on the public debt.

The authorities apparently had no choice but to further contain public sector wage increases in order to create the necessary room for an increase in investment outlays, Mr. Goos said. The census of personnel employed in the public sector should be the start of a comprehensive reform of the civil service with a view to substituting a relatively small number of well-paid civil servants for the present large number of poorly paid employees.

Although their operating deficit had been reduced, the public enterprises continued to impose a heavy burden on the economy, Mr. Goos observed, and he was pleased that the rehabilitation of those enterprises in line with the World Bank's recommendations was well underway. The liquidation of nonviable enterprises such as Air Mali was certainly a step in the right direction, and the staff's recommendation to make further progress in that area was appropriate. Mr. Alfidja had usefully noted that such reform measures entailed considerable social and economic costs, particularly an increase in unemployment. However, when appropriate supportive policies were implemented, the costs could be expected to be merely transitional and would likely be much lower than the cost of maintaining inefficient enterprises. In that connection, the negotiations on a World Bank sectoral loan in support of a comprehensive structural reform of the public enterprise sector were welcome.

He was pleased that Mali had become a full-fledged member of WAMU, Mr. Goos remarked. The French authorities were to be commended for their generous financial assistance, which had significantly alleviated Mali's debt burden. Mali's membership in WAMU and the accompanying bilateral arrangement with France apparently had placed the country's financial system on a much sounder footing, increased Mali's creditworthiness, and already encouraged private capital inflows. He was pleased that interest rates were likely to become positive in real terms during 1985. That development would have a beneficial effect on the efficiency of resource allocation.

Mali's autonomy in the implementation of monetary policy had been further reduced, but there was still considerable scope for maintaining an independent credit policy, and the indicative targets for credit expansion in 1985 were appropriate, Mr. Goos said. In the absence of an independent exchange rate policy, containing cost and price pressures was critical for the maintenance of international competitiveness; the authorities' recent performance in that area was encouraging.

The medium-term balance of payments projections underscored the fact that, despite the improvement in the current account, debt service obligations continued to constitute a heavy burden on the economy, Mr. Goos commented. The projections indicated the need to diversify Mali's export structure, something that could of course be achieved only in the longer run. He agreed with the staff that, for the time being, the authorities should maintain a cautious borrowing policy, avoiding recourse to nonconcessional loans.

The level of outstanding Fund credit, including the remaining drawing under the present stand-by arrangement, did not appear to be unreasonably high, Mr. Goos remarked. However, beginning in 1986 Mali would face sizable repurchase obligations with the Fund accounting for more than 50 percent of Mali's total outstanding medium- and long-term debt. Hence, in relative terms, the Fund's exposure in Mali seemed very high and could further increase as a result of future reschedulings of official debt. Accordingly, under a new stand-by arrangement which might well be necessary to maintain the adjustment process in Mali, greater emphasis should be placed on the Fund's catalytic role; to the extent possible, Mali's future financing requirements should be met by bilateral and multilateral aid flows.

Mr. Qureshi said that he broadly agreed with the staff appraisal. The authorities were to be commended for the good record of implementation of wide-ranging financial and structural adjustments under the Fund-supported program, despite the difficulties caused by two successive years of severe drought. All the performance criteria had been met, and the program outcome--in terms of both reducing financial imbalances and advancing structural reform--had been in line with the targets. The balance of payments performance in 1984 had been somewhat more favorable than the programmed level despite the sharp increase in cereal imports necessitated by the drought. However, the growth performance had been less satisfactory: GDP growth had been further depressed as a result of the drought's effects on agricultural production, and the declining trend in per capita income evident during the previous several years still had not been reversed.

There was a clear need to maintain the momentum of adjustment to make possible a recovery of per capita income growth together with a continued strengthening of the domestic and external financial positions, Mr. Qureshi continued. The authorities' recognition of the need for continuity in the adjustment process was reassuring, and the staff had noted that discussions on a new Fund-supported program had been initiated.

In the area of structural reform, fuller utilization of the productive potential in agriculture and the expansion of the export base should continue to be given priority, Mr. Qureshi said. Efforts to improve public finances would need to be carried further through expanding tax revenues and strengthening the already significant measures that had been implemented to limit current expenditure. The authorities' intention to establish a comprehensive investment budget in order to improve the planning and control of investment expenditure was welcome. As a further step, attention could also be given to the preparation of a medium-term investment program; the World Bank could play a particularly useful role in that effort. In the public enterprise sector, the reform measures already introduced were commendable and the progress needed to be sustained.

The medium-term balance of payments scenario in the staff report was encouraging, as the staff had projected a sustained improving trend in the payments position through 1990, Mr. Qureshi remarked. However, it was clear that the economy's dependence on foreign grants and concessional assistance would remain substantial for some time. In the longer run, both economic development and external viability would depend considerably on the country's ability to supplement available external resources with adequate mobilization of domestic resources by raising the savings rate from its present low level. That task was difficult, given the low--and in recent years declining--per capita income; still, securing a gradual increase in the savings should be part of the medium-term economic strategy. Given the substantial increase in debt service charges, a cautious approach toward nonconcessional debt was needed.

The figures in the present staff report on savings and investment rates had been sharply revised upward compared with the figures in the staff report circulated in December 1984, Mr. Qureshi noted. Domestic savings as a percentage of GDP had previously been reported to have been negative in recent years but had been revised upward by as much as 7-8 percent of GDP for all those years, reaching positive levels in the range of 5-6 percent of GDP. The domestic investment rates had been revised upward by a similar margin, leaving the estimates of the resource gap unchanged. A comment by the staff on those large revisions would be helpful. The staff should also comment on whether consideration had been given to a drawing by Mali under the compensatory financing facility in light of the large excess in cereal imports in 1984. The proposed decision was acceptable.

Mr. Taha said that he broadly agreed with the staff appraisal. The proposed decision was acceptable. In 1984 Mali had clearly continued to make steady progress toward restructuring and rehabilitating its economy. The authorities' strategy was centered on eliminating distortions in the agricultural sector and on correcting the financial imbalances. Since 1982 Mali had successfully implemented two programs supported by the Fund; and the World Bank's involvement in Mali's adjustment effort had been noteworthy. The authorities were to be commended for their determination to persevere with the adjustment effort despite the adverse weather conditions.

The authorities' commitment to continue implementing measures designed to expand agricultural productive capacity was welcome, Mr. Taha continued. The proposed further liberalization of marketing arrangements and pricing policies should, under normal conditions, cause output to expand. Successful implementation of those policies should encourage the flow of much-needed foreign financing, particularly from the World Bank.

The authorities' efforts to cut expenditures and improve revenue collection were also welcome, Mr. Taha went on. Nevertheless, the public finances remained weak, and he agreed with the staff that further efforts to strengthen them were needed. There was still a sizable gap between domestic savings and investment. Mali could not sustain a level of investment of 25 percent of GDP when savings were less than 7 percent of GDP.

A major effort to mobilize domestic savings was required. Rehabilitating public enterprises and placing their operations on a commercial basis would help to achieve that objective. The measures already adopted in that area were appropriate, and the authorities should be encouraged to continue those efforts with the assistance of the World Bank. The authorities' plan to formulate a comprehensive investment budget for 1986 was fully appropriate. Such budgets could usefully be prepared on an annual basis with the World Bank's assistance.

In view of the increase in Mali's external debt, the authorities should make every effort to expand and diversify exports, Mr. Taha considered. Additional efforts were also needed to improve the monitoring and management of the foreign debt. As he understood it, Mali was still in arrears to some of its creditors, including the Saudi Arabian Fund for Development. A further comment on the matter would be helpful. He agreed with the authorities that the prompt settlement of arrears would encourage much-needed capital inflows. Finally, he hoped that the authorities would be able to negotiate a new program to sustain their adjustment effort.

Mr. Kabbaj remarked that the performance of the economy under the stand-by arrangement, which was due to expire at the end of May 1985, had largely been satisfactory: all the performance criteria through end-December 1984 had been met and substantial progress had been made in achieving the main program objectives. Despite the adverse effects of the recurrent severe drought, Mali had managed to stimulate its agricultural sector through higher producer prices and liberalized marketing procedures. In the public enterprise sector, reorganization and liquidation measures had halted the drain on the economy owing to unprofitable enterprises. At the same time, Mali's entry into WAMU had ensured the convertibility of its currency and the continuation of capital inflows. The adjustment efforts made during 1984 had been beneficial in many areas of the economy, and particularly in the external sector, but much remained to be done to provide the economy with the stimulus needed to achieve balanced growth, including an increase in exports.

The domestic and external arrears of the Treasury had been eliminated in 1984 and the operating losses of public enterprises had been considerably reduced, Mr. Kabbaj went on. Moreover, a balanced budget had been restored, the external current account deficit, including grants, had declined from 10 percent of GDP in 1983 to 7 percent in 1984, and real GDP had grown by 1 percent in 1984, after declining in 1983. The balance of payments position in 1984 had been improved by the increase--albeit relatively slow--in cotton exports and the containment of imports other than cereals as well as by the receipt of in-kind aid, particularly food. The external debt service ratio had risen from 9.4 percent in 1983 to 12.2 percent in 1984 owing to payments to the Fund and the amortization of the loan for the purchase of the state airplane.

The outlook for the economy in the rest of 1985 had already been adversely affected by the low level of rainfall thus far, as cereal production was expected to decline further, Mr. Kabbaj commented. The rate of economic growth in 1985 was not expected to exceed the 1 percent recorded in 1984; as a result, there was likely to be a further deterioration in the standard of living of the population, whose rate of growth was 2.5 percent per year.

The staff projections of a 10 percent increase in the value of exports, favorable capital flows, and a balance of payments surplus after 1985 were based on the assumption that weather conditions would improve, Mr. Kabbaj remarked. Imports of cereals to compensate for a further decline in domestic agricultural production would leave no room for an improvement in the balance of payments situation for several years. It was hoped that the integration of Mali in the West African region would emphasize the complementarity of Mali's economy and open the door to capital flows needed for the development of Mali's trade and agriculture. Production in rain-fed areas could not be counted upon to alleviate the existing food shortage or to contribute to the export sector. According to the latest World Economic Outlook and the World Bank, Mali was one of the sub-Saharan African countries that urgently required special assistance to alleviate the pressures on the population caused by the drought. In view of the decline in domestic cereal production in Mali and the country's commercial food imports, he wondered whether consideration had been given to Mali's use of the cereal facility.

The Fund and World Bank should help Mali to restore the productive capacity of the economy and to halt the deterioration in the standard of living through the adoption of measures aimed at meeting specific targets, Mr. Kabbaj concluded. A new stand-by arrangement would enable Mali to take further steps to correct the imbalances in the economy and would help to ease the strain on the balance of payments, which might well deteriorate further; after all, the debt burden had been increasing, and the resource base to support an active export sector was weak. Finally, the proposed decision was acceptable.

The staff representative from the African Department commented that producer prices had been substantially increased over the previous several years, as was shown in Table III on page 65 of SM/85/109. The table also showed the relative position of producer prices in Mali and other members of WAMU. However, in assessing those prices Executive Directors should bear in mind that Mali was a land-locked country that faced relatively substantial transportation costs. The authorities were considering fairly significant increases in producer prices for cotton, millet, and rice paddy. The increase in the producer price of cotton was certainly welcome, but the performance of the cotton sector over the previous several years had been favorable; the sector's substantial profitability had made a significant contribution to tax revenues in 1984 and 1985. The official producer price for millet and sorghum was no longer relevant because the marketing of those crops had been liberalized and the real producer price was substantially higher than the official producer price, which was essentially symbolic in nature. The producer price of rice paddy continued to be significant for the Office du Niger; it was no longer relevant for rice paddy produced outside of the Office du Niger, as the price for that production had been liberalized in late 1984.

The gap between the official and free market retail prices for cereals remained relatively large, the staff representative said. However, there had been substantial institutional changes over the previous three years--including the liberalization of the marketing of cereals and the restructuring of the cereals market--and the gap between the official and free market prices no longer resulted in financial losses and budgetary subsidies. As a result of the market liberalization, most of the production of cereals outside of the Office du Niger was sold on the free market by private operators at a price that was freely determined by supply and demand factors. The authorities intended to eliminate the distortion caused by the gap between the prices for items obtained from food aid supplies and in the free market. Consumers in Mali purchased cereals from the official market and in the larger private market. On average, private retail food prices considerably exceeded official prices.

There had been a relatively large increase in capital inflows--mainly private capital--as a result of Mali's entry into WAMU, the staff representative remarked. The inflow of private capital--which was difficult to identify because it consisted largely of remittances of bank notes--was due mainly to the adoption of a common currency for the region and consisted partly of investments in small Malian enterprises by citizens in the region.

Significant progress had been made in 1985 in the preparation of the investment budget, the staff representative noted. Technical assistance had been provided by the Fund in February 1985, and a UNDP team was working with the authorities, who would probably be able to finalize a plan for 1986. The authorities had sufficient information to formulate a plan and had solved conceptual problems concerning investments financed mainly by external sources. The staff continued to feel that an investment budget was essential to increase the efficiency of investment policy and to improve the coordination among donors.

The authorities had adopted the UN National Accounting System, the staff representative explained. As a result, they had revised the figures on GDP and savings. The revisions were explained largely by the inclusion in the calculations of data on activities that had previously been excluded and by a change in the valuation of agricultural production, which had previously been valued at official producer prices and was currently valued on official or free market prices as appropriate. Because of the increase in the figures for GDP in nominal terms, the figures on the savings ratio had increased while the resource gap had remained unchanged. Nevertheless, the level of domestic saving in Mali was relatively low, although there had been a small increase in the savings ratio over the previous several years despite the drought conditions and the poor performance of agriculture. The somewhat improved savings performance was a reflection of the reduction in the negative saving of the public sector, the increase in financial savings following Mali's entry into WAMU, the monetary conversion following the entry into WAMU, and the increased private capital inflow.

Most of the increase in cereal imports had been financed by grants, the staff representative noted. The increase in commercial food imports had been relatively limited and had not been sufficient to permit Mali to use the cereal facility.

Substantial arrears had accumulated as a result of the financing of a major dam project, the staff representative stated. In 1984, as a part of the authorities' effort to reduce the external arrears, interest on the loans financing the dam project had been repaid; the outstanding principal at end-1984 was scheduled to be repaid in 1985. Under a financial arrangement with Germany, the Malian Government would have counterpart funds available to repay all the outstanding arrears on borrowing related to the dam project. Nevertheless, the basic problem of the level of production of the dam still had to be solved. The World Bank was preparing a program to increase electricity output; the aim was to have the dam operating at full capacity by 1988, when the authorities should be in a position to finance fully the debt related to the dam project. Meanwhile, the authorities needed to reschedule the debt or agree on financing arrangements to ensure the payment of the principal.

The provision of incentives for private sector activity was one of the major issues in Mali, the staff representative from the African Department remarked. There was a clear need to resume growth and to generate employment in the private sector; various possible schemes were being studied by the authorities, and the U.S. Government was considering the provision of some financial assistance. One possible approach would be to reduce tax rates to stimulate the creation of private sector enterprises. Current tax rates were very high and were paid mainly by the modern sector; there was substantial evasion by the traditional sector, and the authorities hoped that a reduction in tax rates together with a broadening of the tax base would achieve the desired objectives. The authorities also wished to maintain a kind of safety net and had recently asked the Fund for assistance in undertaking a broad review of the tax system. They planned to assess the scope for improved tax administration in the context of possible U.S. financial assistance and were considering plans to provide a limited financial incentive to civil servants who voluntarily left the civil service. Under a similar proposal, financial assistance would be made available to workers in public enterprises who lost their jobs as a result of the structural adjustment measures.

The staff representative from the World Bank said that the Bank staff fully agreed with the Fund staff's recommendations and assessment of Mali's performance and the objectives under the new adjustment program. The World Bank staff felt that Mali's performance with respect to the implementation of Bank-supported projects had been very good. In FY 1984 and FY 1985, the World Bank had approved five projects for Mali totaling $90 million. The projects were part of a lending strategy that had two objectives: to support the structural adjustment process through a series of sectoral adjustment loans that were fully supportive of the reforms included in the Fund-supported program and to contribute to the productive investment that would enhance the long-term growth of the economy.

As to the coming fiscal year, the staff representative continued, the World Bank had a series of sectoral adjustment loans in an advanced state of preparation. In the coming 6-12 months, the staff planned to present to the Executive Board proposals for two irrigation projects, one designed to restructure a public sector enterprise, and, the other, a highway that would include an important element of financial reform in the public sector. The sectoral adjustment aspects of those projects involved significant reforms, and the World Bank had indicated to the Malian Government that the World Bank was prepared to consider structural adjustment lending after the completion of the planned projects.

Mali was also among those countries that was potentially eligible for assistance under the World Bank's proposal for a special Africa facility, the staff representative from the World Bank noted. The World Bank staff had proposed to the Executive Board that assistance under the special African facility be primarily related to so-called policy-based operations. In that connection, a number of the projects that were already planned in Mali could be eligible for financing under the special African facility. However, it would be premature to comment on the specific projects that might qualify for financing under that facility before it came into operation.

Mr. Alfidja thanked Executive Directors for their comments on recent developments in Mali.

The Chairman made the following summing up:

Executive Directors generally concurred with the thrust of the staff appraisal in the report for the 1985 Article IV consultation with Mali. Directors expressed satisfaction that during 1984 substantial progress had been made toward the restructuring of the economy, and that the authorities had implemented most of the measures contained in the stand-by arrangement which expires at the end of May. They noted the strengthening of public fiscal management, the restrained incomes and credit policy, the restructuring under way of public enterprises, and the reduction in payments arrears. The authorities are to be commended for these achievements, since during 1984 they had had to face the adverse consequences of a severe drought.

Directors welcomed the measures adopted and being considered to curtail civil service personnel expenditures, including the reduction in recruitment and the census of personnel. They urged the authorities to follow up vigorously the implementation of these reforms, so as to provide room in the budget for needed maintenance costs and investment outlays. They noted with satisfaction that work has been started on an investment budget for 1986, which will be an essential instrument to improve project selection and monitor outlays.

Directors welcomed the actions to restructure some major public sector enterprises, such as the important reorganization under way of the air transport sector which includes the liquidation of Air Mali. They stressed the need to pursue vigorously the reorganization of public enterprises with the assistance of the World Bank to permit a more efficient use of resources. They considered it essential that the reorganization be carried out with vigor to increase substantially the utilization of the large productive capacity involved. They particularly underscored the need to increase agricultural production and decrease the country's dependence on cereal imports. More adequate producer prices should be an important element of the enhancement of agricultural production. They also stressed the importance of reducing the gap between official and free market prices, which still remains large, as well as the amount of subsidies to the official production and marketing boards.

Directors noted with satisfaction the entry of Mali into the Western African Monetary Union. In addition to the immediate financial benefits derived from this participation--and from the favorable arrangements concluded with France--it will promote closer economic integration with the other countries of the region. They welcomed the fact that the currency conversion operation had been carried out smoothly.

Directors welcomed the improvement in the balance of payments in 1984, which turned out to be more favorable than projected, but stressed the need to intensify the efforts at export diversification. Noting with concern the increasing burden of the external debt, they urged great caution in the borrowing policy and more reliance on domestic savings for investment financing.

Directors welcomed the intention of Mali to pursue the adjustment effort and the restructuring of the economy within the framework of a program which is to be negotiated with the Fund in the coming months. The elimination of distortions in the economy and the adjustment efforts should clearly be aimed at increasing and mobilizing domestic savings to enhance the productive capacity of the country. In this task, which is essential to move the country toward more growth, external assistance should play an increasing role. The importance of the role and the involvement of the World Bank was particularly welcomed and emphasized.

It is expected that the next Article IV consultation with Mali will be held on the standard 12-month cycle.

The Executive Board then took the following decision:

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Mali, in the light of the 1985 Article IV consultation with Mali conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

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

Decision No. 7968-(85/69), adopted
May 3, 1985

APPROVED: February 14, 1986

JOSEPH W. LANG, JR.
Acting Secretary