April 7, 2020
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 18/105-1

10:00 a.m., December 10, 2018

1. Mali—Tenth Review Under the Extended Credit Facility Arrangement and Request for Waiver of Nonobservance of Performance Criterion

Documents: EBS/18/105 and Correction 1

Staff: Yontcheva, AFR; Gonzalez Miranda, SPR

Length: 30 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	G. Gasasira-Manzi (AE), Temporary
M. Raghani (AF)	
	J. Corvalan (AG), Temporary
	H. Joeng Kim (AP)
	K. Hennings (BR), Temporary
	S. Fan (CC), Temporary
	A. Arevalo Arroyo (CE), Temporary
L. Levonian (CO)	
	S. Benk (EC)
H. de Villeroché (FF)	
S. Meyer (GR)	
	H. Joshi (IN), Temporary
	M. Psalidopoulos (IT)
	Y. Naruse (JA), Temporary
	M. Daïri (MD)
	F. Al-Kohlany (MI), Temporary
	V. Rashkovan (NE)
	K. Virolainen (NO)
	Z. Smirnova (RU), Temporary
M. Mouminah (SA)	
	Z. Abenoja (ST), Temporary
	P. Trabinski (SZ)
	J. Stockill (UK), Temporary
	M. Svenstrup (US), Temporary

H. Al-Atrash, Acting Secretary
K. Hviding, Summing Up Officer
A. Bala / D. Alcantara, Board Operations Officers
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: Jemma Dridi, Annalisa Fedelino, M. Lazare, Edna Mensah, A. Nguyen-Duong, Abebe Aemro Selassie, Boriana Iglika Yontcheva. Communications Department: Gediminas Vilkas. Fiscal Affairs Department: I. Jankulov Suljagic. Legal Department: Wolfgang Patrick Bergthaler, D. McDonnell. Strategy, Policy, and Review Department: Maria de los Angeles C. Gonzalez Miranda, Yirbehogre Modeste Some,

Y. Some. World Bank Group:J. Hoogeveen, Jose R. Lopez Calix, L. Moller. Executive Director: S. Gokarn (IN). Alternate Executive Director: F. Sylla (AF). Senior Advisors to Executive Directors: Y. Danenov (SZ), M. Tolici (NE), G. Vasishtha (CO), F. Bellocq (FF). Advisors to Executive Directors: K. Badsi (MD), M. Bernatavicius (NO), O. Diakite (AF), M. Kikiolo (AP), I. Lopes (IT), M. Mehmedi (EC), F. Rawah (SA), S. Bah (AF).

1. MALI—TENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION

Mr. Raghani and Mr. Diakite submitted the following statement:

On behalf of our Malian authorities, we would like to thank the Executive Board, Management and staff for the long-standing support of the Fund to Mali, as the ECF Arrangement approved in December 2013 is heading to an end. The authorities believe that the ECF-supported program has achieved its goals and played a critical role in restoring macroeconomic stability and bringing the country back to a path of stronger growth and poverty reduction, despite security challenges and the adverse impacts of exogenous shocks. In this difficult context, program implementation has remained broadly satisfactory. All performance criteria (PC) at end-June 2018 were met with the exception of the PC on gross tax revenue for which the authorities are requesting a waiver of nonobservance. Corrective measures are being taken to ensure that the deficit targets will be met.

While the authorities request the completion of the tenth and last review of the Arrangement, they remain committed to pursue sound policies to lay the foundations for macroeconomic stability and sustainable inclusive growth going forward. To this end, they look forward to the continued support of the Fund in the context of a future arrangement as Mali continues to be exposed to important external vulnerabilities and development challenges.

Economic Developments in 2018 and Performance under the ECF-Supported Program

Economic Developments in 2018

Despite a challenging year on the security and socioeconomic fronts, economic activity was characterized by the good performance of the agricultural and mining sectors. Real GDP growth is estimated to remain strong at 4.9 percent and inflation moderate at around 2 percent. In the fiscal area, despite the authorities' efforts to steadily boost domestic resource mobilization in recent years, tax revenue fell significantly as a result notably of tax non-compliance and fraud, and the impact of higher international fuel prices.

In the external sector, the current account deficit is expected to deteriorate to 7.4 percent of GDP as a result of the rise in the international prices of oil. However, the important increase in gold and cotton production and favorable terms of trade on these products, allowed to somewhat mitigate the impact of the increase in oil prices.

Performance Under the ECF

The authorities continue to implement satisfactorily their ECF-supported program. As indicated above, all PC at end-June 2018 were met with the exception of the PC on gross tax revenue. The corrective measures aim at preventing any accumulation of domestic payment arrears by cutting non-priority public spending, while preserving priority social expenditures, as well as capital expenditures for on-going projects and projects with high development impacts. As a result, the fiscal deficit is expected to be contained at 3.3 percent of GDP in line with the objectives of the program and the West African Economic and Monetary Union's fiscal deficit convergence criterion for 2019. At the same time, revenue collection efforts are being stepped up, including by improving tax policy and administration, and addressing inefficiencies in management.

Progress on structural benchmarks was slower than expected. The authorities have been able to fully implement four out of the ten structural benchmarks expected under the tenth review. In particular, the benchmarks related to improving governance were met or exceeded, reflecting the progress made recently to address corruption and weaknesses in governance. However, the authorities recognize that more needs to be done, and they remain committed to advance their structural reform agenda. In this regard, they are stepping up their efforts to implement the delayed structural benchmarks during the first semester of 2019.

Medium-Term Macroeconomic Policies and Structural Reforms

Mali remains subject to significant security and external risks, and the pursuit of sound economic, financial and structural policies with the assistance of the IMF and other partners is of paramount importance in this context. The authorities will continue to maintain macroeconomic stability, ensure fiscal sustainability, support the development of the financial sector and improve economic governance to preserve the gains made under the program.

Priorities on structural reforms will also include the efficiency of the electricity sector and the promotion of economic diversification and inclusive growth. The authorities are in the process of finalizing their new development strategy covering the period 2019-2023 which will provide the pillars for a request for a new three-year arrangement with the IMF in the first quarter of 2019.

Advancing Fiscal and Debt Sustainability

The Malian authorities will continue to implement a sustainable fiscal policy. In this regard, they will step up their efforts to strengthen their capacities to accelerate the implementation of reforms to boost domestic resource mobilization. The authorities are determined to meet their commitment to an annual increase of fiscal revenue of 0.5 percent of GDP in the medium term. To this end, and with technical assistance from the Fund, they will deepen tax policy and tax administration reforms aimed at expanding the tax base, reduce exemptions, and improve the effectiveness of revenue collecting agencies. The measures planned will notably enhance the operations of joint brigades between the tax and customs administrations to combat fraud and smuggling, step up the collection of tax arrears, and implement a strict follow-up of performance indicators by revenue collecting agencies. Moreover, the authorities will continue their efforts to improve taxation in the mining sector with the adoption of a revised code, and policy measures to address the vulnerabilities related to international profit shifting and base erosion in this sector, and preserve fiscal revenue on petroleum products.

The authorities will continue to conduct a borrowing policy consistent with the preservation of debt sustainability, which prevents the accumulation of domestic and external arrears. To this end, they will have recourse primarily to grants and highly concessional loans while continuing to prudently have recourse to the regional financial market. Non-concessional borrowing will be the last resort, to be devoted exclusively to financing priority projects with the highest economic return.

The authorities are cognizant of the need to use scarce public resources in an effective, efficient and transparent manner. In this regard, they will step up their efforts to strengthen the legal framework for public financial management as well as the budget cycle. They will pursue the implementation of measures aimed at improving transparency, strengthening internal and external controls and audit institutions, as well as cash management. Moreover, PFM instruments recently developed for establishing multiyear fiscal targets and spending plans, as well as processes for managing fiscal risks will be steadfastly implemented.

Increasing the efficiency and execution of public investment will remain a key objective going forward. The inadequate level and efficiency of public infrastructure are issues of concern to the authorities. The reforms to be implemented will improve the process of selection, appraisal and execution of public investment projects to address the reduction in efficiency in public investment management identified by the 2017 Public Investment Management Assessment (PIMA). To this end, expenditures which do not contribute directly to the formation of fixed capital will be reduced while improving the performance of projects.

Improving Governance and Deepening Structural Reforms for Economic Diversification and Inclusive Growth

Structural reforms will also be pursued, notably to further improve the business environment and address the major constraints to private sector development. In this regard, the authorities will deepen the reforms aimed at promoting notably the stability and development of the financial sector, increasing the mobilization of resources for infrastructure investments, and improving the financial situation of the electricity company (EDM) to ensure that it is able to meet its obligations.

On governance, the authorities are committed to further improve economic management and fight corruption. They are determined to make further progress on asset declarations of civil servants and plan to revise the Law on illicit enrichment to make it more effective and inclusive. Going forward, they plan to further assess weaknesses in the area of economic governance and prioritize reforms in the framework of a new ECF arrangement.

Conclusion

Our Malian authorities are committed to pursuing sound macroeconomic policies and improving public financial management and the business environment for sustainable and inclusive growth. In view of Mali’s satisfactory progress under the ECF arrangement, we would appreciate Directors’ support for the completion of the tenth and last review under the arrangement, and approval of the authorities’ request for a waiver of nonobservance of the performance criterion on gross tax revenue.

Mr. Gokarn and Mr. Joshi submitted the following statement:

We thank staff for the report and Mr. Raghani and Mr. Diakite for their insightful buff statement.

We commend the Malian authorities for their ownership of the ECF program that began in 2013. We note that the program was extended twice in 2016 and 2017 to contain security and balance of payments risks and has succeeded in laying the foundations of macroeconomic stability. The tenth review of the ECF program suggests that all continuous and all but one end-June 2018 quantitative performance targets were met. On the other hand, the progress on structural benchmarks appears to have been slower than expected. Specifically, while the quantitative performance target of revenue to GDP target was missed, six structural benchmarks, inter alia, pertaining to tax reforms, revenue administration, NPL reduction and systematic implementation of fuel pricing regime remained unmet as at end-October 2018. We are encouraged to note the authorities' overall commitment to reforms and their plans to implement policy measures to enhance revenue mobilization while tightening spending controls to meet the end-December 2018 deficit target.

Supported by stable inflationary expectations, growth is expected to remain robust at 4.9 percent in 2018 and further so in the medium-term. The CA is in large deficit due to higher international prices may be expected to moderate with improving ToT and increasing exports of cotton and gold exports and lower oil prices. However, endemic poverty and unemployment are concerning and require authorities' interventions. We note that the downside risks to Mali's economic prospects stem from volatile security conditions, commodity price shocks and BoP implications, reduced inflows of FDI and donor funding and tightening of liquidity conditions.

The fiscal position has improved over the years but the risk to public finances from the public sector, especially losses from the financially distressed electric company (EDM) remains significant. Higher oil prices and limited pass through, subdued revenues from cotton and gold exports and accumulated liabilities in other SOEs could further intensify fiscal risks. Despite these risks, we welcome the efforts undertaken in the 2019 budget aimed at achieving the WAEMU fiscal deficit criterion of 3 percent. The fiscal sector needs comprehensive tax and spending reforms. In this context, we are encouraged to note that the authorities have identified revenue side measures for improving tax management and administration, preventing frauds and illicit trade and recovering tax arrears among others. We note that the spending side is being addressed with recalibration of capital expenses and curtailment of non-priority public expenses. Given the current assessment of fiscal risks we support staff's comprehensive agenda for furthering fiscal reforms for improving customs administration and tax compliance, reducing exemptions, addressing vulnerabilities from profit shifting and base erosion by international companies, improving taxation in the mining sector, holistic implementation of fuel pricing mechanism and suitable revisions in taxes as well as enhancing the scope of digital taxation. We would welcome staff comments on the institutional capacity of the tax system to implement this ambitious agenda.

In addition, improved PFM by way of efficiently costing infrastructure projects, improving accountability and assessing and managing PPP risks would bolster investment efficiency. The authorities' plan to enhance the efficiency of public sector investments is a step in the right direction. While we are encouraged to note that increasing central government transfers to sub-national governments are accompanied with mechanisms to ensure efficient utilization of resources, we support staff suggestions on expediting an appropriate design of taxation and a framework for managing contingent liability risks. We also agree with staff on building adequate buffers to deal with fiscal risks, and prudent approach towards borrowing in view of the moderate risk of debt distress and strengthening the medium-term strategy of debt management. We note that even though the headline public debt is pegged at a reasonable level, the high maturity concentration of public debt is a major vulnerability. In this context could staff comment on whether it would be feasible for the authorities to reissue/swap existing debt securities to disperse maturities for reducing debt distress?

Structural reforms for ensuring inclusive growth are necessary to address high level of poverty in Mali. Improving human development through raising incomes, reorienting expenditure for providing education and enhancing literacy especially among females while tackling infrastructure, public services and governance gaps and widening safety nets would serve to improve economic prospects and ease of living for the citizens. The authorities should reform the judicial system to fight effectively against corruption and illicit enrichment, take actions to prevent infirmities in PFM and instill investor confidence by implementing AML/CFT framework in line with the 2019 FATF assessment. We are encouraged by the authorities' commitment to structural reforms agenda. Which structural reforms among those suggested by staff have the greatest potential to accelerate employment growth in Mali?

With most quantitative performance targets met, adequate capacity to repay the Fund and completed safeguards assessment, we support the completion of the tenth review for Mali including a successor ECF arrangement that has been requested by the authorities to take forward measures to achieve program objectives and advance their development agenda.

We wish the authorities the very best and all success in future endeavors.

Mr. Lopetegui and Mr. Corvalan Mendoza submitted the following statement:

We support the Malian authorities' request for the completion of the tenth (and last) review under the Extended Credit Facility (ECF) arrangement. We also take positive note of their request for a successor ECF-supported program going forward. We thank staff for the report and Mr. Raghani and Mr. Diakite for their informative buff statement. The program is serving the country well, facilitating a closer engagement with other international organizations and development partners to modernize the economy. We commend the authorities for the progress in many areas in recent years and look favorably to a successor program, which might enhance the authorities' medium-term (2019-2023) development strategy.

We recognize the efforts to reduce the persistent insecurity but cementing this progress will require further efforts to put poverty and inequality on a downward path. As a sustained improvement of the living standards of the population will take time, we see merit in an active communication strategy aimed at avoiding policy reversals. Gradual decentralization is an important element for advancing the 2015 peace agreement but requires stronger capacity at the subnational levels to effectively manage increasing spending responsibilities.

While much progress has taken place over recent years to increase fiscal revenue, it is regrettable that the tax ratio is expected to decline in 2018. While offsetting measures have been found, they include an inevitable adjustment of spending to preserve fiscal targets. Going forward, we support staff's advice to undertake tax policy and administration reforms to durably increase revenue. We commend the authorities for elaborating a budget that would allow meeting the WAEMU fiscal deficit ceiling in 2019.

More efforts will be necessary to scale up private and public investment. Box 1 is very clear in describing limitations on electricity provision and the financial struggle of the state-owned enterprise EDM. The analysis reveals that governance reforms, a sustainable subsidy policy, and efficiency improvements will be necessary. Is there an opportunity for the private sector to contribute to the modernization of this sector? Given the budget constraint, we agree that there is an urgent need to improve Mali's public investment management, to enhance the quality of infrastructure. Does staff have estimates of resource needs to cover the infrastructure gap over the coming years?

We encourage the authorities to increase efforts to improve governance and fight corruption. Effective enforcement the laws in place to fight corruption (LAIE), the AML/CFT framework, and strengthening of PFM are key priorities.

With these comments, we wish the people of Mali every success in their future endeavors.

Mr. Tan and Mr. Abenoja submitted the following statement:

We thank staff for the comprehensive report and Messrs. Raghani and Diakite for their insightful buff statement.

We note that the authorities have met all but one of the quantitative performance targets as well as the corrective actions being taken to address the remaining performance criterion on gross tax revenue. While staff has rightly drawn attention to delays in a number of reform measures, we welcome the authorities' continuing efforts in improving expenditure management systems, establishing accounting information system and enhancing submission of public officials' asset declarations to the Supreme Court to meet the structural benchmarks in these areas. As such, we support the completion of the tenth and last Extended Credit Facility (ECF) review and the authorities' request for a waiver of non-observance for a performance criterion. We also encourage the authorities to invigorate efforts to improve fiscal management, deepen structural reforms and strengthen governance across the board.

Macroeconomic stability remains vulnerable given high dependence of growth from the primary sector, large external imbalances and shortfalls in revenue mobilization. Since the start of the economic program, supported by the ECF arrangement, Mali has made significant headway in achieving macroeconomic stability. Robust growth and low inflation were achieved despite challenges posed by security issues, terms of trade shocks and weather disturbances. That said, tightening external financial conditions, revenue shortfalls and the continuing domestic security issue pose downside risks to growth in the near term. At the same time, poverty reduction and income distribution remain work in progress. As the recent achievements were largely driven by expansion in the agricultural and mining sectors, can staff comment on the authorities' efforts to promote diversification of economic activities and exports, with specific focus on the sectors that are being promoted to help broaden the sources of growth?

Sustained and inclusive growth over the medium term hinges on continued focus on fiscal discipline and debt sustainability. We agree with the staff assessment that effective implementation of tax policy and administration reforms are essential in helping to bring the fiscal deficit to within target levels. Staff specifically noted that this would entail revenue-enhancing measures, including closer tax performance monitoring and enhancing tax arrears recovery, combined with well-considered reductions in non-priority current expenditures and capital projects. In this regard, we support the close follow-through of Fund technical assistance in these areas. We also encourage the authorities to accelerate the provision and refinement of social safety nets to protect the poor and vulnerable during this transition period.

Staff analysis indicates several risks that can undermine fiscal performance. In particular, we welcome efforts by the authorities to improve the financial performance of the public electric company and temper the risks to public finances. However, the absence of a centralized database for state-owned enterprises (SOEs) constrains the monitoring, assessment and management of their potential impact on government budgets. Can staff elaborate on the impediments and progress made to systematically collect information on the financial performance of the SOEs?

We are also pleased with the initiatives to pursue gradual decentralization to help promote broad-based growth and improve social cohesion. The proposed 2019 budget envisions the continued rise in financial transfers to local authorities alongside expenditure responsibilities. While donors have been helping the authorities to build technical capacities of local governments, can staff comment on the preparedness of local executives to take on larger roles in terms of revenue generation and budget execution?

We support the authorities' steadfast commitment to deepen structural reforms to improve the business environment, close infrastructure gaps and strengthen governance structures. To this end, we look forward to the completion of the national development strategy including the specific reforms to be pursued over the medium term.

With these comments, we wish the authorities continued success in their future endeavors.

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

We thank staff for the well-written report, and Messrs. Raghani and Diakite for their helpful buff statement. Notwithstanding the missed quantitative performance criterion on gross tax revenue and the weak implementation of structural reforms, we can go along with the completion of Mali's tenth review under the Extended Credit Facility (ECF) and the waiver for nonobservance, taking into account the authorities' commitment to reaching their target deficit for 2018. We recognize that the implementation of the ECF over the past five years has made it possible to stabilize the macroeconomic environment, despite the challenges of insecurity and exogenous shocks, while also laying the foundation for durable and inclusive economic growth. Nonetheless, the ECF-supported program has not fully achieved its objectives as public debt continues to rise; the external balance is weak; and the fiscal deficit is large due to revenue under-performance; while the structural reform implementation has been subpar, including on governance and public financial management (PFM). We broadly share staff's assessment and policy recommendations, and provide the following comments for emphasis.

Preserving fiscal and debt sustainability will require concerted efforts in mobilizing domestic revenue, improving PFM, and exercising continued vigilance in controlling fiscal risks. We regret that the revenue shortfall this year will amount to about 2 percent of GDP. Against this backdrop, while we welcome the authorities' plan to offset the revenue shortfall through corrective revenue and spending measures, we note that the brunt of the adjustment will be borne by capital expenditure, which will weigh on growth prospects and could jeopardize advancing the 2015 peace agreement. Going forward, achieving the WAEMU deficit target of 3 percent of GDP in 2019 will require the authorities to implement a well-paced fiscal adjustment path focused on mobilizing domestic revenue and rationalizing non-essential spending. In this context, addressing the temporary and structural causes of revenue shortfall is a priority, including through improving tax and custom administration, tackling non-compliance, rationalizing tax exemptions, and enhancing the taxation of the mining sector. We urge the authorities to make notable progress in completing the treasury single account; enhancing the debt management framework; and improving the public investment framework, including by implementing the August 2017 Public Investment Management Assessment recommendations. Staff’s comments on the public electricity company’s (EDM) financial position and financial risks stemming from EDM in 2019 are welcome.

Vulnerabilities stemming from poor asset quality and high non-performing loans (NPLs) should be addressed. We emphasize the importance of all banks compliance with the capital requirements and call on the authorities to implement the structural benchmark on developing a strategy to reduce non-collateralized NPLs in the banking system, including reducing the non-operating fixed assets obtained through the realization of guarantees, and to promptly implement the recently provided IMF technical assistance on NPLs. Could staff provide some insight regarding the implementation status of these recommendations?

The continued weak implementation of the structural reforms could undermine the macroeconomic achievements over the course of the program. We regret that the progress on the implementation of the structural reforms in 2018 was slower than expected, as only four out of ten structural benchmarks were fully met. Ensuring broad-based and inclusive growth, and reducing poverty will entail prompt and concrete measures aimed at tackling social, infrastructure, and governance gaps. In this context, the authorities should improve the weak business environment; enhance educational outcomes; reduce the large infrastructure gap, including on electricity; and strengthen social cohesion. Considering that weak governance and rule of law are pervasive and macro-critical in Mali, we underscore the importance of implementing the laws to fight corruption and illicit enrichment, while also expediting other governance reforms.

Mr. Virolainen and Mr. Bernatavicius submitted the following statement:

We thank staff for the informative report and Mr. Raghani and Mr. Diakite for their helpful buff statement. We take positive note of the fact that, despite significant challenges following the 2012 security and institutional crisis, the 2013-18 ECF program has broadly succeeded. We support the completion of the tenth (and last) review under the ECF arrangement and urge the authorities to steadfastly finalize their medium-term (2019-23) development strategy, which could form the basis for a new successor ECF arrangement. Further progress is needed in seeking greater revenue mobilization and fiscal consolidation, better health and education standards, and addressing governance vulnerabilities.

Despite the recent robust growth, the near-term outlook is subject to downside risks. We welcome staff's assessment that program performance has been broadly satisfactory and the fact that all continuous and all but one end-June quantitative performance targets were met. Nonetheless, we are concerned that the progress on structural benchmarks has been slower than expected and the fact that only four of ten structural benchmarks were met. We also take note that the authorities are requesting a waiver of nonobservance of the PC on gross tax revenue at end-June 2018.

While the authorities have made good progress in restoring macroeconomic stability, the fiscal deficit remains high. We welcome the authorities' commitment to reaching the WAEMU fiscal deficit criterion of 3 percent of GDP in 2019. We, nevertheless, share staff's call to build additional fiscal buffers to be better able to respond to potentially adverse weather conditions and commodity price fluctuations. In light of extensive IMF TA on tax and customs administration in recent years, it is unfortunate that the ratio of tax revenue to GDP plummeted significantly in 2018, which prompted the authorities to request a waiver of nonobservance for the PC on gross tax revenue.

We regret that a meaningful reduction in poverty and inequality has remained a challenge. We welcome the authorities' commitment to observe the poverty-reducing expenditure target despite weak revenue performance and sizable spending cuts, which were needed to achieve the fiscal deficit target.

We also urge the authorities to continue with structural reforms to seek greater revenue mobilization and enhance growth inclusiveness. Mali is one of the poorest countries in the world with often inaccessible and poor-quality healthcare, low literacy rate, and widespread inequality. Further measures, including digital taxation options, should be explored to increase public revenues, which would help enhance growth inclusiveness. We look forward to the authorities' new medium-term (2019–23) development strategy. In light of the identified governance weaknesses and a high level of corruption, we very much welcome the idea of a comprehensive assessment of governance vulnerabilities to be undertaken in the context of discussions on a possible successor program.

Mr. Psalidopoulos and Mr. Persico submitted the following statement:

We thank staff for an informative set of reports and Mr. Raghani and Mr. Diakite for their candid buff statement. We broadly share the staff's analyses and main conclusion. We thus support the completion of the tenth and last review of the EFC-supported program and offer some additional comments for emphasis.

Mali’s economic recovery was sustained by the good performance of the agricultural and mining sectors. However, the country still faces a challenging domestic environment: security issues persist (as a consequence of the the 2012 institutional crisis), while poverty and inequality remain high. Significant challenges should be timely addressed to preserve fiscal sustainability, to promote the private sector and to support inclusive growth.

The EFC-supported program has broadly succeeded in achieving its objectives under difficult circumstances. Malian authorities have managed to ensure a broadly satisfactory implementation of the program under the EFC and, as anticipated by the buff Statement, they look forward to the continued support of the Fund through a successor arrangement. In this regard, as progress on structural benchmarks has been markedly slower than expected, the structural reforms not yet implemented should be considered as potential prior actions (to the possible extent) when discussing a future engagement.

The performance criterion on gross tax revenue was not met as revenue fell short by about 1.2 percent of GDP at end-June 2018. To advance tax policy and custom administration reforms to improve tax productivity and revenue mobilization remains a key objective on the way to achieve the revenue target set by the WAEMU Convergence Pact. Taking into account the corrective measures that are being taken, we support the authorities request for a waiver of nonobservance.

The authorities’ commitment to reach the ceiling on social spending is welcome as progress in meaningfully reducing poverty and inequality has been elusive. Poverty reduction efforts should properly complement fiscal consolidation and orient themselves toward capital expenditure. In this regard, we share staff advice to promote small- and medium-sized enterprises by improving the business environment and to develop physical infrastructure and human capital. At the same time, we invite the authorities to address governance weaknesses and to fight corruption.

With these remarks, we wish the authorities success in their future endeavor.

Mr. Kim and Mr. Kikiolo submitted the following statement:

We thank staff for the comprehensive report and Mr. Raghani and Mr. Diakite for their helpful buff statement. The Malian economy continued to perform well in 2018 amid difficult circumstances, benefiting largely from the 2013-2018 extended credit facility (ECF) program. However, downside risks including unfavorable security conditions are expected to pose a challenge to Mali's growth outlook and needs close monitoring. We support the completion of the tenth review under the Extended Credit Facility and agree to the request for waiver of nonobservance of a performance criterion. We broadly concur with the staff report and offer the following comments for emphasis.

While we commend the authorities for adhering to most of the performance criteria and indicative targets under the ECF program in June 2018, we are concerned with the achievement of only four out of ten structural benchmarks. We noted from Mr. Raghani's and Mr. Diakite's buff statement that the authorities are committed to implementing the missed structural benchmarks in the first semester of 2019. Considering the authorities need for continuous support from the Fund, we would be interested to hear from staff if these missed structural benchmarks are realistic and we urge staff to assist the authorities to implement the missed benchmarks. In view of the authorities' intention to have a successive program, we would encourage the authorities to fully implement the outstanding benchmarks. Additionally, we urge staff to ensure careful design and full implementation of structural benchmarks in future programs.

The authorities' revenue mobilization efforts must be supported to preserve fiscal sustainability. Despite the revenue shortfalls in 2018, we noted that the authorities' remained determined to increase fiscal revenue by 0.5 percent of GDP over the medium term and to meet WAEMU's deficit criterion. Given the challenges that revenue agencies face, we request staff's continued support to the authorities to expand tax base, reduce exemptions and improve effectiveness of tax administration. While we agree with staff on the tighter fiscal policy stance, we see merit in the authorities' counter argument that a further tightening would dampen economic activity and delay the implementation of the country's much needed infrastructure and social programs including the peace agreement. At the same time, we urge staff to support, together with the World Bank or others, the authorities' efforts to improve their tax code to address active tax avoidance, for example in the mining sector as mentioned in the buff statement.

Sustaining structural reforms is critical to encourage private sector development, improve governance, and support inclusive growth. We welcome the authorities' efforts to improve the financial situation of the public electricity company (EDM). We commend the authorities' efforts to implement the 2017 public investment management assessment (PIMA) recommendations. The prevalence of corrupt practices poses considerable governance challenges for the country. In the spirit of the Fund's recently adopted framework for enhanced fund engagement, we request staff to include a comprehensive assessment of governance framework in future successor programs.

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

We thank staff for a concise report and Mr. Raghani and Mr. Diakite for an insightful buff statement. We consent to the completion of the tenth and last program review and the requested waiver for nonobservance of a performance criterion. We welcome the broadly satisfactory program progress, as all but one performance criteria and all indicative targets have been met, although the nonobservance for the PC on gross tax revenue by a large margin is unfortunate. On the structural side, progress on the implementation of structural benchmarks, which are instrumental to bolster the economy's resilience, is distinctly mixed. Notwithstanding the robust growth performance and growth outlook, Mali continues to face substantial challenges inter alia related to the fragile security situation, the economy's low diversification, high poverty and inequality, elevated exposure to natural disasters as well as crucial structural challenges. Going forward, we encourage the authorities to safeguard prudent fiscal policy by raising tax revenues further, to advance public sector efficiency and to improve the overall business environment.

We acknowledge the authorities' demonstrated commitment to comply with the fiscal targets but see further scope to raise tax revenues, in particular by advancing the swift implementation of delayed tax reforms. In this regard, we note that the rationalization of capital and poverty-reducing spending represents a suboptimal policy response to counteract lower than expected tax revenues. We therefore echo staff's call to build buffers against fiscal risks and protect critical spending on large infrastructure, education and health. Poverty reduction could be further supported by a better targeting of social expenditure – shifting from blanket subsidies towards a targeted social safety net. An intensified tax collection as well as further reductions of tax exemptions and efforts to address management inefficiencies within the tax administration could generate substantial additional revenues. We also encourage the authorities to consistently apply the oil pricing formula to shore up tax revenue. On a more general note, we caution against overly optimistic tax revenue forecasts by the authorities as revenue shortfalls have been a persistent challenge.

We emphasize the importance of complying with the envisaged transfers to the local governments for advancing the 2015 peace accords. Also, we join staff in calling for the development of subnational taxation to generate revenue streams for local governments. At the same time, we emphasize that public financial management on all government levels must be improved to fight fraud and corruption. A more comprehensive treasury single account would for example help to effectively monitor expenditure on the national level.

Furthermore, improving the efficiency and quality of public investment is necessary to facilitate inclusive growth while containing fiscal risks. Progress in implementing the IMF PIMA mission's recommendations is welcome but needs to be continued. We recommend that project decisions should be guided by the newly established standard unit cost market price list and social-economic priorities. We also agree with staff on the need for expedited measures to raise the accountability of investment managers as well as a strengthening of the institutional framework to deal with PPPs.

The authorities should intensify their efforts to improve the business environment and strengthen structural competitiveness. The implementation of necessary reforms in the electricity sector as well as improvements in public governance, including the legal and institutional frameworks to fight corruption, stand out as particularly urgent policy priorities. It is highly worrisome that the Malian justice system is widely perceived as corrupt and that the laws passed to fight corruption and illicit enrichment appear to have had little effect. We therefore encourage the authorities to step up their efforts to address governance weaknesses and to improve transparency, accountability and the rule of law. A comprehensive implementation of the AML/CFT framework would also support anti-corruption efforts.

On the financial sector, we encourage the authorities to reduce existing vulnerabilities related to high levels of NPLs coupled with low asset quality. We kindly ask staff for updates concerning the strategy to reduce non-collateralized NPLs and NOAs in the banking sector (expected implementation December 2018).

Concerning a potential IMF successor program, it appears beneficial to first candidly review the outcome of the current program with respect to its intended goals. We take note of staff's remark, for instance, that the ECF supported program has broadly succeeded. At the same time, staff notes that Mali's external imbalances remain large. The review should also assess the authorities' ownership during the program. On this basis, staff and authorities should deliberate on the future structural challenges facing Mali, and the Fund's potential role in addressing them. Furthermore, close engagement with development partners on their strategic views and evolving priorities will be helpful to formulate a suitable medium-term reform agenda for Mali.

Mr. Guerra and Ms. Arevalo Arroyo submitted the following statement:

We thank staff for its comprehensive report and Mr. Raghani and Mr. Diakite, for their helpful buff statement.

We support the completion of the tenth review under the Extended Credit Facility (ECF) and the waiver for nonobservance of a performance criterion. However, we note that the gross revenue target was missed by 1.2 percent of GDP and that, despite ongoing efforts, progress on structural benchmarks has been slower than expected.

Mali's economic performance has been positive under the ECF, but to secure durable and sustained growth, while reducing poverty and inequality, efforts should continue. We commend the Malian authorities for stabilizing its macroeconomic framework in a challenging context of insecurity and adverse shocks under the implementation of the ECF-supported program. As the program is heading to an end, authorities should remain committed to fiscal discipline, debt sustainability and deepen structural reforms. We take note of the request for a successor ECF-supported program and look forward to the finalization of the medium-term (2019–23) development strategy.

Fiscal and debt sustainability should continue to be key objectives going forward, focused on achieving durable gains in tax revenue and maintaining the commitment to fiscal discipline. We welcome the authorities' commitment to reaching the WAEMU fiscal deficit criterion of 3 percent of GDP in the 2019 budget. However, we note that tax revenue to GDP plummeted significantly in 2018. We note and are encouraged that there has been substantial TA regarding tax policy and tax administration reforms. In this vein, we consider that the upcoming TA mission to determine the causes of the recent tax revenue shortfalls will contribute to finding appropriate remedial measures and ensure their implementation. We would appreciate if staff could further comment on the reasons why tax and customs reforms have experienced delays. We encourage authorities to continue their efforts to further reduce tax exemptions, as they remained significant around 3.5 percent of GDP in 2017. We welcome the efforts towards gradual decentralization and note its importance to advance the 2015 peace agreement. We encourage authorities to improve monitoring and control mechanisms to ensure efficient spending by local authorities. In this regard, we consider that decentralization could have capacity challenges. Are plans to provide TA to contribute to strengthen local government's technical capacity being considered?

Improving the monitoring of fiscal risks posed by and strengthening the performance of public enterprises is critical. We welcome the government's implementation of a two-pronged strategy with World Bank support to strengthen the public electricity company (EDM). However, we note that other SOEs' financial situation could severely impact public finance although their liabilities and impact on the budget are unknown. We would welcome staff's comments on measures to systematically recognize and manage liabilities and adequately monitor their risks.

Steadfast implementation of structural reforms must continue to build upon the progress already achieved. The authorities have made progress on transparency and governance, PFM and strengthening of the banking system. However, we note with concern slower-than-expected progress in the implementation of the 2018 structural benchmarks, as only four were fully met. We agree with staff that strengthening the public investment management framework can contribute to reduce the infrastructure gap, in particular considering ongoing adjustments in capital spending.

Mr. Saraiva and Ms. Hennings submitted the following statement:

We thank staff for the detailed report and Mr. Raghani and Mr. Diakite for their insightful buff statement. Since 2013, the Malian economy, supported by the ECF program, has grown at steady pace and inflation was controlled at a low level. Steps were taken to accomplish the objectives of the program and satisfactory success has been achieved. In addition, considering that all continuous and all but one end-June 2018 quantitative performance criteria were met – with corrective measures already in process –, we agree with the waiver for the nonobservance of the performance criterion and for the completion of the tenth, and last, ECF review.

Mali's economic performance has been robust, in spite of the structural reliance on the agriculture and mining sectors. In the last years, domestic demand has supported economic activity, adding to exports, which are strongly dependent on commodity prices. The diversification of economic activities and the increase of the private sector participation are critical to reduce external vulnerability, increase productivity and boost domestic output. This structural change could be triggered by improving the business environment, stimulating small and medium enterprises and enhancing attractiveness for FDI. Does staff envisage specific sectors that have greater potential for the development of domestic enterprises? How do security and electricity problems fare as hurdles to this process?

Sizeable public investment is needed for the development of appropriate infrastructure and the enhancement of the population's access to education and health. Therefore, fiscal consolidation became even more important, as well as building buffers to face unexpected adverse international conditions. The authorities made important steps in the fiscal front; nevertheless, it is a long road to be pursue. We agree with staff and strongly encourage the authorities to work on the building of centralized database covering all activities, assets and liabilities of public enterprises, but also of the general and the regional government spheres. We also urge the authorities to broaden the tax base, reduce the exemptions, implement the tax policy and tax administration reform discussed, aiming to build a sustainable fiscal structure, that will contribute to the better define the public investment and fiscal expenses. Have the staff and the authorities agreed on a prioritization of the fiscal measures to be taken?

The social and human development indices in Mali must be furthered and the fight against corruption has a significant role in this process. The scarce resources should be directed to building institutions that have ample impact on the country's development. In addition, deficient governance framework, which allows the misuse of public resources, is noticed by the population and by investors, and negatively affect the credibility of the country and its capacity to attract much needed FDI and financing. Could staff comment on the capacity of the authorities to mobilize the judiciary for the better enforcement of the laws against corruption and illicit enrichment?

The Mali economy is amidst a comprehensive restructuring, which demands time and huge efforts from both the authorities and the society. The Fund has had an important role in this process not only by providing financial resources and playing a catalytic role, but also by providing advice and capacity building. However, the key for success is the strong commitment of the authorities with sound and sustainable policies, as well as with advancing the pending structural reforms. In this regard, we very much welcome the unwavering statement by Mr. Raghani and Mr. Diakite and wish the authorities success in their continuing endeavors.

Mr. Rashkovan and Mr. Tolici submitted the following statement:

We thank staff for the concise report and Mr. Raghani and Mr. Diakite for their informative buff statement. We commend the authorities for Mali's robust economic growth and macroeconomic stability achieved under the Program, against adverse circumstances. While short-term outlook is generally favorable, the fragile domestic security situation, high vulnerability to commodity price fluctuations and adverse weather conditions are substantial downside risks. Considering the broadly satisfactory program implementation with all continues and all but one end-June performance criteria having been met, we support the completion of the tenth review under the extended ECF arrangement and the Request for Waiver of Nonobservance of Performance Criterion and have the following remarks for emphasis.

Further fiscal consolidation is critical both for program performance and macroeconomic stability. We commend the authorities for their commitment to maintaining sound fiscal policy to safeguard macroeconomic stability and inclusive growth. The 2019 budget is compatible with WAEMU deficit criterion and would allow Mali to adequately address the priority spending needs while ensuring public debt sustainability. We urge authorities to further progress with reforms aimed at mobilizing additional revenue by broadening the tax base, including through more efficient taxation of the mining sector, reduce the discretionary tax exemptions, and by strengthening tax administration. These measures are key to create the necessary fiscal space to finance infrastructure investment and support social sector needs to help in poverty reduction.

On the expenditure side, efforts to improving the efficiency and quality of public investment should rely on the recommendations of PIMA report. We welcome authorities' commitment to strengthen the regulatory framework for public financial management and continue efforts to improve fiscal transparency, internal and external audit, and cash management.

Advancing structural reform is warranted to support macroeconomic achievements.

We note that the implementation of structural agenda has been mixed, with only four out of ten structural benchmarks met at end-October 2018. Mali's output and export structures show little diversification, and the economy is vulnerable to global commodity price fluctuations and adverse weather conditions. While there has been some progress in improving the business environment, the structural reform agenda should prioritize initiatives to close the social and infrastructure gaps, support private sector development and address the inefficient energy sector.

We note the highly uneven income distribution and significant gender inequality and encourage authorities to take swift actions on removing obstacles to educational opportunities for women, and addressing gender disparities notably in employment and access to finance. Are there any measures envisaged by authorities to gradually reduce gender inequality and improve women's access to education?

Improving governance and fighting corruption must remain high on the authorities' agenda. While we commend the authorities for their efforts to enhance transparency, and to fight corruption and illicit enrichment, we note staff's assessment that the implementation is low and enforcement weak. Further strengthening of the legal framework, including a broader base of government officials subject to asset declarations, as expressed in Letter of Intent, is a welcome step toward improving the effectiveness of anti-corruption and illegal enrichment laws (LAIE) implementation. We urge the authorities to widen its applicability and to support it by strong enforcement. Could staff provide information on any recent steps taken by authorities on strengthening anti-corruption framework?

Mr. Mouminah, Mr. Alkhareif and Mr. Rawah submitted the following statement:

We thank staff for the well-written report and Mr. Raghani and Mr. Diakite for their helpful buff statement. We are in broad agreement with the staff's analysis and policy recommendations and would limit our remarks to a few issues.

We support the completion of the tenth review under the ECF and the associated decision. We take positive note of staff's assessment that the ECF-supported program has broadly succeeded in achieving its objectives and that economic performance has been broadly positive despite the challenges. We commend the authorities for the satisfactory program implementation, resulting in meeting all quantitative performance targets but one. While we note that progress in achieving structural benchmarks has been slower than expected, we are encouraged by the authorities' steps to address this issue. We look forward to the finalization of Mali's medium-term development strategy, which would form the basis for a successor ECF-supported program. It is reassuring to note that Mali's capacity to repay is adequate and that it has a good track record of timely repayment.

We welcome the authorities' emphasis on preserving fiscal sustainability. We take note of the authorities' commitment to respect the 2018 fiscal deficit target through remedial revenue measures and spending cuts. Here, further efforts to boost revenue mobilization and rationalize spending would be important to address fiscal and external imbalances. In addition, we join staff in encouraging the authorities to follow a prudent borrowing approach to support debt sustainability while further strengthening the public investment management framework to address remaining infrastructure gaps. Also, building buffers is critical to strengthen resilience against fiscal risks while protecting social outlays especially in the context of still elevated poverty level.

Finally, we encourage the authorities to step up their efforts to implement the AML/CFT framework, including in the context of the 2019 assessment against the FATF standards.

With these remarks, we wish the authorities further success.

Mr. Mahlinza and Ms. Gasasira-Manzi submitted the following statement:

Economic growth in Mali has remained robust despite difficult circumstances, buttressed by the authorities' economic program and supported by the Fund's Extended Credit Facility (ECF) arrangement. In this respect, we commend the authorities for the progress made to maintain macroeconomic stability and achieving the objectives under the ECF program. On this basis, we support the completion of the tenth ECF review and the authorities' request for a waiver of nonobservance of a performance criterion. We thank Mr. Raghani and Mr. Diakite for the insightful buff statement and broadly agree with the staff report. We would like to make the following comments for emphasis.

Fiscal consolidation and prudent policies should be sustained to rebuild buffers, keep debt sustainable and ensure fiscal sustainability. We welcome the authorities' commitment to reach the WAEMU fiscal deficit criterion of 3 percent of GDP in 2019 by correcting the revenue underperformance and reducing expenditure. In this regard, we agree that revenue mobilization efforts should be enhanced through tax and customs reforms as well as reducing tax exemptions, while spending cuts should protect priority and poverty reducing expenditure. In consideration of bolstering revenue from petroleum products and reduction of subsidies, care should be taken to ensure a gradual, well communicated approach that maintains appropriate safety nets. That said, we note that capital expenditure has borne the brunt of spending cuts and yet significant infrastructure gaps remain. Improvement in the quality of public spending and debt management remain important. In this regard, we welcome the progress in implementing the recommendations of the Public Investment Management Assessment (PIMA) to address the inefficiencies in public investment as well as prioritizing spending that supports poverty reduction and inclusive growth. Going forward, the authorities should expedite the remaining actions and strengthen institutional capacity, especially related to the Public Private Partnerships (PPPs) to ensure adequate safeguards.

While noting that the banking sector is broadly stable, the supervision and monitoring framework should be strengthened to ensure adequate capitalization and bring down the ratio of Non-Performing Loans (NPLs). We note that the transition to Basel II/III is expected to reduce the level of NPLs, and that banks are working together with the authorities to reduce the stock of non-operating assets (NOAs), which remain high and breach the WAEMU regulatory ceiling. We would appreciate an update from staff on the progress in the transition to Basel II/III as well as the extent to which this is expected to reduce the ratio of NPLs. We would also appreciate staff's comments on whether other strategies are being developed to deal with the NPLs.

Structural reforms remain important in supporting strong, sustainable and inclusive growth. Although the country has maintained robust growth, poverty and inequality remain a challenge. In this regard, efforts to address social gaps and improve the quality and access to infrastructure should be stepped up. Further, initiatives to support private sector development including improving the business environment, access to finance, and boosting competitiveness will be useful. In addition, efforts should be made to build institutions, develop human capital and improve governance in order to build resilience against fragility. In this regard, we welcome the technical assistance provided by the Fund and acknowledge efforts to improve governance, however, more needs to be done.

We note and support the authorities' interest in a successor program. This is important for completing the remaining structural benchmarks and addressing the development challenges as well as building resilience against vulnerabilities. We agree with staff that a medium-term development strategy should underpin the program and a comprehensive assessment of governance issues could be undertaken and addressed in the context of the program.

Mr. de Villeroché, Ms. Riach, Mr. Bellocq, and Ms. Stockill submitted the following joint statement:

We thank staff for its comprehensive report and Mr. Raghani and Mr. Diakite for their insightful buff statement.

Mali's performance under the program has been satisfactory. All continuous and all but one end-June 2018 quantitative performance targets were met. Against this background, we support the completion of the tenth review under the Extended Credit Facility (ECF) Arrangement and the request for waiver of non-observance of a performance criterion. We believe the ECF-arrangement has served Mali well as it has resulted in strengthening the macro-framework despite many security challenges. We note however the slow progress of structural reforms, as only four out of ten Structural Benchmarks (SBs) were met at end-October 2018. This illustrates the challenge of delivering substantive structural reforms through Fund-supported programs in fragile contexts. We would welcome staff reflections on this point. Do staff consider that better results could have been achieved with a higher level of Technical Assistance?

We welcome the authorities' commitment to achieving their fiscal deficit targets, but we also think that the fiscal consolidation path has to be balanced and sustainable. In this regard, we are concerned to note that this year the authorities will reach the fiscal deficit target through significant spending cuts and have seen large tax revenue shortfalls. Could staff provide further details about the expenditures which were cut and the selection criterion used to make cuts in public investment? Could staff also indicate if similar cuts occurred in security expenditures? What is staff's assessment of the negative spillovers of these cuts on economic growth?

Despite the tax revenue mobilization measures expected for next year, we note that total revenue (including grants) will reach 18.5 percent of GDP in 2019 against 19.4 percent of GDP expected under the program in 2018. We urge the authorities to remain strongly committed to the Domestic Resource Mobilization agenda. Like staff, we encourage the authorities to improve tax collection management, in particular by setting up a taxpayer compliance improvement plan. We also agree with staff that efforts should continue to streamline tax exemptions which remain too high (3.5 percent of GDP in 2017) and are associated with uncertain economic returns. We appreciate the Technical Assistance provided by staff to address BEPS and transfer pricing issues in the mining sector. We note that a follow up mission is scheduled in February 2019 and we encourage staff to feed the conclusions of this mission into discussions with the authorities on a successor arrangement.

On the expenditure side, we think that staff recommendations made under the 2017 Public Investment Management Assessment should be operationalized. We agree that a comprehensive action plan should be developed in order to strengthen the role of economic return assessment in public investment decision making. This is also something we would like to see in a successor program.

When it comes to debt management, we support staff's recommendation to carefully manage roll-over risks moving forward. With the tightening of financial conditions on international markets, we can expect that significant WAEMU borrowers will go to the regional market next year and this could make bond issuance on the regional market more difficult. Against this background, the authorities should keep on improving the Medium-Term Debt Management framework.

Mr. Trabinski and Mr. Danenov submitted the following statement:

We thank staff for the report and Mr. Raghani and Mr. Diakite for their insightful buff statement. The 2013-18 Extended Credit Facility (ECF)-supported program has served the country well, helping to stabilize the economy and fostering additional support from international organizations and donors. We commend the authorities for achieved progress and continuous commitment to reforms in a challenging environment. Notwithstanding one missed quantitative performance criterion and weak implementation of structural reforms, we support the Malian authorities' request for the completion of the tenth review under the ECF arrangement. We take note of the authorities' intention to demand a successor program going forward. Yet, significant challenges remain to preserve fiscal sustainability and deepen structural reforms to attain inclusive growth and improve governance, health and education standards.

We commend the authorities for the improved fiscal position and welcome their commitment to reaching the WAEMU fiscal deficit criterion in 2019. The instable external environment, the high dependency on gold, and price fluctuations for cotton, as well as potential reductions in donor funding and foreign direct investment certainly call for adequate fiscal buffers. In addition, there is a need for comprehensive tax and spending reforms. We note that the spending side is being addressed with the contraction of non-priority public expenditure. In that context, we agree with staff that cutting capital spending could undermine the prospects for growth and social development. On the revenue side, we welcome the authorities' intention to boost the fight against fraud and illicit trade, and to address administrative inefficiencies. In this regard do staff have any update on the outcomes of the TA mission investigating the tax revenue shortfalls roots? We support staff's recommendations for reducing tax exemptions, addressing vulnerabilities from profit shifting and base erosion by international companies, and improving taxation in the mining sector.

We urge the authorities to deepen structural reforms to promote the private sector and inclusive growth. We note the slow progress under the program. The benchmarks that have been missed for this review include measures -- such as the strategy on NPLs, the threshold for tax exemptions on investment, and the transfer of EPA deposits to the single treasury account – that the Board established as benchmarks already in the seventh, and the eighth and ninth review, respectively. Was consideration given to include these measures as prior actions for the final review? Staff's comments would be appreciated. We support staff's call for the finalization of Mali's medium-term development strategy, aimed at addressing country's infrastructure, basic public services, and human capital gaps, as well as improving the business environment. Also, it is regrettable to note that little progress has been made in poverty reduction and addressing inequality.

Increasing efforts to improve governance and fight corruption will be key. Effective implementation of the laws to fight corruption and illicit enrichment, improving the AML/CFT framework, and strengthening of PFM are the major priorities. Given the governance weaknesses and the current high level of corruption, we would see merit in a comprehensive assessment of governance vulnerabilities, including in the mining sector, in the context of discussions on a possible successor arrangement.

Ms. Levonian and Ms. Vasishtha submitted the following statement:

We thank staff for their report and Messrs. Raghani and Diakite for their buff Statement.

Despite significant economic, social, and security challenges, the Malian authorities remain committed to undertaking necessary reforms and pursuing sound policies to pave the way for macroeconomic stability and sustained growth. The 2013-18 ECF-supported program has helped stabilize the economy under difficult circumstances and repeated adverse shocks. Program implementation has been broadly satisfactory with all continuous and all but one end-June 2018 quantitative performance targets being met. While the gross tax revenue target was missed by a large margin (1.2 percent of GDP), we note that the authorities are committed to meeting the end-December 2018 deficit target and have identified remedial measures to offset the impact of the revenue shortfall.

Progress on structural benchmarks has been slower than expected: six of the ten structural benchmarks were not met at end-October 2018. However, we are encouraged by the buff statement which notes that the authorities remain committed to advancing their structural reform agenda and plan to intensify efforts to implement the delayed structural benchmarks during the first half of 2019.

In light of the above and the fact that Mali's capacity to repay the Fund is assessed as adequate, we support the authorities' request for completion of the tenth and last review and a waiver for nonobservance of a performance criterion.

While GDP growth has been robust in recent years, reducing poverty and income inequality continues to be a significant challenge. Gender inequality also remains high as evidenced by the large gap between male and female literacy rates. We support the staff's call for more inclusive policies over the medium term and encourage the authorities to make further efforts in this direction.

With regard to risks, we concur with staff that the outlook is subject to significant downside risks stemming from an unfavorable security situation and volatile commodity prices, among other factors. Policy efforts over the medium term should thus continue to focus on improving revenue mobilization, promoting financial sector stability, and strengthening governance.

Ms. Pollard and Ms. Svenstrup submitted the following statement:

We support the completion of the tenth review under Mali's Fund-supported ECF Arrangement. Even in the context of a challenging security environment and exogenous shocks, the Malian authorities have made progress since 2013 to stabilize the economy, boost growth, and contain inflation. Yet, the economy is still very fragile, poverty and inequality are high, and implementation of the structural reform agenda has lagged over the course of the arrangement. We welcome the authorities' commitment to reducing poverty, addressing fiscal and external imbalances, and bolstering anti-corruption and governance efforts, as emphasized in Mr. Raghani and Mr. Diakite's buff Statement, and urge strong follow-through on these commitments. We also strongly welcome their plan to continue engaging closely with the Fund. We broadly agree with staff's analysis and recommendations and offer a few comments below for emphasis.

Fiscal performance over the program period has been uneven, and we agree with staff that a key focus going forward should be creating sustainable sources of tax revenue. The shortfall in revenues this year is unfortunate, as it forces the authorities to rely on one-off remedial measures and cuts to capital expenditure, which will hurt growth. Further implementation of tax policy and administration reforms are needed to create space for much-needed social and development spending. We also urge the authorities to make progress on reducing tax exemptions, a structural benchmark (SB) in the program that has been repeatedly missed and which could yield 3.5 percent of GDP, and on reducing losses on fuel subsidies, another long-term SB for this program.

Staff rightly note that corruption and weak governance have macro-critical consequences in Mali. While the authorities have taken several important steps, we urge concerted efforts to advance reforms to improve PFM, tax administration, rule of law, the regulatory framework, and the AML/CFT framework, as well as transition to a single treasury account. We commend the authorities for surpassing the SB target on the number of asset declarations of government officials sent to the Supreme Court, which is a good step in demonstrating their commitment to improve transparency.

It will be important for any successor ECF arrangement to focus on a robust range of policy actions that address the lack of progress on poverty reduction and inequality, despite reasonably strong growth. In particular, we would like to see clear benchmarks on economic governance and anti-corruption, as informed by the highly welcome planned governance vulnerability assessment. We would also welcome specific benchmarks to protect the poor and reduce income inequality, including a meaningful minimum threshold for social spending. Staff suggest that a new ECF could align with Mali's pending medium-term development strategy. Could staff discuss the planned areas of focus for that strategy?

A key weakness in the current program has clearly been the lack of progress on the structural reform agenda. In a future program, we urge staff to carefully consider the merits of including fewer, more-targeted SBs that prioritize the most critical issues. We recognize that Mali faces a wide range of important issues, but the priority should be to develop a structural reform agenda that balances aspiration with feasibility. As several of the incomplete SBs date back many years, we also urge staff to include those that are deemed to be critical and still feasible as prior actions for a future program. We also urge the authorities to expedite long-awaited progress in these areas. Finally, we would appreciate staff's views on how a successor program will address the issues of "weak institutional capacity, vested interests, and political economy challenges" to facilitate more robust action on the structural reform agenda.

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

We thank staff for their well-written report and Mr. Raghani and Mr. Diakite for their helpful buff statement.

After facing a severe institutional and security crisis in 2012, the Malians authorities have commendably succeeded in achieving macroeconomic stability with robust growth and subdued inflation under the ECF-supported program, notwithstanding severe challenges, including chronic insecurity, unfavorable weather conditions, and adverse external environment. We welcome the authorities' determination to strengthen economic diversification and promote high and more inclusive growth. The outlook is favorable, but risks are skewed to the downside, mainly driven by escalating security threats, adverse weather conditions, and deteriorating global conditions. We concur with the thrust of staff appraisal and, based on broadly satisfactory performance, the corrective measures for the missed tax revenue target, and the authorities' policy commitments going forward, support the proposed decisions, including the requested waiver.

We welcome the authorities' commitment to maintain fiscal discipline and to achieve the projected overall deficit target of 3.3 percent of GDP in 2018. We take positive note of the shared view between the authorities and staff on the need to further advance reforms to bolster domestic revenues and to strengthen the public investment management framework for efficient and transparent resource use in reducing the infrastructure gap and widespread poverty. The authorities' efforts at strengthening public financial management and to carefully monitor fiscal risks are laudable, and they are encouraged to build additional buffers, should these risks materialize. Strengthening debt sustainability requires continued prudent borrowing within an enhanced debt institutional framework, including the Medium-Term Debt Strategy.

Although enjoying sustained and robust growth over the recent years, pervasive extreme poverty and inequality remain, which requires a strong private sector able to generate pro-poor growth. We take positive note of the authorities' commitment to pursue structural reforms, including by addressing the major constraints to private sector development, as stated by Mr. Raghani and Mr. Diakite. In this regard, strengthening the performance of the electricity company will be critical. We look forward to the finalization of the medium-term development strategy, and call on the authorities to step up efforts in governance reform and strengthening the AML/CFT framework. We take comfort from the authorities' intention to maintain close cooperation with the Fund, including through a new ECF arrangement.

We wish the authorities all the success in their endeavors.

Mr. Jin and Mr. Fan submitted the following statement:

We thank staff for the informative report and Messrs. Raghani and Diakite for the buff statement. We commend the Malian authorities for their endeavor to restore macroeconomic stability and promote structural reform, as well as their satisfactory program performance. However, daunting challenges associated with the significantly lower-than-expected revenue mobilization, uncertain external environment, and fragile security conditions remain. We broadly concur with the thrust of staff's appraisal and agree on the completion of the tenth review under the ECF arrangement as well as the waiver of nonobservance of performance criterion.

Concrete measures are warranted to keep the deficit target under the program. The shortfall in revenue in the first half of 2018 was unusual during the program period. We welcome staff's analysis on both temporary and structural causes. Accordingly, we commend the authorities' significant expenditure cuts to keep the fiscal balance stable and encourage the timely implementation of the current remedial measures and proposed advance reforms agreed between staff and the authorities, including enlarging the tax base, reducing tax exemption, and addressing the loopholes enabling profit shifting and base erosion in the current legal framework. Furthermore, we hope the coming IMF TA mission could help identify the root cause of revenue shortfalls and make the remedial measures more targeted. On the spending side, further cuts in both capital and current spending might be necessary to ensure adherence to the WAEMU deficit criterion, however, the growth and social development related spending should also be protected.

Continuous structural reforms are critical to improve the competitiveness and maintain sustainable growth. We noticed that six out of ten structural benchmarks in this review were unmet, and half of the six unmet benchmarks do not have new specific deadlines. Also, the authorities are facing several challenges including the unfavorable terms of trade shocks, insufficient domestic oil price formula, dire financial position of the public electricity company (EDM), and high exposure to liabilities accumulated in other state-owned companies. Therefore, we encourage the authorities to strengthen the EDM's financial position and enhance its governance following the recommendation of the World Bank. We also encourage the continuous adjustment in the domestic fuel pricing mechanism to make it more autonomous and transparent while smoothing domestic price volatility. Furthermore, we welcome staff's elaboration on a possible timetable for the three unmet structural benchmarks with no adjusted deadline.

With these remarks, we wish the Malian authorities every success in their policy endeavors.

The Acting Chair (Mr. Furusawa) noted that Mali was a fragile state that was still struggling with the legacy of war. The difficulties facing Mali were daunting, but its economic performance over the course of the Extended Credit Facility (ECF)-supported program had been positive, and the program had broadly succeeded in promoting growth and macroeconomic stability. Nevertheless, Directors' gray statements noted that structural reforms had been relatively slow and that poverty, inequality, and governance concerns remained major challenges. The authorities were taking important steps to address the tax revenue shortfall, but would need to pursue ambitious structural and fiscal reforms to build upon and sustain the progress achieved.

Mr. Benk made the following statement:

We have issued a gray statement supporting the program review. I would like to focus on one issue.

We take note of the new program request. In this context, like other Directors, we look forward to the finalization of the medium-term development strategy, which should form the basis for the successor arrangement.

Regarding the new request, we agree with Mr. Meyer that it would be beneficial to candidly review the outcome of the current program with respect to its intended goals so that the lessons learned are adequately reflected in the new program design.

The success of the new arrangement will critically depend on the authorities' ownership to address the macroeconomic imbalances and improve governance. It will also depend on the staff's realism in the program design, as well as on donors' continued support. Program conditionality should address the issue of weak institutional capacity, poor governance, while also reflecting the fragile status of Mali.

Finally, we note that aligning capacity development with program objectives and close coordination with other development partners will also be essential.

Mr. de Villeroché made the following statement:

I thank the staff for a good and comprehensive set of reports and Mr. Raghani for his helpful buff statement. I have a few remarks, since the program is coming to an end.

What we see overall is a success story, taking into consideration the very challenging environment of Mali, which is a fragile state with significant security challenges.

When we look at Figure 1, on page 7 of the report, there is a clear picture that the performance of the program has been broadly satisfactory. Fiscal consolidation has made steady progress under the program, which will allow Mali to reach the target of 3 percent of the public deficit in 2019. The program has been helpful in terms of predictability for the donor community, which is important for Mali, despite the difficult challenges faced by this country.

Nonetheless, we see this achievement as fragile, as illustrated by the more mixed picture of this last review. Especially on the fiscal side and the revenue side, we see that the fiscal consolidation path is not easy. We missed resources, which could be explained by security challenges and the capacity of the customs and the tax administration to raise resources in areas of the country which are affected by the war or the troubles. It definitely challenges the soundness of the adjustment. Without more domestic resources, an adjustment, which is broadly based on expenditure cuts, will remain very fragile, looking at the development needs of the country.

Moving forward, we are happy that the authorities want to implement a successor program. We read this intention as a positive step toward consolidating the results that we have. In terms of the mobilization of other donors, it is important that Mali remains under a Fund-supported program.

Although it goes with electoral cycles, the continuous engagement of the Fund with Mali is good news, but it raises the question of having longer commitments, commitments more adapted to fragility, and higher resources for such a country.

I am a bit worried by the continuous engagement of the donor community in Mali. I feel there is a bit of a risk of fatigue. I do not expect more resources from other donors, unless there is good news to come. The risk for the country is to face a harder situation on this point.

It would be good news if the private sector could step in, but I believe it is early days for that. The whole strategy of the Compact with Africa does not fit well with the fragile situation of Mali.

Ms. Levonian made the following statement:

I thank the staff for the comprehensive report, and I thank Mr. Raghani for his useful buff statement. We have issued a gray statement, in which we support the completion of the tenth review under the ECF arrangement, as well as the request for the waiver.

We are encouraged to see that the authorities remain committed to pursuing sound policies and implementing necessary reforms in the face of significant social, economic, and security challenges.

Since we have issued a gray statement, I will only make two points for emphasis and to support colleagues who have made the point as well.

The implementation of structural reforms continues to be weak, with only 4 out of the 10 structural benchmarks being met. We echo the concerns raised by some Directors regarding the challenges of implementing significant structural reforms in fragile states through Fund-supported programs. We also support the point made by Ms. Pollard and Ms. Svenstrup that a future program could benefit from an assessment of the merits of considering fewer but more targeted structural benchmarks related to the highest priorities. We would be interested in staff's perspective on that.

We also note that progress on reducing poverty, income inequality, and gender inequality, remains elusive. We agree with the staff, that meaningful progress on these fronts will require measures to ensure broad-based and inclusive growth over the medium term.

With that, I wish the authorities continued success.

Mr. Meyer made the following statement:

We consent to the completion of the tenth and last program review. We also observed with concern the difficulties on the structural benchmarks and the fact that the performance criterion for tax revenue was missed by a large margin.

I would agree with all three speakers before me that we should draw lessons from this program before potentially entering into a new program. There are cases where it just does not make sense to keep going with the same structure. I could imagine that more focused structural conditionality could make sense in Mali. Mr. de Villeroché made the point that a focus how to strengthen revenue mobilization would be important. I would argue that in this case, the efforts to achieve the objectives of the fiscal deficit might not be sustainable in the longer run, given what happens with the spending cuts.

This is a case where one can consider whether a longer program engagement could make sense to reach the fiscal target in a more sustainable way. If that necessitates slightly higher access because we are spreading out to reach the targets, we have quite a bit of sympathy for that in this case, but we would have to look into it more thoroughly.

There are other cases—and we had one last week—where the authorities have the intention to move ahead with consolidation, where that seemed to be sustainable. In that case, we do not see a case for longer program engagement. This is really a case-by-case determination.

Mr. Daïri made the following statement:

We issued a gray statement in which we supported the authorities' request and commended the authorities for their good performance overall.

We echo Ms. Levonian's and other Directors' comments on the difficulty of structural reform implementation in a fragile situation, and the proposal to focus structural benchmarks on critical issues, recognizing the capacity constraints facing the country.

With the severe security issues the country is facing, Mali deserves continued strong support from the international community and from donors, in particular. Even attracting private investment for economic projects is difficult in such a context. The private sector will not finance security expenditures. We have to be realistic about what can be achieved by this country in this context. We hope that the international community will continue to strongly support the country.

The staff representative from the African Department (Ms. Yontcheva), in response to questions and comments from Executive Directors, made the following statement:[1]

I thank Directors for their insightful comments and questions. We have provided written answers to the more technical questions, but allow me to elaborate on the few remaining ones; notably, the tax revenue administration issues and the challenges of structural reforms in Mali.

Some Directors inquired about the pace of tax and customs revenues and also the outcome of the very recent Fiscal Affairs Department (FAD) technical assistance (TA) mission. Let me first go back in time because this was the last review of the program, so it was also an opportunity to have a broader view and look back at the past five years to see what worked and what did not work.

Definitely, revenue performance was part of the success. In 2013, at the onset of the program, revenue performance was about 12 percent of GDP. In 2017, it had risen to over 15 percent. It is a success. The shortfall in 2018 shows that in a fragile country, success can also be fragile. The findings of the FAD mission were consistent with the staff's assessment.

In addition to the impact of the fragile security conditions, with the rise of world fuel prices, in the context of political uncertainty and the elections in the summer, we saw that customs and tax compliance had declined sharply and the reforms have slowed down. We view the recent administrative changes very positively, including the appointment of a new director general, both as the customs and as the tax directorate. There is a definite desire for re-engagement with the reforms. That was the purpose of this rapid FAD TA commitment, which helped provide the authorities with detailed measures on how to re-boost compliance and increase revenue performance to bring it back on track with the performance of the past few years.

On structural reforms, several Directors inquired about the challenges of implementing structural reforms and how the staff and the program can assist the authorities reach those benchmarks, including through prior actions.

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

Structural reforms are meant to have a lasting impact, but, typically, those are the reforms which are difficult to implement.

Throughout the current program, the staff followed the guidance note on fragile states and on engagement with low-income countries for its policy advice and program design. Some reforms have been carried out over for several reviews, so as to take into account the capacity constraints and to recognize the political economy challenges that came up through the program period.

We did not set a prior action for the tenth review because the specific reforms which were delayed are complex reforms that take time, and progress is ongoing, even if the benchmark itself has not been reached. For example, if we talk about the treasury single account, we have not reached the amount we wanted. But, in fact, the number of accounts outside of that treasury single account are being reduced. In the letter of intent, the authorities committed to reach those targets at the beginning of 2019. As progress continues to be made, we did not want to over-accelerate by pushing for measures which would not have a lasting impact.

As the authorities have expressed interest in having a successor program, that will be the opportunity for the team to work with them on a broader reform agenda, which will be based on their development reform plan and to see how we can adapt this, including with the capacity development strategy, to make sure that we have exactly the reforms that are needed, that are macro-critical, that are feasible, and ensure that the support is provided.

Some Directors also asked how a successor program could help address the general governance issues. The new Malian government includes a newly created Ministry for Governance and Transparency, and we have met with the ministry's representatives during the last review. The successor program will build on their governance reform plan, as well as the forthcoming governance diagnostics that we will provide with colleagues from FAD and the Legal Department (LEG). That will help prioritize the reforms.

If we take an example of the reforms, on asset declaration, it has progressed significantly, and other reforms are already in the pipeline, including the strengthening of the judiciary's administrative capacity but also progress on public financial management (PFM) measures. Their capacity development framework includes comprehensive TA from FAD; notably, on a PFM program to help with sound financial management.

Mr. Raghani made the following concluding statement:

I would like to thank Ms. Yontcheva, the mission chief, and her team for their candid and constructive policy dialogue with our authorities, and for the comprehensive answers to the questions raised by Directors.

I also thank Directors for their support for the conclusion of the tenth and last review of the ECF-supported program and for their valuable policy recommendations, which I will faithfully convey to the authorities.

The Malian authorities would like to express their appreciation for the continued support of the Fund and the catalytic role it has played since 2012 in bringing back donors' assistance to Mali, first, through a Rapid Credit Facility and then through the current ECF.

Going forward, they wish to reiterate their commitment to continue implementing sound macroeconomic policies and advancing their structural reform agenda, despite the important security and development challenges they are facing.

I would like to comment on some of the specific issues raised by Directors, which our authorities will carefully address. I share many points of view on the lessons that we can draw from this program, and on also the fragile situation of Mali, and also regarding issues related to security.

On fiscal policy, Directors rightly emphasized that further efforts are needed to enhance domestic resource mobilization, which was particularly weak in 2018. While various factors contributed to the weak revenue performance, including a difficult security context, high tax non-compliance, and fraud, the authorities agree that it is important to undertake an in-depth analysis of the root causes and take remedial actions to ensure that Mali can meet its commitment to an annual increase of fiscal revenue of 0.5 percent of GDP in the medium term. To this end, and with TA from the Fund, they will step up their efforts to reform tax policy and tax administration to expand the tax base, reduce exemptions, and improve the effectiveness of revenue-collecting agencies.

Our authorities will also continue implementing their key decentralization strategy that will provide the different regions of Mali with increased responsibilities over local and regional development in the context of the peace accord. In this regard, they have adopted a prudent approach, which considers the need to strengthen the capacity of stakeholders, as well as internal and external controls, with the support of donors.

Regarding the financial sector, the authorities are mindful of the need to foster greater financial inclusion for achieving stronger and inclusive growth. They are taking steps to address the weaknesses of the financial sector, reduce the level of nonperforming loans, and strengthen the operations of the Credit Information Bureau. Improving the effectiveness of the microfinance sector and developing mobile banking are also key priorities in the authorities' plans to foster financial inclusion.

On structural reforms, the authorities will pursue their efforts to diversify the sources of growth and promote private sector activities. In this regard, they will continue to improve the business environment and sustain their efforts to improve governance and fight corruption.

Putting the electricity company on a sound financial footing will remain a priority, and the authorities will continue to reform the energy sector to enhance the competitiveness of the Malian economy.

To conclude, I would like to reiterate the authorities' full commitment to pursue the goals of the ECF-supported program beyond its expiration and to sustain the gains achieved thus far. In this regard, they look forward to the Fund's continued support in the formulation and implementation of policy and reform measures in the context of a future ECF-supported program.

The following summing up was issued:

Executive Directors commended the authorities on the significant strides made in the course of the ECF-supported program towards restoring macroeconomic stability and bringing the country back on a path to stronger growth. Directors noted, however, that substantial risks and vulnerabilities remain. In particular, progress in reducing poverty and inequality has been limited. Against this background, Directors stressed the importance of accelerating reforms, improving revenue mobilization, promoting financial sector stability, and strengthening governance to promote sustained and inclusive growth over the longer term.

Directors supported the authorities' commitment to adhere to the 2018 fiscal program targets and underscored the importance of continued revenue mobilization to provide room for the government's development priorities. While noting the measures to address tax revenue shortfalls in 2018, Directors emphasized the importance of durable revenue gains arising from strengthening tax and customs administrations, broadening the tax base, improving the taxation of mining activities and petroleum products, and combatting tax evasion and fraud.

Directors welcomed the authorities' commitment to meeting the WAEMU fiscal deficit target of 3 percent of GDP in 2019. Given the mounting fiscal risks, however, Directors encouraged the authorities to build in additional fiscal buffers to better respond to potential adverse developments.

Directors underscored the importance of strengthening the efficiency and quality of public spending and continuing improvements in public financial management. They encouraged the authorities to bolster the public investment management framework to help reduce infrastructure gaps, including by completing the implementation of the Treasury Single Account. Directors also welcomed the authorities' strategy to improve the finances of the electricity company, which would help mitigate related fiscal risks. They encouraged the authorities to press ahead with improvements in debt management and policy.

Directors recommended an acceleration in structural reforms to strengthen inclusive growth and promote the private sector in the years ahead. In particular, they encouraged the authorities to further enhance the business environment, improve governance, develop physical infrastructure and human capital, and improve financial inclusion and the provision of basic public services.

In summary, while commending the authorities for their achievements, Directors emphasized the importance of continued implementation of reform and prudent macroeconomic policies even after the expiration of the arrangement.

The Executive Board took the following decisions:

Mali—Tenth Review Under the Extended Credit Facility Arrangement and Request for Waiver of Nonobservance of Performance Criterion

1. Mali has consulted with the Fund in accordance with paragraph 4.G(b) of the arrangement for Mali under the Extended Credit Facility (EBS/13/155 & Correction 1 & Correction 2, 12/4/2013) (the "ECF Arrangement") to

review program implementation and to reach understandings regarding the conditions for further disbursements.

2. The letter dated November 19, 2018 from the Minister of Economy and Finance of Mali (the "November 2018 Letter") shall be attached to the ECF Arrangement, and the letter dated December 2, 2013, from the Minister of Economy and Finance, together with its attachments, as supplemented and modified, shall be read as further supplemented and modified by the November 2018 Letter.

3. The Fund decides that the tenth review referred to in paragraph 4.G(b) of the ECF Arrangement is completed, and that Mali may request the eleventh disbursement referred to in paragraph 2(k) of the ECF Arrangement, notwithstanding the nonobservance of the performance criterion on the floor on gross tax revenue, specified in paragraph 4.G(a)(ii) of the ECF Arrangement, on the condition that the information provided by Mali on the performance under this criterion is accurate. (EBS/18/105, 11/26/18).

Decision No. 16452-(18/105), adopted
December 10, 2018

Mali—Article IV Consultation Cycle

It is expected that the next Article IV consultation with Mali will take place on the standard 12-month cycle. (EBS/18/105, 11/26/18).

Decision No. 16453-(18/105), adopted
December 10, 2018

APPROVAL: April 14, 2020

JIANHAI LIN
Secretary

Annex

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

Fiscal Policy and Debt Sustainability

1. ***We would welcome staff comments on the institutional capacity of the tax system to implement this ambitious agenda.***

- The authorities and staff agree on the need to improve the institutional capacity to facilitate the implementation of the tax reform agenda. Accordingly, Mali has benefitted from several capacity development projects supported by the revenue Mobilization Thematic Fund. Most recently, the three-year project (FY19-21) focuses on three areas: tax administration corporate and compliance risk management; core tax administration business functions and procedures; and support functions. In addition, FAD will field a follow up mission on international taxation in early 2019 to further assist the authorities in addressing profit shifting risks.

2. ***We would appreciate if staff could further comment on the reasons why tax and customs reforms have experienced delays.***

- Staff will respond to this question orally during the Board meeting.

3. ***In this regard do staff have any update on the outcomes of the TA mission investigating the tax revenue shortfalls roots?***

- Staff will respond to this question orally during the Board meeting.

4. ***While donors have been helping the authorities to build technical capacities of local governments, can staff comment on the preparedness of local executives to take on larger roles in terms of revenue generation and budget execution?***

- The 2018 PIMA assessment found that local governments have a limited capacity to generate revenues for both financial and technical reasons. The central government budget is the main source of financing for the local governments whose own resources are insufficient. The central government also directly operates a substantial share of capital expenditure locally, through its decentralized units, and multiregional projects. To help boost resources at the local level and explore options going forward, FAD will field a technical assistance mission on property taxation in early 2019.

5. ***Are plans to provide TA to contribute to strengthen local government's technical capacity being considered?***

- Several bilateral and multilateral donors are implementing capacity development (CD) projects for local government and agencies.

6. ***Could staff provide further details about the expenditures which were cut and the selection criterion used to make cuts in public investment? Could staff also indicate if similar cuts occurred in security expenditures? What is staff's assessment of the negative spillovers of these cuts on economic growth?***

- Capital expenditure has borne the brunt of the spending cuts but the authorities kept projects that have foreign financing and strongest governance. Most of the projects that were cancelled are in the north, where security conditions inhibit their effective implementation. Savings also include further streamlining spending on some non-priority goods and services and transfers, while respecting the floor on social spending (a program indicative target).

7. ***We note that even though the headline public debt is pegged at a reasonable level, the high maturity concentration of public debt is a major vulnerability. In this context could staff comment on whether it would be feasible for the authorities to reissue/swap existing debt securities to disperse maturities for reducing debt distress?***

- The absence of a secondary market for government securities complicates any reissuance or swap initiatives. However, the authorities are trying to rebalance their portfolio though notably recent issuances via syndication (though at a premium) at longer maturities. Going forward, an improved domestic debt strategy that better captures the medium term could better mitigate rollover risk. The Fund is providing TA to help the authorities develop a Medium-Term Debt Strategy (MTDS) and improve their debt recording and management system.

8. ***Given the budget constraint, we agree that there is an urgent need to improve Mali's public investment management, to enhance the quality of infrastructure. Does staff have estimates of resource needs to cover the infrastructure gap over the coming years?***

- Mali's infrastructure gaps are considerable. According to the 2016-18 "Strategic framework for economic recovery and sustainable development of Mali" (CREDD) achieving 2030 sustainable development goals at the horizon 2030 requires CFAF 3,440 billion, of which approximately 40 percent (over 14 percent of the 2018 GDP) is devoted to investment, with emphasis on access to health and education infrastructures, drinking water, electricity, and improving access to landlocked parts of the country. A new development strategy is expected to be finalized shortly.

9. ***Have the staff and the authorities agreed on a prioritization of the fiscal measures to be taken?***

- The government plans to increase tax revenues by 0.5 percentage points of GDP a year over the medium term. To do so, it will intensify the reforms underway to (i) broaden the tax base, including by tapping the revenue potential of formal agriculture and property, and reduce exemptions; (ii) enhance tax compliance; (iii) enhance the capacity and performance of the revenue collecting units; (v) improve tax efficiency in the mining sector; and (vi) and to optimize tax revenue from petroleum products.

SOEs

10. ***Can staff elaborate on the impediments and progress made to systematically collect information on the financial performance of the SOEs?***

- The ministry of finance includes a directorate of public enterprises which is not yet fully functional; data for key SOEs, when available, are not easily accessible. The authorities have decided to create a centralized database for SOEs, but progress is stalling, and the World Bank is exploring the possibility of providing assistance.

11. ***We would welcome staff's comments on measures to systematically recognize and manage liabilities and adequately monitor their risks.***

- Risks related to central government and correctly identified and managed but the government oversight and monitoring is much weaker on liabilities related to public sector entities (i.e. state-owned enterprises, PPPs, and possibly local government). The September FAD 2018 mission on fiscal risks recommended these liabilities be taken stock of and consolidated in the government debt strategy. The mission also recommended the government annex a fiscal risk statement to the budget that will, inter alia, assess the impact of such liabilities and highlight related mitigation measures.

12. ***Staff's comments on the public electricity company's (EDM) financial position and financial risks stemming from EDM in 2019 are welcome.***

- The 2019 draft budget provides for a subsidy equivalent to 0. 3 percent of GDP so far. The World Bank fielded a TA mission to assess the financial needs of EDM and the options for restructuring its debt. Discussions with the authorities on the possible options are ongoing and may include a limited additional government support to settle debts arising from unpaid consumption of various government institutions.

13. ***The analysis reveals that governance reforms, a sustainable subsidy policy, and efficiency improvements will be necessary. Is there an opportunity for the private sector to contribute to the modernization of this sector?***

- Currently, the private sector is involved in electricity generation in rural areas, but the distribution is organized by EDM. The government does not envisage a privatization of EDM and prefers to improve its management and financial situation, including by linking government support to performance.

Financial Sector

14. ***We emphasize the importance of all banks compliance with the capital requirements and call on the authorities to implement the structural benchmark on developing a strategy to reduce non-collateralized NPLs in the banking system, including reducing the non-operating fixed assets obtained through the realization of guarantees, and to promptly implement the recently provided IMF technical assistance on NPLs. Could staff provide some insight regarding the implementation status of these recommendations?***

- On the NPL side, MCM fielded a TA mission on reducing NPLs which highlighted the need for strengthening the credit bureau. The Council of Ministers recently approved an amendment to waive the need for credit consumers' consent, which should improve the quality and quantity of information available in the credit bureau, which in turn should help reduce the NPL ratio. On the non-operating fixed asset (NOFA) side, the authorities hired a consultant to audit the NOFAs and propose options to reduce the existing stock. Based on the consultant's report and the IMF TA report, a strategy and a timeline have been proposed to banks.

15. ***We kindly ask staff for updates concerning the strategy to reduce non-collateralized NPLs and NOAs in the banking sector (expected implementation December 2018).***

- see above

16. ***We would appreciate an update from staff on the progress in the transition to Basel II/III as well as the extent to which this is expected to reduce the ratio of NPLs. We would also appreciate staff's comments on whether other strategies are being developed to deal with the NPLs.***

- No major issue has been reported by the BCEAO-Mali on the transition to Basel II/III. The 2017 IMF TA report on reducing the NPLs estimated that this ratio would improve by about four percentage points from the current level (about 16.5 percent). In addition, this report recommends (i) the elimination of tax constraints, (ii) the elaboration of a code of conduct to reduce destabilizing competition practices among commercial banks, and (iii) increasing the efficiency and enforcement of the judiciary system.

Structural Reforms

17. ***Which structural reforms among those suggested by staff have the greatest potential to accelerate employment growth in Mali?***

- Structural reforms that aim at improving the business environment would help accelerate private sector growth, and in turn generate opportunities for employment growth. For these opportunities to materialize, there is a need for enhancing education and training to provide the needed skills.

18. ***Does staff envisage specific sectors that have greater potential for the development of domestic enterprises? How do security and electricity problems fare as hurdles to this process?***

- The manufacturing sector (in particular textile and agrobusiness) and the tertiary sectors are deemed to have a great potential for the development of domestic enterprises. However, the volatile security situation is not conducive to their development. It increases uncertainty which undermines long-term private investment, access to financing, and FDI. Costly and weather-dependent energy mix (hydroelectric power) coupled with poor electricity coverage in some areas also complicate the development of SMEs.

19. ***As the recent achievements were largely driven by expansion in the agricultural and mining sectors, can staff comment on the authorities' efforts to promote diversification of economic activities and exports, with specific focus on the sectors that are being promoted to help broaden the sources of growth?***

- Public sector investment in high-priority infrastructure, such as roads, and improved electricity coverage have helped foster economic diversification and export. In addition, various government agencies help promote some key manufacturing sectors, such as the agrobusiness industry and the textile industry.

20. ***Could staff comment on the capacity of the authorities to mobilize the judiciary for the better enforcement of the laws against corruption and illicit enrichment?***

- The Prime minister is taking the lead on improving governance and is playing an encouraging role in stepping up coordination with the judiciary. The recently created Ministry of Public Administration Reform and Transparency in Public Affairs will also aim for a greater mobilization of the judiciary.

21. ***Could staff provide information on any recent steps taken by authorities on strengthening anti-corruption framework?***

- The Law against illicit enrichment is being reviewed to expand the base of individuals that must declare their assets. Steps are also being taken to address shortcomings in fiscal governance including with respect to transparency, internal and external controls, revenue administration and procurement.

22. ***We note however the slow progress of structural reforms, as only four out of ten Structural Benchmarks (SBs) were met at end-October 2018. This illustrates the challenge of delivering substantive structural reforms through Fund-supported programs in fragile contexts. We would welcome staff reflections on this point. Do staff consider that better results could have been achieved with a higher level of Technical Assistance?***

- While technical assistance plays a key role in building capacity, thus contributing to SBs implementation, TA provision needs to match absorption capacity or risk becoming ineffective.

23. ***The benchmarks that have been missed for this review include measures -- such as the strategy on NPLs, the threshold for tax exemptions on investment, and the transfer of EPA deposits to the single treasury account – that the Board established as benchmarks already in the seventh, and the eighth and ninth review, respectively. Was consideration given to include these measures as prior actions for the final review? Staff's comments would be appreciated.***

- Staff will respond to this question orally during the Board meeting.

Program Related Issues

24. ***Considering the authorities need for continuous support from the Fund, we would be interested to hear from staff if these missed structural benchmarks are realistic and we urge staff to assist the authorities to implement the missed benchmarks.***

- Staff will respond to this question orally during the Board meeting.

25. ***Staff suggest that a new ECF could align with Mali's pending medium-term development strategy. Could staff discuss the planned areas of focus for that strategy?***

- The planned areas of focus for the strategy will be consistent with those indicated in the letter of intent and focus on strengthening macroeconomic resilience and generating higher and more inclusive growth. Key elements include: (i) bolstering domestic revenue mobilization; (ii) improving the efficiency and quality of public spending to create a much-needed fiscal space to finance investment in infrastructure, social, and human capital; (iii) improving governance and addressing financial sector weaknesses to improve asset quality and financial inclusion; and (iv) diversifying the economy.

26. ***We would appreciate staff's views on how a successor program will address the issues of "weak institutional capacity, vested interests, and political economy challenges" to facilitate more robust action on the structural reform agenda.***

- Staff will respond to this question orally during the Board meeting.