International Monetary Fund

Mali and the IMF

Press Release:
IMF Executive Board Completes First and Second Reviews Under the Extended Credit Facility Arrangement for Mali, Approves US$11.7 Million Disbursement
December 1, 2014

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Mali: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

November 14, 2014

Letter of Intent

Bamako, November 14, 2014

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Madame Managing Director:

1. On December 18, 2013, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for Mali in an amount equivalent to SDR 30 million with a view to supporting the government's policies to maintain macroeconomic stability and revive growth in 2014–16. This falls within the context of broad-based support from technical and financial partners for the country's renewal following the 2012 security and political crisis.

2. The attached Memorandum of Economic and Financial Policies (MEFP) discusses recent developments in Mali's economy and the progress made in implementing our policies in 2013 and 2014. As explained in the MEFP, all performance criteria (PC) and indicators at end-2013 and end-June 2014 were met, except the floor on gross tax revenue, and the ceiling on non-concessional borrowing. Four out of five of the measures subject to structural benchmarks were fully implemented. Therefore, the government is requesting the completion of the first and second reviews of the ECF-supported program and the second and third disbursements totaling the equivalent of SDR 8 million.

3. Gross tax revenue in 2013 was lower than the programmed amount due to the shortfall in direct taxes paid by mining companies. This decline reflected a more negative than anticipated impact of the drop in gold prices on the profits of mining companies. The labor conflict within the Directorate General of Taxation (DGI) throughout 2013 also appears to have had an impact on the amount of tax adjustments made in the last quarter. In response to the difficulties encountered, the government established a new management team within the DGI mandated to implement the reforms specified in the MEFP. In light of the measures already taken and others programmed in order to achieve the tax revenue target in 2014, the government is seeking a waiver for non-observance of the performance criterion on gross tax revenue in December 2013 and June 2014. The government is also requesting a modification of the PCs on bank and market financing of the government and gross tax revenue for end-December 2014.

4. In August 2014, after consultation of the IMF staff, the government contracted a loan of RMB 619 million ($99 million, CFAF 49 billion, or 0.8 percent of GDP) from the Export-Import Bank of

China with a grant element of 29.7 percent to finance the Taoussa hydroelectric plant. Given the strategic nature of this project and the small difference relative to the required grant element (35 percent), the government requests a waiver of the continuous PC on new external loans contracted or guaranteed by the government under non-concessional terms.

5. This memorandum also outlines the economic and financial policies that the Malian government undertakes to implement by the end of this year, as well as those it will implement by the end of 2015, in order to maintain macroeconomic stability, support the nascent economic recovery, step up the implementation of reforms with a view to improving public financial management, and facilitate private-sector development.

6. The government believes that the measures and policies set out in the attached MEFP are appropriate for attaining the objectives of this program and will take any further steps that might be necessary to that end. It will consult with the IMF on the adoption of such measures prior to any revision of the policies described in the attached MEFP.

7. The government will continue to provide Fund staff with any relevant information referred to in the Technical Memorandum of Understanding (TMU) concerning progress made under the program.

8. The government intends to make public the content of the IMF staff report, including this letter, the attached MEFP, the TMU, the informational annex, and the debt sustainability analysis. It therefore authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the first and second reviews of the three-year arrangement under the ECF.

Very truly yours,

/s/

Bouaré Fily Sissoko
Minister of Economy and Finance

Attachments:
1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I—Memorandum of Economic and Financial Policies

1. This memorandum of economic and financial policies (MEFP) presents recent developments and performance in regard to Mali's program of economic and financial policies implemented in connection with the three-year arrangement under the Extended Credit Facility (ECF).[1]

Economic developments in 2013–14 and performance with respect to ECF-supported policies

A. Economic developments in 2013–14 and economic outlook in 2014

2. In 2013, real GDP growth was a modest 1.7 percent, compared to the 5.1 percent expected under the program. This underperformance is due to the contraction of nearly 26 percent in food crop production (excluding rice) relative to the exceptional results of the previous harvest, due to less favorable rainfall than in the preceding year. In 2014, real GDP growth is expected to accelerate to 5.8 percent, supported by sustained growth anticipated for the agriculture sector in light of the preliminary results of producer surveys. Only manufacturing sector production is expected to contract (-2.9 percent) due to the sluggish business environment. Average inflation was negative (-0.6 percent) in 2013, reflecting the previous year's good harvest, and is expected to remain low (1 percent) in 2014 in light of food imports.

3. The current account deficit in 2013 (including grants) in the balance of payments widened to 4 percent of GDP due to the decline in gold prices and rise in imports accompanying the economic recovery. This current account deficit was financed almost entirely by net inflows of capital, primarily in the form of external assistance and foreign direct investment (FDI). As a result, the overall balance of payments posted a deficit of CFAF 86 billion ($174 million), financed through the use of the Central Bank of West African States (BCEAO) international reserves. In 2014, the current account deficit (including grants) is expected to widen to 7.0 percent of GDP for the same reasons as in 2013. Foreign aid and FDI are expected to exceed the current account deficit (including grants) in the balance of payments. Accordingly, the overall balance of payments should post a modest surplus.

4. In 2013, the money supply expanded by 7.4 percent, driven by credit to the economy, which expanded by 11.7 percent. In 2014, the money supply is expected to increase by 13 percent, driven by credit to the economy and commercial banks' acquisition of foreign assets. The commercial banks benefit from the BCEAO's accommodative monetary policy stance by using central bank advances to finance the Malian economy and to purchase securities issued by the West African Economic and Monetary Union (WAEMU).

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[1] IMF Country Report No. 13/380. Mali: Request for a Three-Year Arrangement under The Extended Credit Facility—Staff Report.

5. The damage to banks in the north and the 2012 economic stagnation undermined the stability of the banking sector. The stock of past due receivables rose from 18.0 percent (6.5 percent after deducting provisions) of total credits in December 2011 to 19.3 percent (8.3 percent after deducting provisions) in December 2013. The risk-weighted capital ratio has stayed at about 11.7 percent since December 2011 and increased slightly to 12.9 towards the end of 2013. The financial stability of the microfinance sector also deteriorated; the share of nonperforming loans nearly doubled since 2011, increasing from 7.7 percent in 2011 to 13.2 percent in [2013].

6. Fiscal policy in 2013 and the first half of 2014 were prudent. In 2013, revenue and grants totaled CFAF 1151 billion (21.0 percent of GDP), below the programmed amount, for reasons including a decline in mining sector receipts reflecting the drop in the price of gold. Expenditure represented CFAF 1307 billion (23.8 percent of GDP), resulting in an overall fiscal deficit (payment order basis, including grants) of CFAF 158 billion (2.8 percent of GDP) and a basic fiscal deficit of CFAF 43.8 billion (0.8 percent of GDP), close to the program level. In June 2014, revenue and grants totaled CFAF 628 billion and expenditure totaled CFAF 594 billion, for an overall fiscal deficit (payment order basis, including grants and arrears repayment) of CFAF 29 billion and a basic fiscal balance surplus of CFAF 60 billion, above the program target.

7. The National Assembly approved a supplementary budget law (LFR) at its August 25, 2014 session. The LFR aims to achieve net tax revenue of at least 15.4 percent of GDP. It also aims to contain the basic deficit and overall deficit to 0.7 percent and 4.4 percent of GDP, respectively, while aligning expenditure execution with the priorities of the 2012-17 Growth and Poverty Reduction Strategy Paper (G-PRSP), the 2013-14 Plan for Sustainable Recovery (PRED), and the 2014-18 Government Action Program (PAG) (¶16). To help revive the economy, the LFR gives priority to repayment of up to CFAF 56 billion in validated arrears remaining to be paid to government suppliers (¶51). The September 2014 audit of budget execution identified the need to increase the subsidy to Énergie du Mali (EDM) from CFAF 50 billion to CFAF 61 billion, which the government will provide for in a new LFR (¶8).

8. The government will introduce a new LFR to adjust the extra budgetary expenditures in 2014 that were identified in the September 2014 audit of expenditures (¶15).

B. Performance with respect to ECF-supported policies

9. All performance criteria and indicators at end-December 2013 and end-June 2014 were met, except the floor on gross tax revenue and the ceiling on non-concessional borrowing (Table 1).

- In 2013, the adjustment of public spending to the shortfall in revenue maintained the government's use of net domestic financing from banks and financial markets below the programmed ceiling, adjusted for, among other things, the shortfall in budgetary assistance in accordance with the provisions of the Technical Memorandum of Understanding (TMU) for the program. The same was true for the basic fiscal balance, which exceeded the programmed, adjusted ceiling. Priority expenditure was generally above the programmed floor, but health spending was under executed by CFAF 15.5 billion (18 percent of the amount used to calculate the floor) owing to a delay in acquiring medical equipment and certain supplies from current expenditure for which contracts had been awarded. The under-execution of current expenditure and investment expenditure is due to the imperatives of acquiring medical supplies and equipment by means of contracts in due and proper form. No non-concessional foreign-currency loans were signed. The government did not accumulate any arrears on its external debt, with the exception of CFAF 11.9 billion in arrears ($24 million) on bilateral debt to Libya, with which the government had had difficulties finding an interlocutor but which was paid on May 15, 2014. In 2013, the government paid off all the other arrears, totaling CFAF 20 billion ($40 million), accumulated on its external debt following the events of March 2012.

- In 2013, gross tax revenue was CFAF 46 billion below the programmed amount due to the shortfall in direct taxes paid by mining companies (¶6). This decline reflects a worse than anticipated impact of the drop in gold prices since 2012 (16 percent) on mining company profits. The labor conflict that marked the Directorate General of Taxes (DGI) throughout 2013 also appears to have weighed on the amount of tax adjustments made in the last quarter, which were far smaller than in previous years. In response to the difficulties encountered within the DGI in the last quarter, a new director general was appointed in October and mandated to accelerate implementation of the reforms specified in the ECF arrangement. All directors of the Large Business Directorate (DGE) and Medium-Sized Business Directorate (DME) were replaced in March 2014. In light of the measures already taken and others programmed in order to enhance tax collection (¶¶23-30), the government is seeking a waiver for nonobservance of the performance criterion on gross tax revenue in December 2013 and June 2014.

- On May 5, 2014, the government paid all its remaining arrears amounting to CFAF 11.6 billion ($23 million) to Libya.

- As at June 30, 2014, all the performance criteria and indicators were met except the performance criterion relating to gross tax revenue. This performance criterion was not met because the objectives for 2014 could not be adjusted downward in light of the underperformance observed in 2013 given the IMF staff decision to suspend the conclusion of the first ECF program review until financial governance problems were resolved (¶11).

- In August 2014, after consultation of the IMF staff, the government contracted a loan of RMB 619 million (CFAF 49 billion, $99 million, or 0.8 percent of GDP) from the Export-Import Bank of China with a grant element of 29.7 percent to finance the Taoussa hydroelectric plant. Given the strategic nature of this project and the small difference relative to the required grant element (35 percent), the government requests a waiver of the continuous performance criterion on new external loans contracted or guaranteed by the government under non-concessional terms (Table 1).

10. Four measures representing structural benchmarks were implemented completely, and one partially (Table 2):

- The government shared a report on the results of an audit of the expenditure chain, conducted with IMF technical assistance[2] to the TFPs. The audit identified a number of weaknesses and proposed specific recommendations to correct them.

- The government published on the website of the Ministry of Economy and Finance (MEF) a report by the National Directorate of the Treasury and Public Accounting (DNTCP), prepared in collaboration with the BCEAO, analyzing movements of items in the net government position (NGP) vis-à-vis the banking system, and highlighting movements of the most significant items in the net Treasury position (NTP) and those in the net position of other public accounts [in French, *Position nette des autres comptes publics* or PNACP] in 2012 and 2013. This report[3] presents the stocks at the beginning and close of the fiscal year and identifies all owners of the accounts included in the PNACP.

- The Council of Ministers reviewed the joint proposals of the MEF, the Ministry of Energy and Water Resources (MEH), the Water and Electricity Regulatory Commission (CREE), and EDM to restore a positive margin between the selling price and the average cost of electricity (¶57).[4]

- The National Directorate of the Treasury and Public Accounting produced the fiscal reporting tables (TOFE) for end-December 2013 and end-March 2014 according to the most recent applicable 2009 WAEMU directive (¶42).

- Partial implementation was achieved with regard to the benchmark relating to the DGI report to the Council of Ministers on the interim results of its program to audit importers and recipients of public contracts for which the Joint Economic and Financial Intelligence and Investigation Committee (CMRIEF) had found the reported turnover to be abnormally low (¶30). The DGI report was limited to the tax adjustments of the importer firms.

Strengthening the implementation of fiscal and procurement rules

11. During the second quarter, following the March 2014 IMF staff mission to Bamako to hold discussions on the first review under the ECF arrangement, the IMF staff and staff of the Ministry of Economy and Finance (MEF) exchanged information on operations carried out in first quarter 2014 that were not included in the 2014 budget law. The operations consisted of the purchase of an airplane for CFAF 19 billion ($40 million), a contract for equipment and supplies awarded by the Ministry of Defense and Former Combatants (MDAC) for CFAF 69 billion ($138 million), and the

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[2] IMF Country Record No. 14/122. Mali – Technical Assistance Report – Audit of the Expenditure Chain.

[3] Available at the following addresses:
http://finances.gouv.ml/documentation/Rapport%20conjoint_BCEAO_DNTCP_prov.pdf,
http://finances.gouv.ml/documentation/ETAT%20DE%20PRESENT%20PNG_RQ%20FMI_11_12.pdf, et
http://finances.gouv.ml/documentation/ETAT%20DE%20PRESENT%20PNG_RQ%20FMI_12_13.pdf.

[4] Available at the following address: http://www.maliapd.org/spip.php?article365.

provision of a government guarantee in the amount of CFAF 100 billion ($200 million) associated with that and other contracts.

12. The IMF and MEF staff detected weaknesses in public financial management that came to light in those operations, and identified the following measures to remedy them:

- Regularizing the airplane purchase in the LFR without worsening the fiscal balances relative to the framework decided on during the March 2014 review mission or altering the floors for priority expenditure decided on at the same time; the National Assembly approved an LFR meeting those conditions (¶7).

- Audit of the above transactions by the Auditor General's Office (BVG), as requested by the Prime Minister's office, covering the compliance of the budget procedures and the contract award procedures utilized; the audit revealed a discrepancy of CFAF 29 billion ($58 million) between the price invoiced by the contractor and the price indicated on the pro forma invoices covering the transport costs to the MDAC storage facilities, of which 5 billion ($10 million can be explained by financial costs; the BVG submitted its audit on October 27, 2014; it was published on the Prime Minister's and BVG website on October 29, 2014, a prior action to conclude the first and second reviews under the ECF arrangement (Table 2).

- Audit of the compliance (*conformité*) and propriety (*régularité*) of the above-referenced committed expenditures in regard to the budget procedures established in this area, conducted by the Audit Chamber of the Supreme Court at the request of the Prime Minister; the Audit Chamber of the Supreme Court submitted its audit on September 15, 2014; it was published on the Prime Minister and Supreme Court websites on October 10, 2014, a prior action required to conclude the first and second reviews under the ECF arrangement (Table 2).

- Audit by the BVG of all MDAC expenditure from 2010 to mid-2014 based on the program the BVG established for itself.

- In consultation with World Bank staff, preparation of an order setting out the terms of implementation of article 8 of Order 08-485/P-RM of August 11, 2008 concerning the exemption of purchases of goods and services marked "*secret en matière de défense*" (defense secret) or "*des intérêts essentiels de l'Etat*" (essential government interests) from the scope of application of procedures applicable to the award, performance, and payment of public contracts and delegations of public services; the adoption of such decree is a prior action to conclude the first and second reviews under the ECF arrangement (Table 2); the government implemented it on September 19, 2014.

- Audit by the Public Service Audit Office (Contrôle Général des Services Publics, CGSP) of exempted contracts marked "*secret en matière de défense*" (defense secret) or "*des intérêts* *essentiels de l'Etat*" (essential government interests) signed after the adoption of the above order (proposed structural benchmark, Table 4).

- In consultation with IMF staff and in regard to WAEMU practices, preparation of a decision establishing the list of expenditures paid under exceptional procedures (DAO) and the modalities of rectifying them; the decision was adopted July 3,1 2014.

- Treatment of guarantees:

  - Identification and valuation of guarantees and comfort letters (if they involve financial commitments for the government); the Directorate General of Public Debt identified two guarantees issued by the government for a total of CFAF 200 billion ($400 million, or 3.3 percent of GDP): a CFAF 100 billion guarantee issued in connection with the above-referenced contract for supplies other than arms and munitions awarded by the MDAC (¶11) and a second CFAF 100 billion guarantee issued to secure the crop loan provided by commercial banks to the public enterprise Compagnie Malienne des Textiles (CMDT).

  - Pursuant to the provisions of applicable budget laws and procedures, the proposed budget law (PLF) for 2016 will include a provision corresponding to 10 percent of the risk past due, i.e., the amount of guaranteed debt falling due in 2016.

  - The government undertakes to submit all guarantees for approval by the National Assembly in future budgets, beginning with the 2014 LFR, in the form of an annex addressing the guarantees. This was the procedure used to include the two CFAF 100 billion guarantees mentioned above in the LFR approved by the National Assembly (¶7).

- The submission of all agreements concerning loans, comfort letters, or government guarantees to the National Public Debt Committee (CNDP) for opinion prior to signature, in accordance with applicable WAEMU directives; the CNDP was created and has held regular meetings for this purpose since May 16, 2014 (¶50).

13. As recommended by the BVG and CS audit reports, the government undertakes to:

- Immediately apply the provisions of article 18 of Law 96-060 on budget laws, providing sanctions in connection with the improper commitment of public finances and any other procedure to sanction other established violations. The publication of a report on the Prime Minister's website describing progress in implementing this process is a prior action to conclude the first and second reviews under the ECF arrangement (Table 2). The government undertakes to clearly and specifically identify responsibilities and apply the law.

- Record the purchase of the airplane (¶11) in the government's material accounting system; reconsider the advantages for Mali of the legal mechanism put in place by the MDAC to 1) register the airplane under the name of the company in the Aruba civil aviation register, and

2) draw up a lease contract under which to operate the airplane; if appropriate, dismantle the mechanism.

- Cancel the CFAF 100 billion guarantee by the Minister of economy and finance relating to MDAC contracts and other contracts (¶11).
- Limit payments under the CFAF 69 billion military supply contract to the amounts indicated on the pro forma invoices from suppliers plus bank fees, which should reduce the cost of that purchase by an amount close to CFAF 29 billion (¶¶11-12); and reconsider the utility of goods not yet accepted under the contract and, if appropriate, cancel the corresponding orders.
- No further domestically funded expenditures are to be executed by divisional units of the central government unless they have first been included in the budget law and executed in accordance with applicable budget rules and procedures. The minister of economy and finance will produce a report on extra budgetary expenditures since September 25, 2014 by no later than February 28, 2015 (proposed benchmark, Table 4).
- Implement all of the recommendations of the BVG and Supreme Court audits and publish an initial report on the implementation of the recommendations on the Prime Minister's website by December 31, 2014.

14. During a review in September of extra budgetary expenditures not included in the LFR, the government identified the following:

- Supply contracts signed by the MDAC for which potential deliveries in 2014 could total CFAF 133 billion yet the LFR provides budget appropriations of only CFAF 35 billion for those expenditures. The government undertakes to reduce the amount of those expenditures to CFAF 57 billion by contacting the suppliers to cancel all orders not yet delivered, by reducing prices if they appear excessive, or by rescheduling deliveries for future years, in order to limit these expenditures to the amount provided in the LFR.
- Sports equipment in the amount of CFAF 6.1 billion, and the Afrobasket Stadium in the amount of CFAF 1.3 billion, both accepted in 2014 with no budget appropriation in the LFR.

15. The government made appropriate provisions for these expenditures in a new LFR which was introduced in the National Assembly on-October 23. The expenditures will be financed through increased use of bank financing and the financial markets. The new LFR aimed to limit the basic deficit to CFAF 53 billion (0.9 percent of GDP) and the overall fiscal deficit (including grants) to CFAF 323 billion (5.5 percent of GDP). The government requests that the criteria and indicators under the ECF arrangement at end-December 2014 be revised accordingly.

Economic and financial policies for 2015

16. The 2012-17 Growth and Poverty Reduction Strategy Paper (G-PRSP), adopted in December 2011, and the 2014-18 Government Action Program (PAG) will serve as reference for the 2014-16 economic and financial policies:

- The objective of the G-PRSP is to turn Mali into an emerging country and an agro pastoral powerhouse able to provide Malian men and women with a good standard of living.[5] The G-PRSP is based on five pillars: (i) strengthening peace and security; (ii) increasing macroeconomic stability; (iii) promoting stronger, sustainable, pro-poor growth aimed at creating jobs and increasing incomes; (iv) consolidating the long-term bases for development and facilitating equitable access to quality social services; and (v) strengthening institutions and governance.

- The PAG, prepared through a process involving all the ministries, focuses on six areas: establishing strong, credible institutions; restoring the security of persons and property over the entire national territory; implementing a proactive national reconciliation policy; rebuilding Malian schools; developing an emerging economy; and implementing a proactive social development policy.

17. Despite an uncertain international environment, Mali's economic outlook appears favorable with the gradual restoration of security, the successful presidential and legislative elections, and the return en masse of Mali's TFPs. The conference to support the development of Mali held in Brussels on May 15, 2013, and the four follow-up meetings were a great success. They brought together 80 countries and 28 international organizations that committed to contributing €3285 billion ($4.4 billion, CFAF 2,200 billion, or 39 percent of GDP) to implement the PRED. The return of TFPs should maintain GDP growth in real terms at 5.5 percent in 2015 and above 5in 2016 and 2017 through its effects on the construction and services sectors. The current operations deficit (including grants) is expected to reach 6.2 percent of GDP in 2015 and be financed entirely by foreign direct investment in the gold and telecommunications sectors and by external assistance in the form of loans. The overall balance of payments is expected to be close to equilibrium during 2015–17. The implementation of prudent monetary and fiscal policies is expected to maintain inflation in line with the community convergence criterion of 3 percent per year, as long as rainfall is favorable.

18. The government intends to implement a program that: (i) supports growth through prudent fiscal policy while favoring priority expenditures to reduce poverty; (ii) improves public financial management on the revenue as well as expenditure side; and (iii) modernizes the business environment to encourage private sector development and improve competitiveness.

[5] IMF Country Report No. 13/111. Mali: Poverty Reduction Strategy Paper.

A. Foster growth through prudent fiscal policy aligned with priorities for the growth and poverty reduction strategy

19. The government intends to continue implementing sustainable fiscal policies pursuant to its commitments in connection with its membership in the WAEMU. In particular, the government will adopt and implement a fiscal policy aimed at maintaining the basic fiscal balance [6] close to equilibrium. Moreover, the government will maintain the overall fiscal balance (including project grants, sector budget support, and capital expenditure financed from external resources) at a level compatible with public debt sustainability, as indicated by the Debt Sustainability Analysis (DSA) conducted annually in cooperation with International Monetary Fund (IMF) and World Bank staff (¶50).

20. Expenditures executed in connection with the budgets will reflect the priorities of the G-PRSP and the PAG (¶16). As proof of its determination to implement those priorities, the government undertakes to maintain spending in social sectors above a floor (proposed indicator, Tables 1 and 3).

21. In the context of those commitments, the government introduced a proposed budget law (PLF) for 2015 in the National Assembly. The key elements of this draft supplementary budget are as follows:

- The targeted amount of revenue and grants is CFAF 1395 billion, or 22.3 percent of GDP, including CFAF 1015 billion in tax revenue, or 16.2 percent of GDP. This framing also provides for sufficient resources for repayment of VAT credits (¶29).

- Proposed total expenditure and net lending is CFAF 1653 billion, or 26.4 percent of GDP, including CFAF 1264 billion, or 20.1 percent of GDP, from domestic resources. The expenditure mix is in line with the objectives set forth in the G-PRSP, with 26 percent devoted to strengthening the education, health and social spending, 29 percent to developing agriculture, water, public works and urban development, 21 percent to defense and public administration, and 8 percent to developing Northern Mali. A provision of CFAF 15 billion is provided to pay domestic arrears (currently being audited) accumulated by the government vis-à-vis its suppliers following the freeze on expenditure in the wake of March 2012 events (¶51).

- Accordingly, the target is for a basic fiscal balance is in equilibrium and an overall deficit, including grants (cash basis), of CFAF 275 billion (or 4.4 percent of GDP).

[6] The basic fiscal balance is equal to the sum of revenue and expenditure under the direct control of the government, i.e. revenue (including resources from the Heavily Indebted Poor Countries Initiative) plus grants for general budgetary support, less current expenditure, domestically-financed capital expenditure, and net lending.

22. The government is preparing a military programming law with support from the European Union Training Mission in Mali (EUTM). The implications of the law for public finances will be analyzed in the coming months and addressed, if need be, in an LFR during the first half of 2015. The same approach will be used to implement investment projects for which memoranda of understanding were signed with the Chinese firms in September 2014 for a total of CFAF 5500 billion ($11 billion, or 93 percent of GDP). The same will apply for regional integration projects in Mali in the amount of CFAF 1750 billion ($3.5 billion, or 30 percent of GDP) presented by the WAEMU Commission, the impacts of which on public finances will be analyzed during the preparation of future budget laws. All of these projects will be implemented in keeping with the government's undertakings of fiscal and debt sustainability and good PFM practices in the context of its ECF arrangement.

B. Improve public financial management

23. *The government will continue to improve public financial management, in particular by remedying the weaknesses revealed by the public expenditure and financial accountability assessment (PEFA) conducted in 2011*. The assessment found progress in Mali's public financial management system in the areas of budget credibility, comprehensiveness, and transparency, as well as budget preparation and execution. However, it notes the room for improvement in tax collection, domestic debt service, cash management, accounting, reporting, and external control. The government is continuing implementation of the Government Action Plan to Improve and Modernize Public Financial Management in Mali (PAGAM/GFP II) covering the period 2011-15.

Improve revenue management

24. The government undertakes to raise the tax pressure by an amount equivalent close to 0.5 percent of GDP through the implementation of tax reforms designed to broaden the tax base and through the intensification of reforms undertaken by the DGI, the DGD, and the National Directorate of Government Property and Land Registry (DNDC) in order to enhance revenue collection (performance criterion, Tables 1 and 3).

Reform tax policy

25. *The government intends to continue to gradually reduce exemptions by implementing the following measures:*

- as introduced in the 2013 budget, inclusion of an annex in draft budgets containing tables of all exemptions provided in the General Tax Code, the Customs Code, the Petroleum Code, the Investment Code, the Mining Code, the law governing property development, and all other laws or government decisions providing for tax benefits, the respective legal basis and implementation date during 2013 and 2014, and the estimated loss of revenue for the government;[7]

- creation of a central tax and customs exemption file to identify stocks of exemptions granted by tax type and by legal and regulatory source, their expiration date, the identity of the beneficiary entities, and any other relevant information by December 31, 2014; aside from improving the monitoring of exemptions, this file could be used to set quantitative targets, where applicable, for reduction of exemptions;

- continue efforts to control discretionary exemptions and gradually reduce, to the extent possible, the exemptions provided in the General Tax Code, the Customs Code, the Investment Code, the Mining Code, the Petroleum Code, the law governing property development, and all other laws or government decisions providing tax benefits beginning with the 2016 budget.

26. *To halt the erosion of tax revenue on petroleum products,*[8] *the government intends to implement the following measures*:

- calculation of the structure of retail petroleum product prices based on actual market values of imported products, as provided by Community legislation; determination of the consumption subsidy resulting from the setting of the retail price below the prices resulting from such a calculation; and publication of that presentation of the price structure;

- presentation in the budget laws, of petroleum product consumption subsidies during the preceding year based on the unit subsidies resulting from the price structures by highway, by product, and by liter;[9]

- continued implementation of a monthly petroleum product pricing mechanism that took effect in June 2014 and ensures that changes in the cost of imported petroleum products are fully reflected in pump prices within a margin of 3 percent[10]; implementation of this mechanism could be suspended in the event of successive, particularly steep increase in petroleum product costs;

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[7] In 2013, total tax expenditure resulting from exemptions totaled CFAF 233 billion ($466 million, or 4.2 percent of GDP), of which CFAF 162 billion (2.9 percent of GDP) in exemptions for taxes collected by the DGI and CFAF 71 billion (1.3 percent of GDP) for taxes collected by the DGD.

[8] Since 2005, tax revenue from petroleum products has dropped every year, except in 2009, from 3 percent of GDP in 2005 to less than 1 percent of GDP in 2012. See IMF Country Report No. 14/31. Mali – Automatic Fuel Pricing Mechanism; Technical Assistance Report; International Monetary Fund; Fiscal Affairs Department; Figure 6, p. 17.

[9] During the first seven months of 2014, petroleum product consumption subsidies are estimated at CFAF 22 billion ($44 million or 0.4 percent of GDP). For the 12 months of the year they are projected at CFAF 38 billion ($76 million or 0.6 percent of GDP).

[10] See IMF Country Report No. 14/31, p. 23, ¶22.

- a study in cooperation with the World Bank, by February 28, 2015, to identify the distribution of those consumption subsidies among the population by income bracket;

- preparation, by June 30, 2015, of a strategy to gradually eliminate consumption subsidies identified in the petroleum products structure, including a communication component (proposed benchmark, Table 4) in light of Annex II of the IMF staff report on the 2012 Article IV consultations with Mali[11] and IMF Country Report No. 14/31;

27. *The government undertakes to simplify tax laws to lighten, to the extent possible, the administrative burden of tax return preparation for operators and revenue collection for the DGI.* This simplification effort will cover the real system (normal system applicable to major taxpayers or simplified system applicable to medium-sized taxpayers), the global tax applied to small-sized taxpayers and the tax on wages and salaries. The government will conduct all preliminary studies and consultations in order to start implementing this simplification beginning with the 2015 budget, starting with the global tax and its schedule of rates, which will be replaced with a single rate proportional to the taxpayers' turnover.[12]

28. *With assistance from the IMF Topical Trust Fund on Managing Natural Resource Wealth, the government hopes to increase receipts from mining and petroleum resources while making the business environment more competitive for Malian mining industries*. The mining and petroleum codes will be modernized in light of current international standards. The government will submit a new Petroleum Code to the National Assembly by end-2014. It will introduce amendments to the Mining Code by end-2015. In addition, it will take the steps needed to reduce the tax stability period from 30 to 15 years, in line with the average duration of mining operations. To increase the government's share of income from mining operations, the government plans to enlist specialized firms to audit mining contracts to identify any cases of tax avoidance and tax optimization. It also plans to strengthen the capacities of DGI and DNDC staff in auditing the companies' tax returns and costs. Finally, to increase transparency in the mining sector, the government has published all mining and petroleum contracts and the feasibility studies of companies now in the production phase on the Ministry of Mines website.[13]

[11] IMF Country Report No. 13/44. Mali – 2012 Article IV Consultation – Staff Report.

[12] As an example of the complexity of the existing tax system, the schedule of rates used to calculate the global tax, which produced CFAF 2.4 billion in revenue, or 0.3 percent of total net tax revenue in 2013, lists 326 professional categories. Application of the schedule can only be negotiated with the office given the necessarily incomplete nature of the categories and the multiple activities of numerous operators. See tax annex in the budget (Statement O).

[13] See www.mines.gouv.ml.

Reform the tax, customs, and government property administrations

29. *Priority will be given to implementing the reforms begun in 2011 to sustainably improve the functioning and efficiency of the VAT*, which generates roughly 40 percent of tax revenue. The following measures have been implemented to that end:

- *To ensure that VAT credits are refunded within the established time frames*, the account opened by the Treasury at the BCEAO, the use of which is restricted to refunding VAT credits, will continue to be funded by all VAT receipts paid by mining companies on their imports, and 10 percent of domestic VAT receipts; the DNTCP will study the need to increase the percentage the percentage by February 28, 2015, if necessary;

- *To simplify budget treatment of VAT credit refunds*, the government converted the escrow account at the BCEAO described above to a "special Treasury appropriation account" in the 2014 budget, in accordance with the provisions of financial regulations. The mechanism ensures that VAT credits are properly and regularly refunded as required by Community legislation to exporting gold companies and to all other companies that generate VAT credits with the exception of traders, as it currently stands. VAT refunds payable to gold companies for 2013 amount to CFAF 94 billion (including arrears prior to 2013) – of which CFAF 58 billion was paid in 2013 and CFAF 36 billion will be paid in 2014. In 2014, VAT refunds are estimated to total CFAF 62 billion, of which CFAF 46 billion will be paid in 2014 and CFAF 16 billion in 2015. In 2015, they are estimated at CFAF 78 billion, of which CFAF 58 billion will be paid in 2015 and CFAF 20 billion in 2016;

- *To avoid the accumulation of VAT credits vis-à-vis domestic operators, the system of VAT withholding at source will be completely eliminated, if possible, on January 1, 2016, with technical assistance from the IMF Fiscal Affairs Department*. The system of VAT withholding at source was eliminated for large businesses on December 31, 2011. Beginning January 1, 2016, this system will also be eliminated for the Treasury. To ensure that the elimination of VAT withholding at source does not result in a loss of tax revenue, the DGI: (i) implemented a communication campaign regarding obligations to declare and pay the VAT, which will be directed particularly at suppliers to large businesses during the second quarter of 2014 and all government suppliers by end-October 2015; (ii) will intensify its close monitoring of effective VAT payment by suppliers to large businesses as of now and by government suppliers subsequent to the elimination of VAT withholding at source that government suppliers must pay; and (iii) will systemize the production and improve the operation of the annex on deductible VAT in the VAT returns of taxpayers managed by the DGE;

- *To increase the number of businesses that effectively pay VAT,*[14] the DGI will intensify the campaign to conduct spot audits of VAT credits, beginning with businesses whose activity should not systematically generate VAT credits (particularly commercial activities and service providers), and will produce a report on the interim results of the audits by February 28, 2015. To this end, the DGI will continue, with support from AFRITAC West, the training of staff assigned to VAT research, monitoring VAT targets and monitoring of VAT credits;

- *To simplify VAT collection*, the government introduced a provision in the tax annex to the 2014 budget setting the VAT turnover threshold at CFAF 50 million.

30. *The DGI, the DGD, the DNDC, and the Directorate General of Government Property Administration (DGABE)* will continue their efforts to improve tax, customs, and public property administration in order to expand the tax base and increase tax yields:

- *Implementation of multidisciplinary audits*

  - The CMRIEF was established on March 15, 2012, to strengthen the effectiveness of tax audits and identify new taxpayers using, notably, all the databases of taxpayers or economic operators available to the DGI, the DGD, the DNDC, the DGABE, and the Directorate General of Public Contracts and Delegation of Public Services (DGMP-DSP).

  - By comparing imports declared to the DGD and turnover reported to the DGI, the CMRIEF determined that over 80 percent of importers, or roughly 1000 businesses, appear to have understated their turnover reported to the DGI in 2009, 2010, and 2011 by an estimated total of CFAF 500 billion per year (¶10). On June 30, 2014, the DGI recovered CFAF 13 billion ($26 million) and taxes as a result of this verification program. The CMRIEF will update this analysis for 2012 by February 28, 2015.

  - By comparing the public contract amounts in the DGMP database with turnover reported to the DGI, the CMRIEF determined that over 90 percent of government contractors, or roughly 450 businesses, reported turnover that appears to be lower than the value of the contracts awarded to them in 2010 and 2011. The CMRIEF will update this analysis for 2012-13 by February 28, 2015.

  - The DGI has included these importers and will include these government contractors in its audit program, beginning with the businesses that appear to

[14] During the period from January 1, 2012, to May 31, 2013, only 27 percent of large businesses and 20 percent of medium-sized businesses effectively paid VAT, given the large number of VAT credits reported year after year. See IMF Country Report No. 13/355. Mali: Technical Assistance Report: Continued Modernization of the Malian Tax System and Administration, ¶49.

have underreported their turnover by the largest amounts in absolute terms. It already submitted to reports on the interim results of this audit program on importers to the Council of Ministers (¶10) on March 5 and September 10, 2014, and will submit a new report to the Council of Ministers covering both importers and recipients of government contracts by February 28, 2015.

- *Change in the DGE and DME turnover thresholds in order to streamline taxpayer administration.* To improve management of taxpayers and expand the number of taxpayers managed by the DGE and the DME, the Council of Ministers adopted an order raising the DGE turnover threshold from CFAF 500 million to CFAF 1 billion, and will adopt an order reducing the DME turnover threshold from CFAF 100 million to CFAF 50 million as of June 1, 2015. Taxpayers' files with a turnover ranging from CFAF 50 to 100 million will be transferred from the taxpayer offices (CDIs) to the DME no later than after submission of the 2014 income statements (the deadline for which is April 30, 2015), that is to say, June 1, 2015. This adjustment will improve the DGE's management and control of businesses, will quickly increase the number of taxpayers managed by the DME, and will improve management of the VAT by assigning all responsibility for this tax to the DGE and the DME effective June 1, 2015.

- *Promotion of tax compliance.* The DGI published lists of taxpayers managed by the DGE and the DME on the MEF website[15] in October 2011, and the updates in September 2014, so that the public could appreciate the results of efforts made to expand the tax base. As at March 16, 2014, the DGE handled 474 taxpayers, the DME handled 1,411 taxpayers, and the CDIs for the six communes of Bamako handled 49,665 taxpayers. As at September 22, 2014, the figures increased, respectively, to 480 for the DGE, 1,571 for the DME, and 54,528 for the Bamako CDI.

- *Increase in the number of taxpayers managed by the DME.* Using primarily the results of audits initiated following the CMRIEF reports, the DGI has undertaken to increase the cumulative number of taxpayers managed by the DME to 1750 by end-2014 and to 3000 by end-2015 with a view to increasing the share of revenue of the DME in that of the DGI from 5.4 percent in 2013 to 10 percent as soon as possible. To facilitate the achievement of this objective, the DGI plans to implement an institutional reform to convert the DME into one or more medium-size taxpayer centers (CME).

- *Payment of taxes to the DGE and the DME via bank transfer*. To simplify the payment of taxes, the DGI is working on the necessary measures to enable DGE and DME taxpayers to pay their taxes gradually by bank transfer as of March 1, 2014. As at September 22, 2014, 78 taxpayers were paying their taxes by bank transfer.

[15] http://www.dgi.gouv.ml/contenu_documentation.aspx?type=4.

- *Strengthen the responsibility of tax collectors*. The government undertakes to implement the necessary measures in order that tax collectors become public accounting officers as of right and not merely in fact, to fully assume their tax collection responsibilities.

- *Improved efficiency of tax audits*. The DGI undertakes to increase the proportion of large and medium-sized businesses audited annually from the current 10 percent to 25 percent for large businesses and to 20 percent for medium-sized businesses in 2015. The DME undertakes to reduce the no filer rate among medium-sized businesses from 26 percent between January 2012 and April 2013 to less than 15 percent in 2014 and less than 10 percent in 2015. The DGI undertakes to reduce the no filer rate for CDIs from more than 70 percent between January 2012 and April 2013 to less than 45 percent in 2014 and less than 15 percent in 2015.

- *Identification of all taxpayers, including businesses and individuals, by means of a national identification number (NINA)* to facilitate business creation and modernize tax administration. The government undertakes to conduct, prior to February 28, 2015, a feasibility study for the migration, taking account of the expertise acquired since the institution of the taxpayer identification number (NIF) in 1996.

- *Improved effectiveness of the DGD*. The DGD will carry out its action plan to implement the recommendations of the June 2013 IMF TA mission conducted by the Fiscal Affairs Department.[16] The action plan aims to: (i) optimize human resources management; (ii) improve management of material and financial resources; (iii) monitor commercial operations; (iv) intensify efforts to combat fraud and cross-border crime; (v) facilitate trade and partnership; and (vi) optimize information and communication technologies by implementing the migration to the ASYCUDA World system on January 31, 2015. The purpose of this migration is to allow all customs documents to be processed in paperless form and to institute a fully electronic customs declaration system. To contribute to maintaining the competitiveness of Malian businesses, the DGD will be more systematic in strengthening verification of certificates of WAEMU origin in cooperation with issuing authorities and will produce an interim report on the results of this verification before February 28, 2015. To increase the collection of customs duties, the DGD advised operators that it would impose a fine of 10 percent on imports that were not verified prior to import, in accordance with applicable legislation. The DGD will ask the inspection company to provide it with monthly reconciliation reports comparing duties received and receivable, by declaration, and will analyze them with a view to increasing the collection of customs duties.

- *Modernization of the DNDC*. The DNDC will continue to implement the recommendations of the organizational audit sponsored by the Institutional Development Commission (*Commissariat au development institutionnel*) concerning the modernization of its

[16] See IMF Country Report No. 13/355. Mali.

organization and automation of tasks. The DNDC will implement measures to increase the collection of capital gains tax on real property sales by individuals, the collection of which began on October 1, 2011. It will continue efforts to establish the land registry and will set up a secure archiving system. It undertakes to migrate 4,000 property titles already digitized in the cadastral information system database by December 31, 2015 in addition to the 1500 titles recorded in the database to date.

- *Modernization of the DGABE*. The Ministry of Government Property and Land Affairs (MDEAF) will modernize the DGABE through the introduction of modern management tools, such as results-based management (RBM), greater use of IT (use of stock accounting software in the accounting offices of ministries and public institutions), and implementation of reforms for better monitoring and appraisal of the government portfolio.

Improve expenditure management

31. The government will take measures to improve the regulatory framework for public financial management as well as for the preparation, execution, monitoring, and control of budget execution.

Transpose the harmonized legislative framework prescribed by WAEMU directives

32. The government transposed in national laws and regulations WAEMU directives No. 01 and No. 06 of 10/2009 concerning the transparency code, budgets, public accounting, budget nomenclature, the government chart of accounts, and the TOFE. The government also undertakes to transpose Directive 01/2011 concerning the financial regimes of local governments. The government will ensure that the regulatory texts are published in 2014. They will be accompanied by directives and guides to ensure they are quickly and uniformly understood to facilitate implementation.

Improve government budget preparation

33. To improve budget submission and facilitate assessment of the efficiency of public expenditure, the government will gradually implement program budgets and results-based management, in accordance with applicable WAEMU directives. A first step will be the 2015 vote on the 2016 budget law, which will take the form of program budgets as provided by the directive on budget laws. During a transitional period, the government will submit not only the annexes described in this directive but also, for information purposes, a breakdown of appropriations according to the current resource-based budget as well as a breakdown of appropriations by region.

34. In order to gain visibility as early as possible with respect to the budget support provided by the TFPs, the government will ask the TFPs to provide information in April on the budget support planned for the following year.

35. In order to involve the National Assembly as early as possible in the budget preparation process, the government will organize budget strategy discussions with the National Assembly during the first half of the year on the following year’s budget proposal. This exercise was organized

on September 5, 2014 for the 2015 budget law, and will continue each year. The information prepared for the discussions, and all other reports relating to budget preparation and execution, will be published on the MEF website in order to fully inform all stakeholders in Mali's development.

Improve government budget execution

36. *Pursuant to Community directives*, the following closing dates have been established for 2014 budget execution: commitments of ordinary operating expenditure and capital expenditure by November 30, 2014; commitments of other expenditures by December 20; payment orders by December 31, 2014; and payment order processing by accountants, payment authorization, and regularization of expenditures by January 31, 2015. In this way, the supplementary accounting period will be limited to accounting operations, and an end-of-year circular will be sent by end-September 2014 specifying the deadlines for expenditure commitment and validation with a view to ensuring that all commitments can be closed out on November 30, 2014.

37. *To improve transparency and expedite the process of awarding public contracts*, the DGMP-DSP will take steps to increase the amount of information on contract awards published on its website,[17] in line with the practices observed in neighboring countries. The DGMP-DSP will publish a list of government contract awards at regular intervals, specifying for each contract the contractor, the contract amount, the type of contracting procedure (e.g., open or restricted tendering, or direct negotiation), and a citation to the provision of the public procurement code providing for the contracting procedure selected.[18] In order to reduce the average time required to award contracts,[19] the government adopted the following measures in April:

- improve planning of requirements by forwarding procurement plans to the DGMP-DSP in September (instead of the current deadline of November 30), with the possibility of initiating competitive bidding procedures to the point of provisional award pending allocation of appropriations; this represents a gain of two months in planning and processing; in this context, the minister of economy and finance issued circular letter 002638/MEF-SG of August 19, 2014 asking all contracting authorities to prepare their 2015 procurement plans and forward them to the DGMP-DSP no later than September 30, 2014;

- increase the signature and approval thresholds to make contracting authorities more accountable;

[17] Voir www.dgmp.gov.ml

[18] In 2013, the government awarded 1028 public contracts for a total of CFAF 173 billion ($346 million, or 3.3 percent of GDP), 84 percent of which were awarded pursuant to competitive calls for tenders (75 percent in terms of value), 9 percent through limited competition (20 percent of value), and 7 percent through direct negotiation (24 percent of value).

[19] The average time required to award contracts was reduced from 121 days in 2010 to 94 days in 2013,

- reduce the regulatory time frames imposed on various public procurement stakeholders from 108 to 80 business days, a gain of 28 business days;
- reduce the number of contract signatories from seven to four;
- eliminate the dual review of files involving contracts financed using external resources;
- reduce the number of eliminatory administrative documents required from candidates and bidders for public contracts; and
- in accordance with the Accra Agenda and to improve the project implementation rate, the African Development Bank, following an evaluation of Malian national contracting procedures finding that those procedures incorporated principles of economy, efficiency, and transparency in procurement and applicable best practices, signed a letter agreement on July 17, 2014 with the Malian government authorizing the use of national procurement procedures in national calls for tenders.
- finally, to further improve the business environment, the Public Procurement Code is being revised to correct certain deficiencies identified by public procurement stakeholders.

38. *To maximize the profitability of public investments and minimize the associated cost*, the Directorate General of the Budget (DGB) and the National Directorate of Planning and Development (DNPD) are implementing the following measures:

- evaluate the cost of projects proposed by sector ministries using a market price list;
- refocusing appropriations to favor the completion of key projects;
- selecting investment projects to give preference to those with certain, programmed financing that can be started without delay; and
- strengthen the sector ministries' expertise and the DNPD's capacities for critical review in selecting investment projects.

39. *To gradually improve budgeting procedures and the monitoring and execution of investment appropriations*, the following measures will be adopted:

- The 2013 budget introduced the budgeting of commitment authorizations (AEs) and payment appropriations (CPs) relating to three-year public investment expenditures. On that basis, the Ministry of Economy, Finance, and Budget (MEFB) is arranging for the monitoring of AE and CP utilization through the PRED5 expenditure management application.
- Beginning with the implementation of the 2016 budget, the procedure for carrying over CPs will take effect under a mechanism providing for full application of the carryover provisions

established by WAEMU directives, which allow for only secured CPs included in the cash flow plan to be carried over.

40. *To improve the expenditure execution process, the government will implement the recommendations contained in the audit of the expenditure chain, conducted with IMF TA* (¶10). It undertakes to organize a seminar by December 31, 2014 to discuss the findings of the audit with the TFPs and present an action plan to implement the recommendations of that audit.

41. *Payment deadlines will be more strictly monitored to prevent the accumulation of arrears.* Public financial management applications (PRED5 and AICE) will be used to monitor execution times for payment orders and to ensure that payments are made within 90 days of expenditure validation, in accordance with applicable WAEMU directives. Monthly tables will be produced for that purpose.

Improve fiscal transparency

42. *To improve transparency in the government's fiscal, liquidity, and asset position, the DNTCP will gradually implement the new WAEMU directive on the TOFE and other financial statements*. To ensure an orderly transition to the new TOFE, the DNTCP will produce the TOFE during 2014 and 2014 using the 1998 and 2009 nomenclatures based on the TOFE as at December 31, 2013. In 2014 and 2015, program monitoring will be based on the 1998 TOFE. Beginning in 2016, the DNTCP will only produce the TOFE using the 2009 nomenclature to monitor budget execution, and the ECF program monitoring will be based on the 2009 TOFE. In 2014, the DNTCP will first focus its attention on producing three of the four financial statements provided for by the 2009 directive, namely: (i) the TOFE (benchmark, Table 2); (ii) the statement of public debt; and (iii) the report on cash flow operations. The fourth financial statement, i.e. the balance sheet of government assets and liabilities, will be produced for the first time in 2015 based on the position as at end-2014.

43. *Implementation of the Treasury's new integrated accounting application, AICE, will continue*. The application was rolled out in the Koulikoro regional treasury office in January 2013 and will be rolled out at the Treasury Central Accounting Agency (ACCT), as the designated accounting office (*poste comptable assignataire*), by June 30, 2015. Roll-out and testing of the various application features in the Kayes, Ségou, Sikasso, Mopti, Tombouctou, Gao, and Kidal regions, and at the ACCT for the component dealing with the national consolidation of budget execution and real-time accounting with accounting offices, will be completed by end-2015. Roll-out of the AICE at the ACCT will enable production of all the consolidated statistical accounting statements of government entities connected to the application, including the integrated Treasury accounts balance and the TOFE, by January 1, 2016.

Improve cash management

44. *The DNTCP will continue the efforts under way to improve its command of the line items comprising the net government position (NGP) vis-à-vis the banking system.*[20] It published a report in April analyzing the changes in the NGP components, distinguishing changes in the line items most important to the net Treasury position (NTP) and those to the net position of other government entities [in French, *Position nette des autres entités publiques* or PNACP] in 2012 and 2013. The report presents the stocks at the beginning and close of the fiscal year and identifies all owners of the accounts included in the PNACP (benchmark, Table 2). The DNTCP will update the tables every six months. The report for December 2014 will be available before February 28, 2015. The BCEAO will continue to provide the DNTCP with the NTP extracted from the monetary survey in order to compile the TOFE, in accordance with applicable WAEMU directives. The DNTCP will update this report for the first half of 2014 by August 31, 2014.

45. *The DNTCP will continue the implementation of the Treasury single account (TSA) at the BCEAO*. A first step, completed on June 30, 2014, was to transfer to the TSA the available balances in current accounts opened on behalf of government accounting officers within the scope of the NTP, with the exception of those in regions where the BCEAO has no presence (proposed benchmark, Table 2). All term accounts within the scope of the NTP were transferred to the TSA as they matured. Dn the second step, to be completed gradually in 2015, the funds of all institutions responsible for implementing government policies under the government's supervision (EPA) which receive the majority of their financing from the government, which was on the order of CFAF 110 billion as at June 30, 2014, will be integrated into the TSA. The obligation of EPAs to deposit funds with the Treasury will be clearly reestablished and upheld under the principle of a single Treasury and consolidation of funds referenced by the related 2009 WAEMU directive. The government will clarify existing texts relating to the deposit of EPA funds with the Treasury by June 30, 2014. In the interim, the government will combine Malian counterpart funds for new co-financed projects in an escrow sub-account open at the BCEAO for projects whose donors agree to the principle.

46. *The DNTCP will enhance its supervision of EPAs.*[21] The government made the accounting system prepared by the DNTCP mandatory for EPAs in December 2013. The DGB will ensure that the budget of each EPA is submitted to the Minister of Finance for approval at the start of the fiscal year. The DNTCP will ensure it regularly receives semi-annual reports on the execution of EPA budgets. The MEF will advise the EPAs that the minister of economy and finances will not approve their 2015 budgets until they have submitted their financial statements for the first half of 2014 to the DNTCP.

[20] As at June 30, 2014, the net government position (NGP) vis-à-vis the banks was a creditor position of CFAF 103 billion (1.7 percent of GDP) for the government in the broad sense used in the WAEMU directive on the TOFE. That figure includes a debtor net Treasury position (NTP) of CFAF 154 billion (2.6 percent of GDP) and a net creditor position for other government entities of CFAF 257 billion (4.3 percent of GDP).

[21] Of the 106 EPAs, only 36 regularly submit their accounts. See IMF Country Report No. 13/295. Mali – Resuming implementation of the WAEMU harmonized fiscal framework in a post-crisis context; Technical Assistance Report.

Strengthen internal and external controls

47. *Internal and external control structures will be strengthened*. The entities responsible for internal and external controls flagged numerous administrative weaknesses in public financial management in Mali. With respect to internal control, the Office of General Control of Public Services (*Contrôle Général des Services Publics, CGSP*) noted the shortage and inadequate use of procedures manuals within the government. To correct these weaknesses, the government adopted a 2012-15 national internal control strategy in August 2011, which it will implement with support from several of its TFPs. The National Financial Audit Directorate (DNCF) will carry out the new missions brought about by the implementation of the WAEMU directives (¶32), namely the selective prior control of expenditure, the ex-post assessment of program performance, and the continued deconcentration of its activities. The Office of the Auditor General (BVG) programmed 27 audits in 2014, compared to 20 in 2013. The number of staff in the Accounts Section of the Supreme Court will be increased. This section will be converted into an Audit Office as soon as possible, in accordance with the applicable WAEMU directive.

48. *The production and audit of the government's annual accounts will be expedited.* The Accounts Section of the Supreme Court is implementing a strategy for reconciling accounts based on the assessment of account positions produced by the DNTCP. For public accounts predating 1992, the government adopted a draft validation law on June 29, 2011, which the National Assembly passed on January 3, 2013. The Accounts Section reviewed the public accounts for fiscal years 1992 through 2008. The National Assembly passed the budget review laws for fiscal years 2008, 2009, and 2010. The government has submitted the draft budget review laws for 2011 and 2012 to the National Assembly. It will adopt the draft budget review law for fiscal year 2013 by end-2014, in accordance with Community directives.

Establish financial equilibrium for the Caisse Malienne de Sécurité Sociale and the Institut National de Prévoyance Sociale

49. *The government intends to take steps to ensure the financial equilibrium of the Malian Social Security Fund (*Caisse Malienne de Sécurité Sociale – *CMSS), which administers civil service pensions, and the National Social Insurance Institute (*Institut National de Prévoyance Sociale – *INPS), which administers the pension plan, occupational accident insurance, and family benefits for private-sector employees.* According to recent actuarial studies (2005 and 2010 for the CMSS, 2006 for the INPS), unless reforms are implemented, the deficits of these two entities could amount to 1 percent of GDP each in 2015. In line with the reform adopted by the National Assembly and analyses under way with technical assistance from the World Bank, the government will prepare, as soon as possible before December 31, 2015, and implement reform plans for both entities to eliminate their deficits in the medium term and create the fiscal headroom needed for priority spending under the G-PRSP.

Conduct a sustainable borrowing policy

50. *The government will continue to conduct a borrowing policy conducive to maintaining a sustainable level of debt* (¶19). The debt sustainability analysis conducted with IMF and World Bank staff concluded that the risk of debt overhang remains moderate.[22] The analysis also confirms that debt sustainability is highly sensitive to the price of gold (representing 70 percent of exports, production of which will decline in the medium term), to financial borrowing conditions, and to the continuation of sustainable fiscal policies. Therefore, the government reiterates its commitment to cover its external financing needs primarily with foreign-currency grants and loans with a minimum grant element of 35 percent (continuous performance criteria, Tables 1 and 3). In 2014, the government requested a waiver for the signature of a loan with a grant element slightly below the minimum required (¶9). In 2015 the government will not contract any non-concessional loans. It reserves the right to reconsider this commitment at the time of each program review if it identifies investment projects critical to the Malian economy that could not be financed under concessional terms. At the time of the third review, the government would like to establish a positive ceiling on non-concessional debt in the context of the program. In order to closely monitor the implementation of its borrowing policy, the government, by decision of March 24, 2014, effectively implemented the National Public Debt Committee (CNDP) with the mandate to make decisions on any borrowing and government guarantee initiatives or projects as well as to produce an annual paper on the borrowing strategy, to be appended to the budget.

51. *Management of domestic debt will be strengthened*. To this end, the Directorate General of Public Debt (DGDP) will compile an inventory of all agreements with respect to domestic debt and the commitment to guarantee domestic debt signed by the government in order to include the repayment schedules in the public debt data and budget laws. The government has retained a firm to conduct an audit of cumulative government domestic arrears following the spending freeze in the wake of the 2012 coup, and in previous years since 1995. This audit found CFAF 167 billion in arrears (3.1 percent of GDP), a third of which were accumulated in 2012 and another third in 2010 and 2011. Of this amount, CFAF 95 billion (1.7 percent of GDP) was validated by the consultant in light of information provided by the administration. The government requested that the firm conduct a supplemental audit of the documents forwarded by the administration after the deadline for submission of documents, and to reconcile the information forwarded by the administration with that collected from government's suppliers. The government has already paid CFAF 30 billion of the arrears validated in 2013, and has included CFAF 58 billion in appropriations in the supplemental 2014 budget to clear all the validated arrears that remain to be paid in 2014 (¶7), and has included a provision of CFAF 15 billion in the proposed 2015 budget law in anticipation of the outcome of the supplementary audit (¶21). Before paying off these arrears, the government will ensure that the taxpayers concerned do not themselves have tax arrears, in which case the government would make deductions from its arrears payments equal to those tax arrears.

[22] See Mali—Joint IDA/IMF Debt Sustainability Analysis Under the Debt Sustainability Framework for Low-Income Countries (forthcoming).

Improve economic statistics

52. The government undertakes to approve the new national accounts SNA 1993 for the years 1999-2003 by August 31, 2015. The authorities will accordingly: i) publish the definitive series for 1999 – 2008; ii) finalize and publish the provisional series for 2009 – 2010; and, iii) prepare and publish the new series from 2011 to present.

C. Improve the business environment to encourage private-sector development

53. *The government will remove the principal constraints to the business environment*, which were identified in the latest Africa Competitiveness Report—produced jointly by the World Economic Forum, the World Bank, and the African Development Bank—as access to financing, corruption, insufficient infrastructure (including in the energy sector), complex tax laws, government bureaucracy, and labor force qualifications.

54. The government plans to take measures aimed at mobilizing resources for infrastructure investment and simplification of tax legislation (¶29). In addition, it will take the measures described below to maintain the stability of the financial sector and improve access to financing, improve the financial position and productive capacity of the electricity sector, and reduce corruption.

Promote stability and development of the financial sector

55. Recognizing that a sound financial sector is critical to keeping Mali on the path to sustainable growth, the government will resolve the most pressing problems for the sector. In particular, the government undertakes to:

- provide for the security of bank branches that have reopened in Northern Mali since August 2013;
- complete the privatization of the Banque de l'Habitat du Mali (BHM) by end-2015; the government will adopt the privatization scheme by February 28, 2015;
- prepare by February 28, 2015 a timetable of measures for implementing the recommendations made by a TA mission carried out by the IMF Monetary and Capital Markets Department in January 2014 to strengthen the stability of the financial system (proposed benchmark, Table 3); and
- restore confidence in the microfinance sector by developing a detailed action plan for sector reform by February 28, 2015.

Reform the electricity sector

56. *The government will take measures to eliminate the structural deficit between the cost and selling price of electricity in Mali*. Since the early 2000s, the government has been implementing an electricity pricing policy that provides the option of adjusting electric power prices to reflect changes in the firm's operating costs or of paying a subsidy to allow the EDM public corporation to fulfill its assigned objectives. Pursuant to that policy, the government has made five price adjustments since 2003,[23] resulting in stabilization of the average price of electricity, while international prices of petroleum products increased by a factor of three over the same period. The increased price of hydrocarbons, increased production, the rapidly growing share of thermal production in the energy production mix, and the increasing operational difficulties within EDM (largely associated with the company's cash flow problems) served to exacerbate a loss that represented CFAF 41 per kWh,[24] and losses prior to the government subsidy that climbed from CFAF 7 billion in 2003 to CFAF 42 billion in 2013. Consequently, the government allocated increasing subsidies to EDM to offset these losses, allow it to complete its cash flow plan, and enable it to pay its commitments to banks and suppliers. These subsidies totaled CFAF 5 billion in 2010, CFAF 11 billion in 2011, CFAF 30 billion in 2012, and CFAF 57.5 billion (1.1 percent of GDP) in 2013.

57. *In accordance with its electricity pricing policy, the government provided a subsidy of CFAF 60.8 billion to EDM in 2014 and CFAF 42 billion in the proposed 2015 budget to keep the company financially afloat*. This amount is based on the recommendations of the task force comprising representatives of the MEF, the MEH, the CREE, and EDM with a view to proposing ways to meet demand by 2020 and establishing a profit margin between the selling price and the average cost of electricity in the medium term. The task force identified management measures and priority investments to meet demand and reduce production costs, and proposed a rate adjustment of 3 percent per year on average in 2014–20. These measures will contain the pre-subsidy loss at CFAF 47 billion in 2014 and CFAF 53 billion in 2015 and would require a subsidy of CFAF 60.8 billion in 2014, CFAF 15 billion of which find announced by a grant from the Economic Community of West African States (ECOWAS) and a subsidy of CFAF 42 billion in 2015, CFAF 12 billion of which financed by an ECOWAS grant, to absorb the company's losses and balance it the cash management plan. The amount of the subsidies will be revised in March 2015 based on an assessment of EDM's financial position in 2014 and the first two months of 2015 and its short- and medium-term outlook. The government undertakes to publish the task force on the EDM website.[25] The government made the electricity price increase implemented on July 1, 2014 more equitable through a decision by the Council of Ministers on October 9, 2014.

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[23] Two decreases, one of 10 percent in 2003 and another of 8 percent in 2004, and three increases – of 4 percent in 2009, 6 percent in 2013, and 6 percent in 2014 –in the average price of electricity.

[24] In 2013, the average selling price of electricity was CFAF 95/kWh and the cost was CFAF 136/kWh.

[25] See www.edm-sa.com.ml/ and www.maliapd.org/spip.php?article365 .

58. *In the interim, the government will continue to regularly pay its electricity invoices and support the implementation of the sector development strategy by mobilizing financing for structural investments*. In the context of that strategy—which includes expansion of the distribution network, interconnection with neighboring countries' networks, and diversification of production modes and which is supported by the World Bank, among others—increased attention will be given to selecting investments based on development criteria at lower cost. The government will pay a subsidy of CFAF 30 billion under the proposed 2015 budget at the start of the year in order to lessen the company's cash flow problems to the extent possible. EDM will take all steps necessary to increase its billing rate and reduce its operating costs, including by outsourcing the fuel supply function. EDM will publish its financial statements and performance indicators (balance sheet and income statement) on its website.

Combat corruption

59. *The government will conduct a forceful anticorruption campaign*. To this end, it undertakes to implement the measures described above in order to improve the management and transparency of public finances; submit an amendment to the law on illicit enrichment to the National Assembly to extend the scope of application to all non-minors and legislators; and apply the law's provisions requiring annual financial disclosures by senior government officials to the Supreme Court by February 28, 2015. The government also undertakes to address the problem of corruption in the judicial system by publishing the decisions of the commercial courts and other courts in cases involving corruption and economic and financial crimes[26] and by implementing other specific measures to combat corruption in the judiciary. The government will accord priority to remedying offenses within the administration brought to light by the oversight bodies, including the BVG in its annual and sector reports. It will take all necessary measures to sanction corrupt employees through administrative or legal action, as appropriate. The CGSP will publish its first annual report by February 28, 2015 presenting the result of actions taken to remedy the offenses brought to light by the oversight bodies, with particular emphasis on the measures taken to discipline corrupt employees through administrative or legal measures. The government will prepare an action plan by February 28, 2015 to strengthen the AML/CFT and anti-corruption legal frameworks in line with international standards, guided by the recommendations of an IMF technical assistance mission that visited Bamako in September 2014.

Program monitoring

60. The program will be evaluated regularly based on performance criteria as at end-December 2014 and end-June and end-December 2015, on continuous performance criteria and indicators as at end-March and end-September 2015 (Tables 1 and 3), and on the benchmarks (Tables 2 and 4). The performance criteria and indicators are defined in the TMU, which also identifies the nature and frequency of the reporting required for proper program monitoring.

[26] See www.reforme-mali.org.

Completion of the third, fourth, and fifth reviews under the program is expected on or after May 1, 2015, November 1, 2015, and May 1, 2016, respectively.

Table 1. Mali: Performance Criteria and Indicative Targets, 2013–14 [1]

	2013				2014												
	Dec.				March				June				Sep.			Dec.	
	Prog.[2]	Adj. Target	Est.	Status	Prog.[2]	Adj. Target	Est.	Status	Prog.[2]	Adj. Target	Est.	Status	Prog.[2]	Est.	Status	Prog.[2]	Rev. Prog.
Performance criteria																	
Government bank and market financing (ceiling)[3]	24	37	-23	Met	30	92	99	Not Met	48	145	119	Met	38			11	100
Cumulative increase in external payments arrears (ceiling)[4]	0		0	Met	0		0	Met	0		0	Met	0			0	0
New external debt contracted or guaranteed by the government on non-concessional terms (ceiling)[3,4]	0		0	Met	0		0	Met	0		0	Met	0	49	Not Met	0	49
Gross tax revenue (floor)	911		865	Not Met	231		231	Met	499		487	Not Met	742			1020	996
Indicative targets																	
Basic fiscal balance (floor)[5]	-18	-46	-44	Met	-43	-44	39	Met	-35	-42	60	Met	43			31	-53
Priority poverty-reducing expenditure (floor)[6]	346		347	Met	50		58	Met	122		153	Met	233	241	Met	382	364
Memorandum items:																	
External budgetary support	184		150		0		0		0		0		96			142	184
General budgetary grant	144		111		0		0		0		0		96			96	128
Net change in budgetary float (– = reduction)	7		-8		53		-25		53		-45		-8			-8	14
Tax refunds (–)	-58		-60		-5		-6		-13		-20		-20			-62	-72
Net change in arrears (– = reduction)	-37		-8		-31		-14		-34		-27		-31			-28	-74

Sources: Malian authorities; and IMF staff projections.

[1] Cumulative figures from the beginning of the year, unless otherwise indicated. See Technical memorandum of understanding (TMU) for definitions.

[2] IMF Country Report No. 13/380. Mali-Staff Report for Request of Three-Year Arrangement under the Extended Credit Facility.

[3] These performance criteria are subject to adjustment for external budget support, reduction of pending bills, tax refunds, and arrears payment. See TMU for more details.

[4] These performance criteria will be monitored on a continuous basis since the beginning of the year.

[5] This indicative target is subject to adjustment for budgetary grants and tax refunds. See TMU for more details.

[6] New definition starting in December 2014: excludes budgetary transfers to finance the deficit of the civil servants' pension fund (CMSS).

Table 2. Mali: Prior Actions and Structural Benchmarks for 2014

Measures	Timeframe	Macroeconomic rationale	Status
Prior actions for the 1st and 2nd reviews			
Adoption of a decree specifying the conditions for implementation of Article 8 of Decree No 08-485/P-RM of August 11, 2008 governing exclusions from the scope of the procedures for the award, execution, and settlement of public procurement contracts and public utility concessions for purchases of goods and services bearing the stamp "defense secret" or "essential interests of the State".		Strengthen fiscal governance.	Met, September 19.
Publication, on the website of the Office of the Prime Minister, of the audit reports by the Audit Chamber of the Supreme Court and the Auditor General's Office of the compliance with budget and procurement laws and rules of the purchase of an aircraft for CFAF 19 billion (US$38 million), a contract for the supply of goods other than arms and munitions entered into by the Ministry of Defense and Veterans Affairs for the amount of CFAF 69 billion (US$140 million), and the issuance of a government guarantee for the amount of CFAF 100 billion (US$200 million) related to the latter and other contracts.		Strengthen fiscal governance.	Met, October 10 and 29.
Publication, on the website of the Office of the Prime Minister, of a progress report on the status of implementation of the provisions of Article 18 of Law 96-060, enacting the Budget Law, providing for sanctions against the improper commitment of public expenditure and any other procedures for sanctioning the other violations noted in the audit reports from the Auditor General's Office and the Supreme Court.		Strengthen fiscal governance.	
Structural benchmarks			
Report from the Directorate General of Taxes (DGI) on the interim outputs of its corporate verification program, for which the Joint Economic and Financial Intelligence and Investigation Committee (CMRIEF) produced reports in February and September 2013 showing that turnover was abnormally low.	28-Feb-14	Increase tax revenue.	Not met. (Report submitted on March 5 covered importing companies but did not cover governement suppliers).
Distribution of a report to the technical and financial partners on the results of an audit of the expenditure chain.	28-Feb-14	Improve governance and speed up budget execution.	Met, March 21.
Publication on the website of the Ministry of Economy and Finance a report by the National Directorate of the Treasury and Public Accounting (DNTCP) analyzing the movements of the items of the NGP, highlighting the movements of the most significant items included in the net Treasury position (NTP) and in the net position of other government entities (PNACP) in 2012 and 2013 as well as presenting the beginning- and end-of-year stocks and identifying the holders of all accounts included in the PNACP.	28-Feb-14	Strengthen cash management.	Met, August 12.
Discussion by the Council of Ministers of proposals prepared jointly by the Ministry of Economy and Finance, Ministry of Energy, and the state electricity company, *Energie du Mali* (EDM), with a view to establishing a profit margin between the sales price and the average cost price of electricity.	28-Feb-14	Reduce budget transfers and increase economic growth.	Met, May 14.
Production of the government Flow of Funds Table (TOFE) for end-December 2013 and end-March 2014 in keeping with the latest applicable WAEMU directive of 2009.	30-Jun-14	Improve fiscal transparency.	Met, Augsut 31.

Source: Malian authorities.

Table 3. Mali: Proposed Performance Criteria and Indicative Targets, 2015 [1]

	2015			
	March	June	Sep.	Dec.
	Prog.	Prog.	Prog.	Prog.
Performance criteria				
Government bank and market financing (ceiling) [2]	127	115	32	34
Cumulative increase in external payments arrears (ceiling) [3]	0	0	0	0
New external debt contracted or guaranteed by the government on non-concessional terms (ceiling) [3,4]	0	0	0	0
Gross tax revenue (floor)	251	546	822	1103
Indicative targets				
Basic fiscal balance (floor) [4]	-58	-30	7	1
Priority poverty-reducing expenditure (floor)	63	134	244	394
Memorandum items:				
External budgetary support	7	24	97	122
General budgetary grant	7	24	73	73
Net change in budgetary float (– = reduction)	-50	-32	4	4
Tax refunds (–)	-22	-44	-66	-88
Net change in arrears (– = reduction)	-5	-18	-19	-20

Sources: Malian authorities; and IMF staff projections.

[1] Cumulative figures from the beginning of the year, unless otherwise indicated. See Technical memorandum of understanding (TMU) for definitions.

[2] These performance criteria are subject to adjustment for external budget support, reduction of pending bills, tax refunds, and arrears payment. See TMU for more details.

[3] These performance criteria will be monitored on a continuous basis.

[4] This indicative target is subject to adjustment for budgetary grants and tax refunds. See TMU for more details.

Table 4. Mali: Proposed Structural Benchmarks for 2015

Measures	Timeframe	Macroeconomic rationale
Audit by the Public Service Audit Office (CGSP) of the conformity of exceptional contracts bearing the stamp "defense secret" or "essential interests of the State" with the attendant decree adopted by the Council of Ministers on September 19, 2014.	28-Feb-15	Reduce the cost of public spending and secure donor support.
Report by the Minister of Economy and Finance on extrabudgetary spending since September 25, 2014.	28-Feb-15	Strengthen fiscal governance.
Prepare an action plan for implementation of the recommendations made by the January 2014 technical assistance mission from the IMF's Monetary and Capital Markets Department on strengthening financial sector stability.	28-Feb-15	Strengthen financial sector stability.
Preparation, by June 30, of a strategy for phasing out the consumption subsidies identified in the petroleum product structure.	30-Jun-15	Increase tax revenue.

Table 5. Mali: Central Government Consolidated Financial Operations, 2015
(CFAF billions)

	March	June	September	December
Revenue and grants	312.6	682.7	1,056.7	1,395.2
Total revenue	267.1	581.2	872.0	1,168.1
Budgetary revenue	240.9	528.7	793.3	1,063.1
Tax revenue	228.6	502.3	756.4	1,015.0
Direct taxes	68.9	175.8	242.2	323.7
Indirect taxes	159.6	326.6	514.2	691.3
VAT	94.6	196.5	301.6	406.9
Excises on petroleum products	6.8	13.1	20.2	27.8
Import duties	36.6	74.5	113.9	150.6
Other indirect taxes	43.6	86.3	144.4	193.8
Tax refund	-22.0	-43.9	-65.9	-87.8
Nontax revenue	12.3	24.3	33.3	43.0
Special funds and annexed budgets	26.3	52.5	78.8	105.0
Grants	45.4	101.5	184.7	227.1
Of which: Projects	30.5	60.9	91.4	121.8
Of which: Budgetary support	15.0	40.6	93.3	105.3
General	6.9	24.4	72.9	72.9
Sectoral	8.1	16.2	20.4	32.4
Total expenditure and net lending (payment order basis)	435.2	842.0	1,244.8	1,653.0
Budgetary expenditure	411.1	792.0	1,169.8	1,553.0
Current expenditure	253.1	476.1	699.2	922.2
Wages and salaries	87.4	174.9	262.3	349.8
Goods and services	67.8	135.6	203.4	271.2
Transfers and subsidies	88.7	147.4	206.1	264.8
Interest	9.1	18.2	27.3	36.4
Of which: domestic	3.3	6.6	9.8	13.1
Capital expenditure	158.0	316.0	470.6	630.8
Externally financed	97.5	195.0	289.1	388.8
Domestically financed	60.5	121.0	181.5	242.0
Special funds and annexed budgets	26.3	52.5	78.8	105.0
Net lending	-2.1	-2.5	-3.8	-5.0
Overall fiscal balance (excl. grants)	-168.1	-260.9	-372.8	-484.9
Overall fiscal balance (incl. grants)	-122.6	-159.4	-188.2	-257.8
Variation of arrears	-5.1	-18.0	-19.1	-20.3
Adjustment to cash basis	-50.5	-32.5	3.6	3.6
Overall balance (cash basis, incl. grants)	-178.2	-209.8	-203.7	-274.6
Financing	178.2	209.8	203.7	274.6
External financing (net)	48.4	96.8	169.0	242.8
Loans	57.9	115.9	197.7	281.0
Project loans	57.9	115.9	173.8	231.7
Budgetary loans	0.0	0.0	23.9	49.3
Amortization	-15.5	-31.1	-46.6	-62.1
Debt relief	6.0	12.0	17.9	23.9
Variation of External Arrears (Principal)	0.0	0.0	0.0	0.0
Domestic financing (net)	129.9	113.0	34.7	31.7
Banking system	119.3	102.8	18.0	19.5
Central bank	-2.9	-3.8	-6.9	-7.6
Commercial banks	122.2	106.7	24.8	27.1
Adjustment[1]	0.0	0.0	0.0	0.0
Privatization receipts	0.0	0.0	0.0	0.0
Non-bank financing	10.6	10.2	16.8	12.2
Financing gap	0.0	0.0	0.0	0.0
Memorandum items				
Basic fiscal balance[2]	-57.7	-29.6	7.1	0.7
Government bank and market financing	127.0	115.4	32.2	33.9

Sources: Ministry of Finance; and IMF staff projections.

[1] Adjustment to account for the difference between the definitions of the government in the fiscal table and the monetary situation.

[2] Total revenue, plus general budgetary grants, plus revenue from HIPC debt relief, minus total expenditure and net lending, excluding externally financed capital spending.

Attachment II—Technical Memorandum of Understanding

1. This TMU defines the performance criteria and indicators presented in Tables 1 and 3 of the Memorandum of Economic and Financial Policies (MEFP). It also determines the frequency and deadlines for reporting data to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

DEFINITIONS

2. Unless otherwise indicated, the government is defined as the central government of the Republic of Mali and does not include the local authorities, the central bank, or any other public entity with autonomous legal status that is not included in the Government Financial Operations Table (TOFE). The National Directorate of the Treasury and Government Accounting (DNTCP) reports the scope of the TOFE in accordance with the account classification provided by the BCEAO and forwards it to the central bank and IMF staff.

PERFORMANCE CRITERIA

3. Except as noted, the following financial targets will serve as performance criteria at end-December 2014 and end-June and end-December 2015 and indicators at end-March and end-September 2015.

A. Ceiling on net domestic bank and financial market financing of government

4. **Net domestic bank and financial market financing of government** is defined as the sum of (i) the net position of the government in the narrow sense, as defined below; and (ii) financing of the government through the issuance (net of redemptions) of securities to individuals or legal entities outside the banking system or to nonresident banks domiciled in the West African Economic and Monetary Union (WAEMU).

5. The **net position of the government in the broad sense** is defined as the balance of the government's debts and claims vis-à-vis the central bank and the commercial banks. The scope of the government's net position is that used by the Central Bank of West African States (BCEAO) pursuant to Community provisions. It involves a definition of government that is broader than the definition given in paragraph 2 and includes the local authorities, certain projects, and some public administrative entities. The government's claims include CFAF cash balances, postal checking accounts, secured liabilities, and all deposits by government agencies with the BCEAO and the commercial banks, with the exception of government industrial and commercial agencies (EPIC) and state-owned corporations, which are excluded from the calculation. The government's debts to the banking system include all debts to these financial institutions. Cotton Stabilization Fund deposits and government securities held outside the Malian banking system are not included in the

calculation of the government's net position. The broad net government position is calculated by the BCEAO.

6. The **net position of the government in the narrow sense** is defined as the difference between the government's debts and claims vis-à-vis the central bank and the commercial banks. The scope of the government's net position in the narrow sense is as defined in paragraph 2. The narrow net government position is calculated by the BCEAO.

ADJUSTERS

7. The ceiling on net domestic bank and market financing of government will be adjusted upward if **external budgetary support** falls short of program projections. External budgetary support is defined as grants, loans, and debt relief operations (excluding project grants and loans, sectoral budgetary support, IMF resources, and HIPC debt relief, but including general budgetary support). The adjuster will be applied at a rate of 100 percent up to a threshold of CFAF 25 billion and at a rate of 0 percent for larger amounts.

8. The ceiling on net domestic bank and market financing of government will be adjusted upward (downward) if the **net reduction in the budgetary float (*instances de paiement*)** is higher (lower) than program amounts (MEFP, Tables 1 and 3). The budgetary float is defined as payment orders that have not been paid by the National Directorate of the Treasury and Public Accounting (DNTCP) in the context of budget execution or on miscellaneous correspondent or depositor accounts, irrespective of how long such payments have been outstanding.

9. Lastly, the ceiling on net bank and market financing to government will be adjusted upward (downward) for the **payment of VAT credits, other tax refunds, external arrears, and audited arrears from previous fiscal years,** which exceed (fall short of) program amounts (MEFP, Tables 1 and 3).

B. Ceiling on accumulation of external government payments arrears

10. External payments arrears are defined as the obligations resulting from the service of an external debt (repayment of principal and interest expense) payable or guaranteed by the government that were not paid on the due date as specified in the loan agreement, taking any applicable grace period into consideration. The definition of external debt given in paragraph 15 applies here. Arrears payable to official bilateral creditors are not covered by this definition if the government is attempting to negotiate a rescheduling of the debt, provided the government pays into an escrow account the amounts coming due on such loans, taking any applicable grace period into account, as specified in the loan agreement.

11. During the program, the government undertakes not to accumulate external payments arrears (except on debts that are being renegotiated or rescheduled). The performance criterion with respect to the non-accumulation of external payments arrears will be applied on a continuous basis throughout the program period.

C. Ceiling on non-concessional external debt contracted or guaranteed by the government and/or public enterprises

12. **Definition of the debt**. The definition of the debt is set out in IMF Executive Board Decision N° 6230– (79/140), point 9, as revised on August 31, 2009 by Executive Board Decision N° 14416–(09/91):

(a) the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

13. **Guaranteed debt**. The guarantee of a debt by the government is understood to be an explicit legal obligation to ensure that a debt is serviced in the event of nonpayment by the borrower (involving payments in cash or in kind).

14. **Concessional debt**. A debt is understood to be concessional if it includes a grant element of at least 35 percent;[1] the grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of its nominal value. The present value of the debt is calculated on the date on which it is contracted by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is five percent.

15. **External debt**. For the purposes of the relevant assessment criteria, external debt is defined as a debt denominated, or requiring payment, in a currency other than the CFA franc. This definition also applies to the debts contracted between WAEMU member countries.

16. **Debt-related performance criteria**. The performance criteria apply to new non-concessional debts contracted or guaranteed by the government, the Mali energy company (EDM), and the Malian textile company (CMDT), insofar as the government is the majority shareholder. The performance criteria shall apply to any debts or liabilities contracted or guaranteed for which value has not yet been received. They shall also apply to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government. The performance criteria are monitored on a continuous basis. No adjusters will be applied to these performance criteria.

17. **Special provisions.** The performance criteria shall not apply to: (i) debt rescheduling operations in existence at the time the arrangement is approved; (ii) import-related, short-term external loans (with maturities of less than one year); (iii) external loans contracted by the Malian Textile Company (CMDT) and guaranteed with cotton export revenue; and (iv) short-term external loans (at maturities of less than one year) contracted by the EDM to finance the purchase of petroleum products.

18. **Reporting**. The government shall immediately report to the IMF staff any new external loans it contracts or guarantees, stating the conditions, no later than two weeks after signing the loan contract.

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[1] The reference to the IMF website below leads to a tool that can be used to calculate the grant element in a wide range of financial arrangements: http://www.imf.org/external/np/pdr/conc/calculator.

[2] Calculation of the grant element takes account of all the aspects of the loan contracts, including maturity, grace period, repayment schedule, origination fees, and management fees.

D. Floor on gross tax revenue

19. The government's gross tax revenue is defined as the revenue appearing in the TOFE and includes all tax revenue in the national budget, before deducting the tax refunds generated during the year, in particular accumulated VAT credits.

INDICATIVE TARGETS

20. The following will serve as indicative targets at end-December 2014 and end-March, June, September, and December 2015.

A. Floor on the basic fiscal balance

21. The basic fiscal balance is defined as the difference between net total revenue, plus budgetary grants (general budgetary support) and HIPC resources, and total authorized expenses plus net lending, excluding capital expenditure financed by creditors or donors, pursuant to the definition of the basic fiscal balance in the WAEMU texts (Additional Act N° 05/2009/CCEG/UEMOA of March 17, 2009, amending Act Nº04/1999 on the Convergence, Stability, Growth, and Solidarity Pact).

ADJUSTER

22. The floor on the basic fiscal balance is adjusted downward if **budgetary grants (general budgetary support)** fall short of program projections. The adjuster will be applied at the rate of 100 percent up to a threshold of CFAF 25 billion and at a rate of 0 percent for larger amounts.

23. Lastly, the floor on the basic fiscal balance will be adjusted downward (upward) for the **payment of VAT credits and other tax refunds** exceeding (under) the programmed amounts (MEFP, Tables 1 and 3).

B. Floor on priority poverty-reducing expenditure

24. Priority poverty-reducing expenditure is defined as the sum of expenditure in the sectors of basic education, secondary and higher education, scientific research, health, and social development other than transfers to the Malian Social Security Fund (CMSS). It excludes project-related capital expenditure financed by foreign technical and financial partners.

STRUCTURAL BENCHMARKS

25. Information concerning the implementation of measures constituting structural benchmarks will be reported to the IMF staff no later than two weeks after their scheduled implementation date.

26. As of May 31, 2011, **changes** have been to the **Government Financial Operations Table (TOFE)** as described below. Income and expenses recorded in suspense accounts are reported above the line as income or expenses, with no breakdown. In cash basis adjustments, a distinction is

made between operations charged to previous fiscal years and those charged to the current fiscal year and, as well as, in the latter case, a distinction between funds in transit (less than three months) and changes in arrears (more than three months) with respect to budgetary expenditures (including VAT credits and called guarantees and pledges). Under the heading "net domestic financing," bank financing is separated from privatization income and from other financing. Bank financing includes changes in the net position of the government vis-à-vis the central bank, the IMF, and the resident commercial banks. In showing operations with commercial banks, a distinction is made between the Treasury, the National Social Security Institute (INPS), and other government agencies. Other financing includes mainly changes in cash accounts (uncashed checks), advance tax installments received for the following year, adjustments to the installments received the previous year for the current year, operations with nonresident WAEMU creditors, and changes in deposits and consignments from Treasury correspondents.

27. As of June 30, 2014, the **available balances in current account opened for government accounting officers** included within the scope of the net government position, narrowly defined (¶6), also known as the net Treasury position (NTP), with the exception of those located in regions where the BCEAO is not present, will be **transferred to the Treasury single account at the BCEAO.** The available balances are all the amounts in such accounts except for:

- frozen Treasury accounts at the Malian Development Bank (BDM) in the amount of CFAF 19.5 billion pursuant to the provisions of the privatization agreement concerning that bank;
- blocked Treasury funds at the Banque Régionale de Solidarité (BRS) in the amount of CFAF 12 billion following the financial difficulties of the BRS; Orabank, which will acquire the BRS, has agreed to reimburse the Treasurer for this deposit at the rate of CFAF 500 million per month in 2014 and clear the remaining balance no later than end-2015;
- accounts corresponding to grants from Japan in the amount of CFAF 3 billion at the BDM pursuant to an agreement with Japan providing for mobilization of these funds; and
- an account at the Banque Malienne de Solidarité (BMS) used for cash collection operations, which is zeroed out every day and transferred to the Receiver account at the BCEAO.

28. **Extrabudgetary expenditures** are defined as domestically funded expenditures made by central government entities that are not provided for in the finance law and are not executed in accordance with applicable budgetary rules and procedures. This definition applies to all transactions, commitments, acceptances of goods or services, or provisions of guarantees that could create an expense for the government that was not authorized in the budget law.

Additional information for program monitoring

29. To facilitate program monitoring, the government will report the information indicated in the following summary table to the IMF staff.

Summary of Reporting Requirements

Sectors	Type of Data	Frequency	Reporting Deadline
Real Sector	National accounts	Yearly	Year-end + 9 months
	Revised national accounts	Variable	8 weeks after revision
	Consumer price index breakdowns	Monthly	Month-end + 2 weeks
Public Finance	Net position of the government vis-à-vis the banking system in the broad sense (including the survey of the accounts of other government agencies with the banking system); net position of the government vis-à-vis the banking system in the narrow sense; and breakdown of nonbank financing	Monthly	Month-end + 4 weeks (provisional); month-end + 6 weeks (final)
	Balance of SOTELMA privatization income account deposits with the BCEAO	Monthly	Month-end + 3 weeks
	Central government TOFE	Monthly	Month-end + 4 weeks (provisional); Month-end + 6 weeks (final)
	Budget execution throughout the expenditure chain, as recorded in the automated system	Monthly	Month-end + 2 weeks
	Breakdown of income and expenses recorded in the TOFE	Monthly	Month-end **+** 6 weeks
	Separately report HIPC resources	Monthly	Month-end **+** 6 weeks
	Investment budget execution	Quarterly	End of quarter + 8 weeks
	Tax revenue as recorded in the TOFE showing tax refunds (including VAT credits)	Monthly	Month-end + 6 weeks
	Wage bill as recorded in the TOFE	Monthly	Month-end + 6 weeks

Sectors	Type of Data	Frequency	Reporting Deadline
	Basic fiscal balance as recorded in the TOFE	Monthly	Month-end + 6 weeks
	Tax and customs exemptions	Monthly	Month-end + 4 weeks
	Order fixing petroleum prices, tax revenue from petroleum products, and total exemptions granted	Monthly	Month-end
	Imports of petroleum products broken down by type and by point of entry	Monthly	Month-end + 2 weeks
	Expenses authorized and not paid 90 days after validation by the financial comptroller	Monthly	Month-end + 1 week
	Report by the Minister of Economy and Finance on extra-budgetary spending	Six-Monthly	End-February and August
Monetary and Financial Data	Summary survey of the BCEAO, summary survey of the banks, survey of monetary institutions	Monthly	Month-end + 4 weeks (provisional); Month-end + 8 weeks (final)
	Foreign assets and liabilities and breakdown of other items net (OIN) of the BCEAO and the commercial banks	Monthly	Month-end + 8 weeks
	Lending and deposit interest rates, BCEAO policy rate, BCEAO reserve requirements	Monthly	Month-end + 4 weeks
	Bank prudential ratios	Monthly	Month-end + 6 weeks

Sectors	Type of Data	Frequency	Reporting Deadline
	Account statements showing the initial and final balances of the escrow account at the BCEAO in which the service coming due on the debt contracted from the Libyan Foreign Bank for construction of the Bamako Cité Administrative complex is deposited until an agreement is reached with the Libyan authorities to reschedule repayment of that debt.	Monthly	Month-and + 1 week
Balance of Payments	Balance of payments	Yearly	Year-end + 12 months
	Revised balance of payments	Variable	8 weeks after each revision
External Debt	Breakdown of all new external loans	Monthly	Month-end + 4 weeks
	Debt service with breakdown of principal, interest, relief obtained under the HIPC Initiative	Monthly	Month-end + 4 weeks
Budget Directorate	Priority poverty-reducing expenditure as defined in ¶24.	Quarterly	End of quarter + 4 weeks