

## International Monetary Fund

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## Letter of Intent for the 2<sup>nd</sup> Review

Bamako, Mali  
June 19, 2009

Mr. Dominique Strauss-Khan  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. As indicated in detail in the Letter of Intent dated November 18, 2008, macroeconomic management by the Malian authorities in 2008 was geared primarily toward mitigating the impact of soaring international energy and food prices. Whereas government policies in that regard helped safeguard social peace and satisfactory implementation of the economic program, structural reform measures encountered a number of delays that the authorities made every effort to remedy in the first half of 2009.
2. Mali's real GDP increased by 5.1 percent in 2008, particularly owing to the vibrancy of the primary and tertiary sectors. The strong performance of rice and cereal production, mainly as a result of good rainfall, largely made up for the downturn in cotton production associated with the sector's structural problems. The tertiary sector was propelled by telecommunications, transportation, and financial services in particular. By contrast, the value-added of the secondary sector fell by 5.3 percent as a result of a slight drop in gold production and the slowdown in food processing and textiles.
3. Annual inflation was brought to 7.5 percent at end-2008, after climbing to 13 percent in September 2008 due to pressures from global food and oil markets, and receded to 3.2 percent at end-April 2009. The difficult external environment contributed to a very slight increase in the balance of payments current account deficit in 2008 and to a decline in foreign reserves, partly offset by the privatization of the Banque internationale du Mali (BIM).
4. The basic government budget deficit was limited to 1.2 percent of GDP, compared with the program target of 1.8 percent. Indeed, to maintain macroeconomic stability, and in the face of uncertainties about how long the food and energy crisis would last, the government cut budgetary spending by nearly 1 percent of GDP, mainly curtailing domestically-financed capital expenditure. The savings so achieved more than made up for the revenue losses generated by the customs duty exemptions granted on a number of food products and by the adjustments made in the taxation of oil products to lower the social cost of the spike in world prices for these goods. However, the improvement in the basic fiscal balance was accompanied by cash flow problems and a marked increase in the government's pending payments to its suppliers, which totaled CFAF 96 billion at end-2008.

5. In this context, we observed all of the quantitative performance criteria under the program for end-2008 (see table). We also observed the two structural performance criteria on not granting new customs exemptions unless prescribed by law and on issuing the invitations to bid for the privatization of the national telecommunications company (SOTELMA) by end-December 2008, as well as the structural benchmark regarding the adoption in Council of Ministers of the blueprint for the Niger River Authority.

6. There were a number of delays in implementing the other structural reforms subject to conditionality, but corrective action has been taken to remedy these delays.

- In the context of the performance criterion regarding the plan to restructure the national housing bank (BHM), a memorandum on the status of BHM restructuring was forwarded to the Banking Commission in March 2009. Although that memorandum did not meet all the conditions of the criterion established for end-March, it was supplemented in June 2009 with a report, prepared in collaboration with Bank and Fund staff, that was forwarded (as a prior action) to the Banking Commission and the Central Bank of West African States (BCEAO). The report presents several scenarios for further restructuring aimed at restoring the bank's solvency and profitability, in particular through changes in the principal prudential ratios. Accordingly, the formal conditions for observing the criterion were met only in early June, but the studies conducted should help us to take a decision by end-2009 regarding government divestiture of the BHM. Moreover, we already recapitalized the bank in March 2009 by transferring government deposits there to it and by moving a part of the portfolio of the national housing office (OMH), two of the measures envisaged in our previous Letter of Intent. In light of the corrective actions taken, we request a waiver for non-observance of the performance criterion concerning the BHM.
- In the cotton sector, the government remains committed to privatization of the Malian Textile Development Company (CMDT) in 2010. In that regard, it has pursued reforms to reorganize the sector and restructure the CMDT, and the committee for the restructuring of the cotton sector is in the process of renewing the contract of the privatization consultant to ensure continued technical support for the privatization. The highly precarious financial position of the CMDT and the uncertainties related to the reform of the sector in a challenging international context have continued to affect performance in the 2008/09 crop season, the main results of this being delays in making decisions about the 2009/10 crop season. The decisions setting the producer price at CFAF 170 a kilo by the commission in charge of implementing the pricing mechanism for cotton and the price of fertilizers with an implicit subsidy were only taken in mid-May 2009. To ensure a proper start of the 2009/10 crop season, the government also decided to pay the remaining balance owed to producers for the 2008/09 crop season, reactivated the cash flow monitoring committee for the sector, and confirmed the allocation of roles for financing this next crop season. Despite these measures, delays in orders and in deliveries of inputs as well as the longstanding problems of the sector could make a substantial short-term increase in production more difficult.

- The principle of an average adjustment of 4 percent in electricity rates as of July 1, 2009, which does not affect the lowest brackets of the lifeline tariff, was adopted by an interministerial committee in March with a view to securing electricity sector viability, but the directive from the Water and Electricity Regulatory Board (CREE) specifying the terms under which that measure would be implemented and the new applicable rates was issued only on May 26 (prior action).
- The adoption of a new institutional framework for water and electricity, which was scheduled to occur by end-March, is awaiting the completion of an external study by an international consultant. The first phases of the study have helped reduce the scope of decision making to a limited number of scenarios that are still subject to more in-depth analyses and will be discussed in the context of workshops with the participation of the various stakeholders. The next phases of this reform will be the subject of consultations with the World Bank, particularly as part of the new energy program recently negotiated with the Bank.

7. Performance under the program has continued to be satisfactory in 2009. Quantitative benchmarks at end March 2009 have been met except for the ceiling on domestic financing and the sub ceiling on bank and market financing which were breached by small margins because a bond issue launched at end-December 2008 was recorded on January 2, 2009. Revenue collection was sustained and in line with the program, while an effective budget regulation has allowed for a substantial reduction in the payment float.

8. The Government have taken measures to refund the stock of VAT credits accumulated at end June 2008 by the mining companies. However, the unfavorable conditions on the regional financial market did not allow for this refund to be financed through a bond issue, as envisaged in our previous Letter of Intent. The government therefore asked Ecobank's Malian subsidiary to raise the necessary funding as a lead bank. Thus, the government signed in April and May 2009 two loan conventions in an amount of CFAF 37.3 billion, with several banks, including Ecobank Mali acting as lead and other Malian banks, but also Ecobank subsidiaries headquartered in other member countries of the WAEMU as well as in CEMAC. In doing so, the government did not realize, in good faith, that the amounts thus borrowed with banks non residents in Mali are subject to the continuous performance criterion prohibiting the contracting and guaranteeing nonconcessional external debt. In addition, the loans were contracted without an evaluation of their grant element which turns out to be lower than 35 percent, even without taking into account interest costs that the mining companies have accepted to bear through an equivalent reduction of their claims on the government.

9. Against this background, we request a waiver for the non observance of the continuous performance criterion on non concessional external borrowing, based on: (i) our commitment to eliminate or refinance within the WAEMU before the completion of the third review, the part of the above mentioned loans granted by banks from the CEMAC (CFAF 3.5 billion); (ii) measures taken to ensure a more systematic evaluation of the grant element of all loans that the government considers contracting or guaranteeing; and (iii) the fact that bank debt contracted by the government within WAEMU are economically equivalent to the bonds that we had intended

to issue on the regional financial market, as permitted under the exclusion provided for in the Technical Memorandum of Understanding (TMU). From this standpoint, the recourse to bank financing rather than bond financing can be considered as constituting a minor deviation with regard to the performance criterion on nonconcessional external borrowing. Looking forward, we request an amendment to the TMU with a view to exclude from the scope of the performance criterion on non concessional borrowing, not only drawing on IMF facilities, and bills or bonds issued on the regional financial market but also loans CFA franc loans contracted with WAEMU residents.

### **Outlook for 2009**

10. The decline in world prices for petroleum and foodstuffs since September-October 2008 allowed us to turn our attention to the potential impact of the global recession on Mali. The government's priority remains to maintain a stable macroeconomic and fiscal framework, notwithstanding the current world economic problems. Accordingly, the government will deepen structural reforms with a view to achieving its medium-term growth and poverty reduction objectives. The need for this deepening reflects the progress and shortfalls noted in a report on the implementation of our Poverty Reduction Strategy Paper (PRSP) in 2008; we expect to finalize the report and forward it to the IMF by end-September. The support of our development partners remains key to the pursuit of our efforts in the implementation of the PRSP.

11. Our external position is expected to improve in 2009 owing to positive developments in our terms of trade, driven both by the favorable expected price of gold, which provides more than two-thirds of our export receipts, and by the downtrend in oil and food prices in a context of global recession. Nevertheless, these encouraging effects may well be partly negated by a fall in our receipts from cotton exports and a slump in revenue from tourism and migrants' remittances. Moreover, our economy remains particularly dependent on rainfall levels and is vulnerable to a reversal in the terms of trade and to further external shocks. As a result, although the access to Fund resources under the PRGF seems appropriate for the time being, a future request for augmentation cannot be ruled out.

12. Under current circumstances, real GDP growth is expected to remain at about 4 percent, especially if our efforts to support agriculture are accompanied by good rainfall. It is anticipated that growth in the secondary sector will slow, as the expected decline in gold and manufacturing production is unlikely to be offset by the buoyancy of a the construction sector driven by public investment. The tertiary sector, for its part, may well suffer from a wait-and-see attitude from consumers and producers in light of the global recession.

13. The Central Bank of West African States (BCEAO) will continue to conduct prudent monetary policy at the regional level, with a view to anchoring expectations and paving the way for the continued rollback of inflation to a level projected at 2.5 percent for Mali at end-2009. The BCEAO will continue ensuring that there is adequate liquidity in the banking sector of the West African Economic and Monetary Union (WAEMU) by pursuing operations to inject liquidity at different maturities.

## **Fiscal policy**

14. Fiscal policy for 2009 is complicated by the uncertainties related to the global crisis and its potential impact on Mali, by the burden of a large payment float at end-2008, and by new fiscal pressures related to implementation of structural reforms and to government decisions to support the agricultural sector. Moreover, the ongoing recapitalization of the BHM and the refund of VAT credits accumulated by the mining companies in recent years are generating substantial financing requirements.

15. In this context, the government will pursue prudent fiscal management by containing the basic government budget deficit in 2009 at 1½ percent of GDP. This target, which is 0.3 percentage points of GDP above the 2008 level, will be accompanied by a substantial increase in execution of the externally financed capital budget, the aim being to support the national economy through the global crisis. However, this level is below the previous program target, as we seek to achieve a net reduction in the government's pending payments of up to CFAF 30 billion, or 0.7 percentage points of GDP.

16. Budget revenue was strong in the first five months of this year. This good performance, which is consistent with program objectives, is a sign of the progress made in tax administration and the government's decision to restore the level of oil taxation as of end-2008 to what it was before the 2008 oil shock. In light of our firm intention to maintain oil taxation at its current level and to pass on international price changes to the domestic market, this performance leads us to maintain our budget revenue targets for 2009 at the level indicated in the Budget Law. Revenue developments will, however, be monitored carefully in coming months, given the uncertainties of the domestic and international economic situation.

17. We have reduced the 2009 budget expenditure target by nearly one-half of a percentage point of GDP (CFAF 22 billion) so as to free up most of the resources necessary for reducing the payment float mentioned above. The latest expenditure program also takes into account new spending on transfers and subsidies to support the restructuring of the BHM (CFAF 1.8 billion) and ensure a successful 2009/10 cotton crop season (CFAF 15.4 billion), as well as the reallocation of certain budget headings to finance the subsidies for agricultural inputs decided by the government for 2009 (CFAF 10 billion). The new transfers require savings of about CFAF 9 billion on goods and services and of CFAF 30 billion on domestically-financed capital expenditure. Despite these budgetary adjustments, the level of self-financed capital expenditure as a percentage of GDP remains similar to that of previous years (about 3 percent of GDP), whereas current budget spending and externally financed capital expenditure will increase to 13.4 and 7.3 percent of GDP, respectively. This is not expected to hinder proper functioning of the government or implementation of the government's poverty reduction policies.

18. The overall budget deficit (on a commitment basis and excluding grants) is therefore expected to represent 9 percent of GDP in 2009, compared with 5.6 percent in 2008. In light of the modest increase in external financing, the programmed reduction in pending payments, and the planned refund of VAT credits to the mining sector, domestic financing will rise to nearly 2½ percent of GDP.

19. In light of global uncertainties, the government stands ready to take any steps necessary, in consultation with the IMF, to ensure that it meets its fiscal objectives in 2009. In this regard,

fiscal policy for 2009 is supported by an effort to regulate budget execution so as to prevent and limit potential slippages. We have thus drawn up a cash flow plan involving a temporary freeze on certain non-priority expenditure in the first three quarters of the year, with a view to generating a margin of safety that could be used in the last quarter, circumstances permitting, thereby avoiding a new rise in the payment float at end-2009. This plan will be aligned with the budget classification by end-September 2009, with a view to ensuring: (i) the quarterly monitoring of budget execution in terms of commitment, validation, payment order authorization, and actual payment of expenditures; and (ii) better regulation of budget execution on the basis of resource availability and the priority status of public expenditure (structural benchmark).

20. With a view to strengthening domestic debt management, an evaluation of the payment float at end-March 2008 was made by the Auditor General's office and one at end-March 2009 was made by the Controller-General's Office and the Inspectorate-General of Finance. These will be built upon, by end-2009, through the implementation of a system to monitor budgetary float in the context of improvements in the Treasury's accounting, cash flow management, and information systems, in consultation with IMF staff (structural benchmark). The Government intends to request IMF technical assistance in this regard. The above-mentioned evaluation of the unpaid bills at end-March 2009 will be updated at end-2009. This update will lead to a report that will mention payments effected on the stock of unpaid bills at end-March 2009 and will be transmitted to the IMF before end-January 2010.

21. We have continued our efforts to improve fiscal management supported by our external partners in the context of the action plan for improving and modernizing public finance (PAGAM/GFP). The 2008 implementation of the PAGAM was reviewed positively by our development partners in May 2009 and will be subject to an evaluation by an international consultancy firm, whose recruitment is expected to follow a call for interest in April 2009. This first generation of the PAGAM/GFP has allowed, in particular, for the interconnection of spending authorities, the revision of the Public Procurement Code, the implementation of the Public Procurement Regulatory Authority, and the adoption by the Government of a draft law to reinforce the Accounts Section of the Supreme Court. To consolidate these achievements, the government will formulate a second generation of reforms based on the norms of the Public Expenditure and Financial Accountability (PEFA) framework.

22. Improving domestic resource mobilization remains a major priority of the Government. To that end, the Directorate-General of Taxes (DGI) has conducted studies in preparation for the creation of a tax center for medium-sized enterprises, the start-up of which is planned by end-September, 2009 (structural benchmark). In addition, to refocus the management of overdue taxes, the DGI has committed to compiling a separate inventory of unrecoverable claims. However, the tax administration is finding it difficult to implement the pertinent procedures as well as to manage and monitor tax exemptions because of frequent taxpayer challenges to the interpretation of the procedures and documents in question. Finally, in the context of the second memorandum of understanding with the mining companies, the government has taken temporary measures to prevent the accumulation of VAT credits but has started discussions on a definitive and sustainable approach to the problem of managing VAT credits. The government is seeking technical assistance from the Fund to support the reforms and discussions initiated by the DGI on these various fronts.

23. The reform of the Directorate-General of Customs (DGD) will also be continued in 2009, through better monitoring of exemptions in accordance with the government's commitments and through the creation of nine mobile offices and teams in the context of a four-year program to change the customs surveillance map. In addition, the DGD will strengthen the X-ray scanning of imported merchandise and the import pre-shipment inspection program. It will also implement the new automobile transit procedure and will continue to expand the application of ASYCUDA ++ to include additional frontier posts and its offices in the ports of Dakar and Abidjan.

24. Also, to improve government finance statistics in collaboration with the BCEAO, by end-2009 the authorities will draw up: (i) a complete inventory of the accounts included in the banking system's net credit to government; and (ii) a methodology for recording of those accounts, based on the appropriate classification for them in the fiscal reporting table (structural benchmark).

25. In addition, important steps have been taken over the past few years to improve strategic planning through the medium-term budgetary framework (MTBF), the medium-term expenditure framework (MTEF), and the program budget. This results-oriented management approach involving a closer link between the budget and sectoral and national strategies will be further developed. In this context, work will begin on an analysis of the methodologies used for preparing the MTEF. The government also intends to implement the 2009–2015 action plan to better implement program budgeting that was prepared with IMF technical assistance and in particular: (i) realigning normative, budgetary, and accounting systems on the program budgeting framework; (ii) making managers accountable and redefining the roles of program budget operators; and (iii) improving the public financial management system.

## **Structural reforms**

### *Financial sector*

26. In July 2008, the cabinet approved the Financial Sector Development Strategy, which reflected recommendations of the Financial Sector Assessment conducted jointly by the Bank and the Fund. The committee created to monitor its implementation will be operational by end-September 2009. Among the recommendations already implemented, particularly noteworthy are the following: (i) the privatization of the International Bank of Mali (BIM); (ii) the restructuring of Initiative Credit, LLC (CI-SA) through its merger with the Solidarity Bank of Mali (BMS SA); and (iii) the adoption by the Government of a new regulatory framework for microfinance.

27. Our financial system has remained virtually unaffected by the global financial crisis, due mainly to its low level of integration into international financial markets. To increase the soundness of the regional banking system, the Council of Ministers of the West African Monetary Union decided in September 2007 to raise the minimum capital required of banks and financial institutions by end-2010 to CFAF 5 billion and CFAF 1 billion, respectively. Following this first phase, a timetable will be established to raise the minimum capital requirement to CFAF 10 billion for banks and CFAF 3 billion for financial institutions. The monetary authorities have also decided to strengthen banking supervision.

28. The restructuring of the BHM is a top priority for the authorities. Repairing the bank's profit and loss statement will require the injection of new resources to permit the resumption of lending on a sustainable basis. Based on the restructuring plan finalized with technical assistance and on the advice we have recently requested from the BCEAO, the Government will decide by end-2009 on the strategy to be adopted and a timetable for government divestiture from the BHM (structural benchmark). Additional technical assistance may be needed to establish the method and the timetable for implementation of our decision. Meanwhile, the government will assume responsibility for the interest arrears due to a syndicate of banks (CFAF 1 billion) and the cost of staff redundancies, estimated at CFAF 0.8 billion and aimed at reducing personnel costs by 25 percent.

29. In the context of improving the financial position and management of the social security institutions (notably by the parametric reform of the Malian Retirement Fund, CRM), the government has forwarded to Parliament the draft law establishing a Pension Code for civil servants, military personnel, and members of parliament. The National Assembly plans to debate this legislation in June and July 2009.

30. Furthermore, some microfinance institutions are in need of stronger management and information systems. Assistance will be sought from the World Bank to conduct activities for monitoring the national microfinance development action plan.

#### *Agricultural sector*

31. The government considers development of agriculture a major objective, given this sector's potential for generating economic growth and poverty reduction. In the wake of the Rice Initiative, the government has decided to maintain its support for the rice sector and to extend that support to wheat, maize, and cotton, so as to ensure improved food security and the recovery of cotton. Within the framework of its support for this sector and preparation of the 2010 budget, the government will set up, by end-September 2009, a system for providing subsidies for inputs to cereal and cotton farming. These subsidies will be targeted, limited, and supported by a monitoring and evaluation mechanism (structural benchmark). The annual budgetary cost will not exceed an amount equivalent to 0.5 percentage points of GDP in 2009 and 2010. Improving the management of natural resources in the area covered by the Niger River Authority is also an important concern for the government. The recent establishment of a ministerial-level secretariat in the Office of the Prime Minister should provide a greater understanding of government policy and facilitate the dialogue with our development partners.

32. Cotton sector recovery remains a major government priority, given the importance of this sector for employment, agricultural development, and economic growth. To this end, a financial road map for the 2009/10 crop season will be formulated by end-September 2009, to facilitate effective monitoring of the financial operations of the CMDT (revenue, obligations, payments, indebtedness, and past-due balances vis-à-vis other actors in the sector). This road map will be updated on a monthly basis and forwarded to Fund staff (structural benchmark). Recovery of the sector is also dependent on extensive restructuring of the sector and of the CMDT with a view to its upcoming privatization. To that end, the CMDT has been split into a holding company and four regional subsidiaries, each endowed with positive net assets. In addition, two management and monitoring bodies (Cotton Classification Office and Cotton Interprofessional Association) have been set up, and an Economic Interest Group that includes

the CMDT, the Producers Union, and the Office of the Upper Niger Valley has been formed to manage inputs.

*Gold sector*

33. The mining of our gold resources has, for the past several years, provided a large portion of our budgetary revenue and our export receipts. Our economy is therefore vulnerable to fluctuations in world gold prices. Moreover, our principal gold mines will probably be exhausted within a few years. In this context, an interdisciplinary government team will conduct, by end-2009, a study on the macroeconomic impact (balance of payments, employment, growth, budget) of this sector and on its medium-term outlook (structural benchmark). In addition, in the context of Mali's candidacy to join the Extractive Industries Transparency Initiative (EITI), a report has been completed to compare the information provided by the mining companies regarding their net tax contributions with the data in the government accounts. The preliminary draft report is being reviewed by both parties to reconcile differences.

*Telecommunications sector*

34. The government is continuing its discussions with the entity submitting the best bid among the offers received last January for privatizing the national telecommunications company (SOTELMA) at the earliest opportunity. The macroeconomic impact of that operation will depend largely on how the expected receipts are used. The government will consult with Fund staff on this matter.

*Program modalities*

35. The discussions for the third review under the PRGF arrangement will focus on the implementation of structural reforms and the draft 2010 budget, taking into account the anchoring of public finances on convergence towards the relevant WAEMU norms. These discussions will also cover a debt sustainability analysis to be prepared by the staffs of the IMF and the World Bank in collaboration with the Public Debt Office.

36. Performance under the program will be assessed as per Tables 1 and 2 and the attached technical memorandum of understanding. In this context, we request: (i) the addition of a new adjustor for the quantitative performance criteria on the net domestic financing and the net bank and market financing of the budget to take into account deviations from the targeted reduction of the domestic float; (ii) the removal of the structural performance criterion barring customs exemptions that are not explicitly provided by law or approved by the Council of Ministers, in line with the new Fund policy on structural conditionality and in light of the existing indicator on net tax revenue; (iii) the exclusion of bank loans originating in the WAEMU region from the definition of external debt and from the zero ceiling on nonconcessional borrowing; and (iv) a modification of the performance criteria for end-June 2009 to take into account the increased bank financing needed for the reduction of the payment float and the recapitalization of the BHM. The third review is scheduled to be completed by end-December 2009, on the basis of performance criteria for end-June 2009, and the fourth review is scheduled to be completed by end-May 2010 on the basis of the performance criteria at end-December 2009.

37. The Government believes that the policies set forth in the letter are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Mali will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in the letter, in accordance with the Fund's policies on such consultation. The Government will provide Fund staff with any information required on progress made in implementing the economic and financial policies and monitoring program objectives. During the program, the Government will not introduce or intensify any exchange restrictions, multiple currency practice, or import restriction for balance of payments purposes, nor conclude any bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement. The government authorizes the Fund to publish this letter and the staff report relating to this request.

Sincerely yours,

/s/

Mr. Sanoussi Touré  
Minister of Economy and Finance  
Republic of Mali

**Table 1. Mali: Quantitative Performance Criteria and Indicative Targets for 2008-09<sup>1</sup>**

	2008			2009			2009			2009		
	Dec.		Actual	March		Prel. <sup>6</sup>	June		Sep.		Dec.	
	Perf. Criteria	Adjusted		Indic. Targets	Adjusted Targets		Perf. Criteria	Rev. Perf. Criteria	Indic. Targets	Rev. Ind. Targets	Indic. Targets	Perf. Criteria
<b>Quantitative performance criteria<sup>1</sup></b>	(CFAF billions)											
Net domestic financing of the Government (ceiling) <sup>2</sup>	40.3	40.3	-8.1	10.0	11.8	13.1	25.0	45.0	35.0	50.0	43.0	33.4
<i>Of which: Bank and market financing<sup>2</sup></i>	49.7	49.7	-28.4	15.0	16.8	22.3	25.0	80.0	30.0	90.0	35.0	62.5
Cumulative increase in external payments arrears (ceiling) <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New external borrowing at terms of one year or more contracted or guaranteed by the government on nonconcessional terms <sup>3,4</sup>	0.0	0.0	0.0	0.0	0.0	17.5 <sup>7</sup>	0.0	0.0	0.0	0.0	0.0	0.0
New short-term external credits (less than one year) contracted or guaranteed by the government (ceiling) <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net tax revenue <sup>5</sup>	514.7	514.7	519.4	140.0	140.0	143.5	290.0	290.0	430.0	430.0	603.0	603.0
<b>Financial indicators (floors)</b>												
Basic fiscal balance	-67.0	-67.0	-48.1	-10.0	-10.0	17.1	-30.0	-20.0	-50.0	-40.0	-82.0	-62.0
<i>Memorandum items:</i>												
External budgetary assistance during the year <sup>1 5</sup>	55.7		54.1	20.0		6.4	40.0	48.0	60.0	32.0	86.0	92.0
HIPC Initiative debt relief <sup>1</sup>	12.7		10.9	1.0		1.8	...	6.3	...	8.1	11.2	11.2

<sup>1</sup> Cumulative figures from the beginning of each year. Noncontinuous performance criteria at end-March and end-September 2009 are quantitative benchmarks. See technical memorandum of understandings for definitions.

<sup>2</sup> These quantitative targets are before payment of VAT credits in arrears. The revised targets for the end-June, end-September, and end-December 2009 reflect the recapitalization of the Housing Bank of Mali (BHM) for CFAF 19.1 billion in May 2009 and net projected reductions of the payment float by CFAF 45 billion at end-June and end-September 2009, and CFAF 30 billion at end-December 2009 (the program includes an adjustor for any deviations from the targets on the reduction of the payment float).

<sup>3</sup> These performance criteria will be monitored on a continuous basis.

<sup>4</sup> Grant component equal to or higher than 35 percent.

<sup>5</sup> Excluding Fund resources.

<sup>6</sup> The nonobservance of the quantitative indicators for net domestic financing and bank and market financing results from a bond issue that was initiated in December 2008 but effective on January 2, 2009, leading to a downward correction of CFAF 12.3 billion at end-December 2008 and an upward revision of the same amount at end-March 2009 in market financing.

<sup>7</sup> Part of two CFAF syndicated loans that were signed in April and May 2009 for a total of CFAF 38 billion for the payment of VAT credit arrears and that involved non-Malian banks in the WAEMU and CEMAC CFA franc zones.

Table 2. Mali: Structural Conditionality for Second Review of the PRGF-Supported Program

Measures	Test Date	Status	
		At test date	On June 15, 2009
<b>Prior actions</b>			
1 Transmittal of the report for the restructuring of the BHM to the Banking Commission for review and to the Central Bank BCEAO for guidance			Done (June 11, 2009)
2 Publication of a directive by the water and energy regulating body (CREE) that sets the conditions for the implementation of a 4 percent average increase in the electricity tariff on July 1, 2009.			Done (May 26, 2009)
<b>Performance criteria</b>			
1 Elimination of all customs exemptions not explicitly provided for by law (unless approved by Cabinet of Ministers)	Continuous PC	Observed	Observed
2 Launch of a call for tenders for the sale of Government shares in SOTELMA	End-December 2008	Observed	Observed
3 Submission to the Regional Banking Commission of a restructuring plan for BHM, raising capital and liquidity ratios to WAEMU prudential norms	End-March 2009	Not observed	Observed (see prior actions)
<b>Benchmarks</b>			
1 Adoption by the Council of Ministers of the reform master plan and of a development contract at the Niger Authority	End-December 2008	Observed	Observed
2 Government announcement of a new timetable for the transition phase before privatization of the CMDT clearly assigning roles for financing the 2009/10 harvest beginning January 2009	End-December 2008	Not observed	Observed
3 Adoption of a new tariff formula for electricity pricing	End-March 2009	Not observed	Observed (see prior actions)
4 Adoption by the Council of Ministers of a new institutional public service framework for water and electricity	End-March 2009	Not observed	Not observed (delay in completion of external study; reform to be followed by World Bank)

**Table 3: Mali, Structural Benchmarks for the Third and Fourth Reviews  
Under the PRGF Program**

**For end-September 2009 (in the context of the 3rd program review)**

1. Regarding revenue mobilization, put in place the tax center for medium-sized enterprises (CIME) and start up its activities.
2. Regarding government cash flow management, prepare a government cash flow plan consistent with budget nomenclature (section, economic code) to facilitate (i) quarterly monitoring of budget execution in terms of commitment, validation, payment authorization, and payment of expenditure, and (ii) better alignment of budget execution with available resources.
3. Regarding monitoring of the cotton sector, and in consultation with the IMF, prepare a monthly financial chart for the 2009/10 crop season to promote the effective monitoring of financial operations (revenue, commitments, payment, debt, amounts unpaid) of the various participants in the sector (producers, CMDT, suppliers, banks, the government).
4. Regarding government support for the agricultural sector and preparation of the 2010 budget, put in place a dedicated, targeted input subsidization system for grain and cotton crops, including modalities for implementation, follow-up, and assessment.

**For end-December 2009 (in the context of the 4th program review)**

1. Regarding domestic debt management, on the basis of the Auditor General's report on the budgetary float at end-March 2008 and the report to be produced by the Controller General's Office and the Inspectorate General of Finance at end-March 2009, put in place a system to monitor budgetary float supported by improvements in the Treasury's accounting, cash flow management, and information systems, in consultation with IMF staff.
2. Regarding strengthening the banking sector, by government decision, adopt a strategy and timeframe for government divestment of the Banque de l'Habitat du Mali (BHM).
3. Regarding growth, finalize the government study on the macroeconomic impact of the gold mining sector (balance of payments, growth, employment, budget) and its medium-term prospects.
4. Regarding public finance statistics, in conjunction with the BCEAO, prepare (i) an exhaustive inventory of the bank accounts taken into account in the net government position, and (ii) an appropriate methodology for recording movements on these accounts, based on an accepted classification (such as projects, correspondents, etc.), in the government flow of funds table (TOFE).

## Attachment I

### Technical Memorandum of Understanding

1. This technical memorandum of understanding defines the performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement. It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program-monitoring purposes.

#### I. DEFINITIONS

2. Unless otherwise indicated, the Government is defined as the central administration of the Republic of Mali and does not include local administrations, the central bank, or any other public entity with autonomous legal personality that is not included in the table of Government financial operations (TOFE).

3. The definitions of “debt” and “concessional loans” for the purposes of this memorandum of understanding are as follows:

- (a) Debt is defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (see Decision of the Executive Directors of the IMF No. 12274-00/85, August 24, 2000).
- (b) A loan is considered concessional if, on the date the contract is signed, the ratio of the present value of the debt, based on the reference interest rates, to the nominal value of the debt is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

#### II. QUANTITATIVE PERFORMANCE CRITERIA AND FINANCIAL INDICATORS

**Except as noted, the following financial variables shall constitute performance criteria at end-June and End-December and financial indicators otherwise. The basic fiscal balance is a financial indicator at all test dates.**

##### A. Ceiling on Net Domestic Financing of the Government; Subceiling on Net Domestic Bank and Market Financing of the Government

4. Net domestic financing is defined as the sum of (i) net bank credit to Government, as defined below, (ii) other Government claims and debts vis-à-vis national banking institutions, and (iii) nonbank financing of the Government.

5. Figures on net bank credit to Government are calculated by the BCEAO. Figures on nonbank financing are calculated by the public treasury, and are final in the context of the program.

6. Net bank credit to Government is defined as the balance between Government debts and Government claims vis-à-vis the central bank and commercial banks. The scope of net bank credit to Government is that used by the Central Bank of West African States (BCEAO) and is consistent with established Fund practice in this area. It implies a broader definition of Government than that specified in paragraph 2 by also including local governments, and selected autonomous government agencies and projects. Government claims include the CFA franc cash balance, postal checking accounts, secured liabilities (*obligations cautionnées*), and all deposits with the BCEAO and commercial banks of public entities, with the exception of industrial or commercial public institutions (EPICs) and public enterprises, which are excluded from the calculation. Government debts to the banking system include all debts to these same financial institutions. Deposits of the cotton stabilization fund and Government securities held outside the Malian banking system are not included in the calculation of net bank credit to Government.

7. Nonbank financing of the Government is defined as nonbank market financing and other nonbank financing. Nonbank market financing includes sales net of repayments of Government bills and bonds held outside national banking institutions. Other nonbank financing of the Government includes proceeds from the sale of Government assets, repayments on domestic debt to nonbank creditors, and other net claims on the treasury. The receipts from sale of Government assets are defined as the proceeds from the sale, effectively received by the Government during the fiscal year, of all or part of the shares held by the Government in privatized enterprises. In the event that payments in respect of these sale transactions are expected to extend beyond the fiscal year, the residual will be included in the calculation of nonbank financing of the Government in each of the subsequent years, in accordance with the annual scheduling of the expected payments.

8. Net domestic bank and market financing of the Government is defined as the sum of (i) net bank credit to Government, as defined above, (ii) other Government claims and debts vis-à-vis national banking institutions, and (iii) nonbank financing of the Government through the issuance of securities to nonbanks.

### **Adjustment factors**

9. The ceiling on the change in net domestic financing of the Government will be adjusted down (up) if external budgetary assistance exceeds (falls short of) the program amount. Budgetary assistance is defined as grants, loans, and debt relief (excluding project loans and grants, IMF resources, and debt relief under the Initiative for Heavily Indebted Poor Countries). Adjustment will be made at a rate of nil percent for amounts up to

CFAF 10 billion; 50 percent for amounts from CFAF 10 billion up to CFAF 25 billion; and 75 percent for amounts in excess of CFAF 25 billion.

10. The ceiling on the change in net domestic financing of the Government and the sub-ceiling on bank and market financing will be adjusted up in the amount of the face value of the securities issued relating to VAT and duty refund payments accrued during 2006 and 2007 up to a maximum of CFAF 62 billion.

11. The ceiling on the change in net domestic financing of the Government and the sub-ceiling on bank and market financing will be adjusted up (down) if the actual net reduction of the payment float exceeds (falls short) of the programmed amounts (CFAF 45 billion at end-June and end-September 2009, and CFAF 30 billion at end-December 2009).

### **B. Nonaccumulation of External Public Payments Arrears**

12. External payments arrears are defined as the sum of external payments due and unpaid for external liabilities of the Government and foreign debt held or guaranteed by the Government. The definition of external debt provided in paragraph 3(a) applies here.

13. Under the program, the Government will not accumulate external payments arrears, with the exception of arrears arising from debt under renegotiation or being rescheduled. The performance criterion on the nonaccumulation of external payments arrears will be applied on a continuous basis throughout the program period.

### **C. Ceiling on Nonconcessional External Debt with a Maturity of One Year or More Newly Contracted or Guaranteed by the Government and/or Public Enterprises**

14. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00)), but also to commitments contracted or guaranteed for which no value has yet been received.

15. The concept of Government for the purposes of this performance criterion includes Government as defined in paragraph 2, administrative public institutions (EPAs), scientific and/or technical public institutions, professional public institutions, industrial and/or commercial public institutions (EPICs), and local governments.

16. Starting on the date of program approval by the Executive Board of the IMF, a ceiling of zero is set for nonconcessional borrowing. This performance criterion is monitored on a continuous basis.

17. The Government undertakes not to contract or guarantee external debt with a maturity of one year or more and a grant element of less than 35 percent (calculated using the

reference interest rates corresponding to the borrowing currencies provided by the IMF). This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing, adopted by the Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which no value has yet been received. However, the criterion does not apply to (i) financing granted by the IMF, (ii) debt rescheduling transactions of debt existing at the time of the approval of the PRGF arrangement, and (iii) CFA debt contracted or guaranteed by the Government with West African Economic and Monetary Union (WAEMU) residents (including CFA debt initially contracted or guaranteed by the Government with WAEMU residents and subsequently acquired by nonresidents).

**D. Ceiling on Short-Term External Debt Newly Contracted or Guaranteed by the Government and/or Public Enterprises**

18. The definition in paragraph 2 and 3 of this TMU applies to this performance criterion. Short-term external debt is debt with a contractual term of less than one year. Import-related credit, CMDT foreign borrowing secured by the proceeds of cotton exports, and debt-relief operations are excluded from this performance criterion. Treasury bills issued in CFA francs on the WAEMU regional market are also excluded. In the context of the program, the Government and public enterprises will not contract, or guarantee, short-term external debt. This performance criterion is monitored on a continuous basis.

**E. Floor on Cumulative Net Tax Revenues**

19. Government tax revenues are defined as those that figure in the Table on Government financial operations (TOFE), and include all tax revenues accruing to the ordinary budget. Net tax revenues are gross tax revenues less tax refunds, notably on VAT; however, refunds from prior fiscal years settled under a formal agreement are excluded from this definition. The Government shall report cumulative tax revenues from the start of each year to IMF staff each month in the context of the TOFE. Performance criteria and quantitative performance indicators for cumulative net tax revenues are set in Table 1 attached to the Letter of Intent.

**F. Floor on the Basic Fiscal Balance, Excluding HIPC Initiative-Related Expenditure**

20. The basic fiscal balance is defined as the difference between total revenues, excluding grants and privatization receipts, and total expenditure plus net lending, excluding capital expenditure financed by foreign donors and lenders and HIPC Initiative-related expenditures. The floors for the performance indicators for the basic fiscal balance, excluding HIPC Initiative-related expenditure, are set in Table 1 attached to the Letter of Intent.

### III. STRUCTURAL MEASURES

21. Information relating to the introduction of the measures constituting structural benchmarks and performance criteria will be sent to Fund staff within two weeks of the date of their scheduled implementation.

### IV. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

22. The Government will provide IMF staff with information as set out in the following summary table in order to assist in the monitoring of the program.

#### SUMMARY OF DATA TO BE REPORTED

Data Type	Tables	Frequency	Time Frame
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of the national accounts	Variable	8 weeks following the revision
	Disaggregated consumer price indexes	Monthly	End of month + 2 weeks
Government finances	Net Government position (including the list of accounts of other public entities with the banking system) and breakdown of nonbank financing	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Treasury general ledger	Monthly	End of month + 4 weeks
	TOFE of the central Government and consolidated TOFE	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Budget execution through the expenditure chain as recorded in the automated system	Monthly	End of month + 2 weeks
	Breakdown of fiscal revenue and expenditure in the context of the TOFE	Monthly	End of month + 6 weeks (TOFE)
	Separate report on outlays financed with HIPC resources	Monthly	End of month + 6 weeks
	Execution of capital budget	Quarterly	End of quarter + 8 weeks
	Tax revenues in the context of the TOFE	Monthly	End of month + 6 weeks
	Wage bill in the context of the TOFE	Monthly	End of month + 6 weeks
	Basic fiscal balance in the context of the TOFE	Monthly	End of month + 6 weeks
	Regulatory order setting prices of petroleum products, tax revenues from petroleum products, and subsidies paid	Monthly	End of month
Imports of petroleum products by type and point of entry	Monthly	End of month + 2 weeks	

Data Type	Tables	Frequency	Time Frame
	Customs exemptions	Monthly	End of month + 4 weeks
	Treasury operations of the CMDT	Monthly	End of month + 4 weeks
Monetary and financial data	Summary accounts of the BCEAO, summary accounts of banks, and accounts of the banking system	Monthly	End of month + 4 weeks (provisional); end of month + 8 weeks (final)
	Foreign assets and liabilities and other items net of the BCEAO and the commercial banks.	Monthly	End of month + 8 weeks
	Lending and deposit interest rates, BCEAO intervention rates, and BCEAO reserve requirements	Monthly	End of month + 4 weeks
	Bank prudential ratios	Monthly	End of month + 6 weeks
Balance of payments	Balance of payments	Annual	End of year + 12 months
	Revisions of balance of payments	Variable	8 weeks following each revision
External debt	Breakdown of all new external borrowing terms	Monthly	End of month + 4 weeks
	Debt service, indicating amortization, interest payments, and relief obtained under the HIPC Initiative	Monthly	End of month + 4 weeks
PRSP	Share of poverty-reducing expenditure	Quarterly	End of quarter + 4 weeks
	Share of primary education in total education outlays	Quarterly	End of quarter + 4 weeks
	Gross enrollment ratio in primary education, by gender	Annual	Beginning of the next academic year +1 month (final)
	Percentage of the population having access to health care facilities within a radius of 15 kilometers	Annual	End of year + 2 months
	Rate of assisted births	Annual	End of year + 2 months
	Data on immunization rate DTCP3 of child below 1 year	Annual	End of year + 2 months