

INTERNATIONAL MONETARY FUND

MALI

Staff Assessment of Qualification for the Multilateral Debt Relief Initiative

Prepared by the African Department
(In consultation with other departments)

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Mali reached the completion point under the enhanced HIPC initiative on March 6, 2003.

Macroeconomic Performance

1. **Status of Fund arrangement.** Mali currently has a three-year PRGF arrangement approved by the Executive Board June 23, 2004. The first review was concluded on March 7, 2005. The second and third reviews are scheduled to be completed on December 19, 2005. There is, however, a possibility the Board meeting will be delayed pending issuance to both the Bank and the Fund Boards of a Joint Staff Assessment Note on poverty reduction strategy implementation. The quantitative financial program was on track through end-September 2005. The performance criterion on net domestic financing was observed, and performance indicators for tax revenues, wages and the basic balance were also observed. The structural reform program has faced significant delays and a waiver for nonobservance of three structural performance criteria will be requested. Two of the measures have now been completed after temporary delays (announcement of a cotton producer price that minimizes budgetary risks and launching an actuarial study of the civil service pension scheme), while the third measure concerning the launch of a tender for privatizing a commercial has been delayed by a legal challenge to the validity of the government shareholding. The authorities remain committed to implementation as soon as the legal impediment is lifted.

2. **Recent Macroeconomic Developments.** Mali recently faced the challenge of rising food prices and food insecurity on account of drought and locust infestation. Bolstered by good rains, agricultural output is expected to recover in 2005/06. Since the completion point, the Malian economy performed strongly in 2003-04, and in 2005 experienced adverse external shocks to cotton and oil prices that have increased the external current account deficit and slowed the pace of reserve accumulation as well as GDP growth. Nonetheless, real GDP growth has averaged 5 percent over 2003-05 (higher than projected growth at the completion point) and foreign exchange reserves remain above six months of import coverage. Fiscal balances were better than projected in 2003-04, but worsened in 2005, particularly on account of cotton sector losses. Debt indicators remain below HIPC thresholds through end-2005. The information available to staff indicates that Mali is current on its obligation to the World Bank and the African Development Bank.

3. **Summary Assessment.** Current macroeconomic performance shows no substantial deterioration compared to the completion point. Given the completion of the first review under the PRGF arrangement on March 7, 2005, the impending consideration of the second and third reviews by the Board, and the recent track record of satisfactory macroeconomic performance, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Implementation of the Poverty Reduction Strategy (PRS)

4. **Recent Developments.** Mali's second PRS was adopted in May 2002 and the first annual performance report for 2003–04 was adopted in August 2005. Although data are partial, poverty, health and social indicators generally show signs of continued modest improvement. The latest data (from 2001) indicate that poverty fell significantly between 1989 and 2001 and income inequality decreased. Strong growth since 2001 suggests that poverty and inequality have likely continued to decline. A variety of health and education indicators tracked under the PRS have improved between 2002 and 2004, including: the vaccination coverage of children under 1 year; the share of assisted births; the proportion of the population within five kilometers of a health center; the gross primary school enrollment rate; and the number of books per student. Implementation of the structural reform agenda designed to accelerate growth and poverty reduction has also progressed, albeit slowly, especially the privatization programs for the banking and cotton sectors, due in part to exogenous factors and the complexity of the reforms. More needs to be done to put structural reforms critical to Mali's continued growth on track, particularly in the cotton sector.

5. **Summary Assessment.** Given the recent track record of satisfactory implementation of poverty reduction policies, and no evidence of a substantial deterioration of performance since the completion point, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Public Expenditure Management (PEM) System

6. **Recent Developments.** Mali's public expenditure management system has improved since the completion point. The core systems work reasonably well, although there is still room for strengthening public finance systems, e.g., Mali met 11 of the 16 expenditure management benchmarks in the 2004 HIPC Assessment Action Plan (AAP), up from 8 in 2001. Tracking of poverty-reducing expenditures is good. Key weaknesses to be addressed are procurement, internal controls, timely audits of budget execution and tracking of grant-financed activities and extra budgetary funds. The authorities have a comprehensive action plan to strengthen PEM; while some delays have developed in plans to enhance internal controls and audits, progress continues.

7. **Summary Assessment.** Staff is of the view that the PEM has improved since the completion point and that the relevant criterion on the quality of PEM systems to qualify for MDRI debt relief is met.

Other

8. **Provision of information to the Fund.** Staff is satisfied that the authorities collaborate with the Fund and provide appropriate information in the context of surveillance and use of Fund resources.

9. **Payments to the IMF.** Mali is current on its obligations to the IMF.

Overall Assessment

10. Staff recommends that the Board determine that Mali qualifies for MDRI debt relief.

Table 1. Mali: Selected Macroeconomic Indicators, 2000-05
(annual percent change, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005 (est.)
Real GDP	-3.2	12.1	4.3	7.2	2.3	5.4
Inflation (annual average)	-0.7	5.2	5.0	-1.3	-2.8	5.0
Real effective exchange rate	-7.4	3.6	4.8	1.1	-3.9	...
Broad Money	11.9	19.3	28.4	25.5	-2.4	6.5
Overall fiscal balance including grants (in percent of GDP)	-2.9	-3.2	-3.6	-1.3	-2.6	-4.1
Current account balance including grants (in percent of GDP)	-9.6	-10.3	-3.0	-6.1	-7.7	-9.1
Foreign Exchange reserves (in months of imports)	3.8	4.2	5.2	7.1	6.4	6.1

Table 2. Mali: Public and Publicly Guaranteed (PPG) External Debt and Debt Relief 1/
(In millions of US dollars; unless otherwise indicated)

	2004	2005 (est.)	2006 (proj.)		2007 (Proj.)
			Before MDRI	After MDRI 2/	After MDRI
PPG External Debt	3,304	3,440	3,573	1,434	1,724
<i>of which: Owed to the Fund</i>	144	115	99	10	12
<i>Owed to IDA</i>	1,489	1,479	1,609	142	255
<i>Owed to AfDB</i>	592	588	654	71	127
			(in percent)		
NPV of PPG external debt to exports 3/	106.3	105.2	95.6	50.4	56.0
Debt service to exports	6.4	7.4	6.8	4.4	3.5
PPG external debt to GDP	63.1	67.5	66.5	26.7	29.2
NPV of PPG External debt to GDP	24.5	27.2	27.5	14.5	16.3

1/ After HIPC assistance

2/ Assuming delivery (full stock operation) at Jan 1, 2006 for the Fund and the AfDB, and on July 1, 2006 for IDA.

3/ Exports of goods and services for the year under consideration