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

December 31, 2010

The following item is a Letter of Intent of the government of Mali, which describes the policies that Mali intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Mali, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

LETTER OF INTENT

Bamako, December 31, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Mr. Strauss-Kahn:

1. The fourth review of our economic and financial program, supported by an arrangement under the Extended Credit Facility (ECF), was completed favorably by the IMF Executive Board on July 16, 2010.
2. The attached Memorandum on Economic and Financial Policies (MEFP) describes recent developments in the Malian economy and the progress made in implementing our program during the second and third quarters of 2010. This memorandum also sets out the economic and financial policies that the Malian government intends to pursue in 2011.
3. The government's ongoing efforts to strengthen the tax and customs administration and to control public expenditure enabled it to meet all the performance criteria and indicative targets for end-June 2010, with the exception of the floor on social spending. The same is true of the indicative targets for end-September 2010. The under execution of social spending is due to a delay in the execution of all expenditure, which the government is determined to rectify by the end of the year.
4. In 2011, the government will continue conducting a prudent fiscal policy, carry out reforms in all areas of fiscal management, and further its efforts to develop the financial sector and restructure the cotton sector. In view of our overall achievements and based on the measures spelled out in the attached MEFP, we request the favorable conclusion of the fifth review under our ECF-supported program and the related sixth disbursement, amounting to the equivalent of SDR 2 million.
5. In addition, the government requests that the IMF Executive Board kindly extend this arrangement under the ECF from its current expiration date of May 27, 2011 to end-2011, and that it reschedule the disbursement of the equivalent of SDR 2 million slated for the sixth review in two equal tranches, under a sixth review to be completed by May 15, 2011 based on end-December 2010 performance criteria and under a seventh review to be completed by

December 1, 2011 based on end-June 2011 performance criteria. The government also requests the establishment of end-June 2011 performance criteria. We believe that such an extension will enable us to take fuller account of the findings of the retrospective analysis of seven years of cooperation between Mali and the IMF currently being conducted by IMF staff, before deciding on a new multiyear economic and financial program eligible for IMF support.

6. The government believes that the measures and policies described in the attached MEFP are appropriate for attaining the objectives of its program in 2011. It will take any additional steps necessary to that end. Mali will consult with the IMF on the adoption of such measures and before any revision of the policies described in the attached MEFP, in accordance with the IMF's policies on such consultations. The government will provide Fund staff with any required information referred to in the Technical Memorandum of Understanding concerning progress made under the program. During the program, the government will not introduce or strengthen any exchange controls, multiple exchange rate practices, or import restrictions for balance of payments purposes, or conclude any bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement.

7. The government intends to make public the contents of the IMF staff report, including this letter, the attached MEFP, the Technical Memorandum of Understanding, as well as the debt sustainability analysis and the informational annex. It therefore authorizes the IMF to publish these documents on its website following the conclusion of the fifth review by the IMF Executive Board.

Sincerely yours,

/s/

Sanoussi TOURE
Minister of Economy and Finance

Attachments:

- Memorandum on Economic and Financial Policies
- Technical Memorandum of Understanding

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2010–11

1. The present memorandum of economic and financial policies describes recent developments in Mali and sets out the country's economic and financial policies in 2010 and 2011 as part of the fifth review under the three-year arrangement under the Extended Credit Facility (ECF).

**I. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION
DURING THE LAST THREE QUARTERS OF 2010, AND OUTLOOK FOR THE END OF THE YEAR**

2. In 2010, real GDP growth is expected to remain at approximately 4.5 percent. The sharp decline in gold production (-16.5 percent) due to the delay in commencing the operation of a new mine should be more than offset by the strong growth in the agricultural sector, which has benefited from favorable levels of rainfall and positive conditions for the crop season, including the government's financial support for farmers in the form of input subsidies. The positive conditions for the crop season are expected to hold inflation, which averaged 1.2 percent on an annualized basis as of end-November, below 1.5 percent for the year as a whole.

3. The balance-of-payments current-account deficit, including grants, is projected to widen to 8.5 percent of GDP. That deficit will be almost entirely financed by net capital inflows, particularly through foreign aid and foreign direct investment. As a result, the overall balance-of-payments result should show a deficit of about CFAF 36 billion (US\$71 million), financed by drawing on the foreign exchange reserves of the Central Bank of West African States (BCEAO).

4. The money supply increased by 2.9 percent during the first nine months of 2010, driven by credit to the government. Credit to the private sector increased by only 1.4 percent during the same period, but is expected to grow at a somewhat higher pace during the fourth quarter in response to increased year-end demand for consumer credit. For 2010 as a whole, the money supply should increase by 13 percent on account of credit to the government. The most recent data available on the stability of the financial sector indicate a banking sector capital adequacy ratio of more than 8 percent.

5. Government finances have been consistent with program targets during the first nine months of the year. By end-September, the basic budget balance showed a surplus of CFAF 55 billion (1.2 percent of GDP), versus a projected shortfall of CFAF 92 billion (2 percent of GDP). The underlying basic budget balance (excluding spending financed by income from the privatization of SOTELMA) has also not been executed fully (a surplus of CFAF 81 billion or 1.8 percent of GDP) compared with the figure programmed (a shortfall of CFAF 48 billion or 1 percent of GDP). This result is attributable to the strong performance of tax revenue and delays in expenditure, especially capital outlays. All payments outstanding from 2009, amounting to CFAF 129 billion, were cleared during the first eight months of

2010. All performance criteria and indicative targets for end-June and end-September were observed, except for the floors for priority expenditure, whose execution posted a shortfall of CFAF 25 billion compared with the amount programmed for end-September (see Table 1). This delay will be made up by the end of the year.

6. The government will take all measures necessary to keep budget execution on track to fulfill the program up to the end of the year. The inspection of budget execution as of end-October, carried out with Fund staff, showed that full execution of spending called for under the supplementary 2010 budget could result in exceeding the ceiling on net domestic financing by banks and the market in the amount of CFAF 20 billion owing to a likely shortfall on the advance tax installments paid by mining companies from now until end-year, compared with the amounts programmed. If necessary, the government will regulate expenditures up to an appropriate level so as to comply with performance criteria to the end of the year. The government will refund value-added tax (VAT) credit arrears up to a minimum of CFAF 39 billion, and will limit payment float to a maximum of CFAF 80 billion by end-2010. For FY 2010, commitments can be accepted only up to November 30 except for expenditure in the areas of personnel, communications, energy, study grants, shared utility costs (*charges communes*), sectoral budget support expenditures, and expenditures charged to HIPC resources, for which commitments can be accepted up to December 31, 2010. This represents significant progress compared with FY 2009, when commitments for capital expenditures could be accepted right up to December 31. Payment orders will be accepted up to January 31, 2011. To improve budget management further in 2011, payment orders will be accepted only up to December 31, 2011, and the payments themselves will have to be made by January 31, 2012, in line with the WAEMU directive in this regard, which is to be incorporated into Malian law by end-2011 (§26).

7. Three of the four measures covered by the structural benchmarks planned for completion by end-June 2010 have been implemented (Table 2):

- The expenditure management software (PRED 5) was put into operation on September 1, 2010.
- A new layout for the Central Government Consolidated Financial Operations Table (TOFE) is now being developed with technical assistance from Fund staff and West AFRITAC. Regular production of the TOFE using this new layout has nevertheless been delayed, particularly because of a lack of detailed information about government accounts in commercial banks. In collaboration with the BCEAO, the Treasury will, by end-May 2011, prepare the end March 2011 TOFE according to a new layout as described below (§27).
- The institutional cash-flow management framework has been defined. The Technical Committee on Cash Flow Management was established pursuant to a ministerial decision on October 25, 2010, to perform weekly monitoring of the cash-flow plan and

to propose to the Minister of Economy and Finance any measures necessary regarding government cash flow. If necessary, that committee can propose any necessary decisions to the Inter-Ministerial Committee to Monitor the Macroeconomic Framework chaired by the Prime Minister.

- The Policy Letter to Support the Cotton Sector, which sets out guidelines for promoting the cotton sector in Mali following the privatization of subsidiaries of the *Compagnie malienne pour le développement des textiles* (Malian Textile Development Company, CMDT), was finalized in August 2010 and approved by the Council of Ministers on October 8, 2010.
8. The government has also taken the necessary action to establish structural benchmarks to be put in place by the end of the year (Table 2):
- The government is finalizing a strategy to assure the regular refund of VAT credits from January 1, 2011 (¶21).
 - The Ministry of Economy and Finance is preparing an assessment of the restructuring of the Malian Housing Bank (BHM), including the use of public funds transferred to the BHM during the first half of 2010 to restart its lending activity. This assessment will incorporate the conclusions of the technical assistance provided by West African Regional Technical Assistance Center (AFRITAC) in July and September 2010.
 - To strengthen revenues further while rationalizing and modernizing tax legislation, the Directorate General of Taxation (DGI) will, by the end of the year, prepare a memorandum proposing the strategy for reforming the tax system based on types of taxes. In particular, it will take account of the diagnostic analyses performed and the recommendations put forward by the technical assistance mission from the Fund's Fiscal Affairs Department in September 2010.
 - The Treasury's new integrated accounting application and its interface with PRED 5 will be placed in operation in the General Payments Office (PGT) of the Treasury, the accounting office which processes 80 percent of national budget expenditure, by January 3, 2011.

II. THE PROGRAM IN 2011

A. Implementation of the Growth and Poverty Reduction Strategy Paper (G-PRSP)

9. Implementation of Phase II of the G-PRSP (2007 to 2011) is regarded as satisfactory. This is demonstrated by the results obtained in 2008 and 2009 in which most indicators, particularly social indicators, posted significant progress. It was possible to achieve these results thanks to the application of the budget policy consistent with the G-PRSP's

objectives. Nevertheless, progress remains to be made, particularly in targeting the allocation and improving the quality of expenditure (effectiveness and efficiency) in 2011, the final year of G-PRSP II, and beyond.

10. In 2011, high-priority measures will focus chiefly on activities in six areas which will receive special emphasis out of the 14 high-priority areas indicated in G-PRSP II. The six areas are as follows: education; health; food security and rural development; the development of small and medium-sized enterprises; the furtherance of reforms in the business environment; and the promotion of democratic governance and public freedoms.

11. At the end of G-PRSP II, the government plans to establish a new G-PRSP covering the period from 2012 to 2016. G-PRSP III, like the earlier G-PRSPs, will provide a framework for the government's economic, financial, and sectoral policies. Preparation of the new G-PRSP will be participatory, involving civil society, the private sector, and technical and financial partners (TFPs). Work on preparing G-PRSP III should begin by end-2010, and continue through the first half of 2011. The new document should be available by the time work begins on drafting the 2012 budget, which is to reflect G-PRSP III's budget measures.

B. Macroeconomic framework

12. In 2011, real GDP growth is expected to be 6 percent as a result of higher gold production and farm output, as well as higher gold and cotton prices. Provided that levels of rainfall are favorable, inflation should remain comfortably within WAEMU convergence target of 3 percent. Budget policy will remain prudent, and will aim to hold the underlying basic budget balance at 1.3 percent of GDP. The increase in gold exports should make it possible to improve the trade balance and the overall balance-of-payments result, and to generate a positive contribution to the BCEAO's foreign exchange reserves. The growth in net foreign assets, credit to the government and credit to the private sector should increase the money supply at a somewhat faster pace than nominal GDP growth, in line with the deepening of financial intermediation observed in recent years.

C. Economic and financial policies

Budget policy and reforms

Fiscal policy

13. The government has committed itself to pursuing a prudent budget policy. The 2011 draft budget presented in Parliament on October 1 calls for a deficit in the underlying basic budget balance of CFAF 64 billion (1.3 percent of GDP). Net tax revenue is forecasted at CFAF 748 billion (14.9 percent of GDP), representing a slight increase in the tax ratio from 14.8 percent expected in 2010. The increase in revenue is derived mainly from better administration of taxpayers and of import transactions by the DGI and the Directorate General of Customs (DGD). The government also plans to introduce a new 2 percent charge

on telephone communications, whose impact on revenue should be largely offset by allocating the proceeds of the employers' payroll tax to the Malian Housing Authority (OMH) to finance social housing (¶32).

14. Total expenditure and net lending are limited to CFAF 1,304 billion (25.9 percent of GDP compared with 24.2 percent of GDP expected in 2010). Within that ceiling, current expenditure is to increase by 10 percent because of higher bonuses and benefits, additional personnel recruitment in education and in the security sectors (to deal with the terrorist threat in the north of the country), and higher contributions for the mandatory health insurance and pension plan for civil servants. With CFAF 370 CFA billion of domestic resources (i.e., disregarding external financing for the special investment budget) dedicated to the high-priority sectors of education, health, and other social sectors, which corresponds to 38 percent of total domestically funded spending, and an increase of 15 percent over the 2010 supplementary budget, the 2011 draft budget is evidence of the high priority that the government has given to implementing G-PRSP II.

15. The total deficit, on a cash basis and not including grants, should therefore amount to CFAF 461 billion (9.2 percent of GDP, compared with an expected deficit of 9.1 percent of GDP in 2010). This deficit will be financed using grants and external concessional borrowings of up to CFAF 416 billion (8.3 percent of GDP) and through domestic financing in the amount of CFAF 45 billion (0.9 percent of GDP).

16. The fiscal program agreed with IMF staff slightly departs from the 2011 draft budget because of the two following reasons :

- *The reimbursement of value added tax (VAT) credits.* At the time the 2011 draft budget was being drawn up, the government did not have all the information necessary to estimate the VAT credits to be refunded to gold exporting companies and other operators in 2011. Pending a more precise estimate, the 2011 draft budget used a tentative figure of CFAF 4 billion for tax refunds. Since then, in collaboration with IMF staff, the DGI and DGD have estimated a figure of CFAF 33 billion. The government now plans, by end-April 2011, to present a supplementary budget to propose measures to increase revenue or reduce expenditure to an appropriate degree with a view to maintaining the deficit target for the underlying basic budget balance at 1.3 percent of GDP. In the mean time, the fiscal program envisages a cut in domestically financed capital expenditure in non-priority sectors in an amount of 24 billion (0.5 percent of GDP).
- *The reimbursement of arrears from previous fiscal years.* Beyond the reimbursement of arrears in the 2011 draft budget for CFAF 6 billion, the government will clear arrears in a minimum amount of CFAF 4.3 billion. The total amount of CFA 10.3 billion stems, for 8 billion, from accumulated VAT credits, and, for 2.3 billion, from the payment of activated guarantees. By end-February 2011, the government will

determine the value of VAT credits accrued but not paid as of December 31, 2010 (¶21). The government undertakes to reexamine the amount of arrears to be paid in 2011 in the light of the results of that determination and the full listing of commitments, pledges, and guarantees prepared by the Directorate General of Public Debt (DGDP, ¶30), and to take that new information into account in drafting the supplementary budget. In the mean time, the fiscal program envisages an increase of the reimbursement of arrears by CFA 4.3 billion (0.1 percent of GDP) compared to the 2011 draft budget and an increase of domestic financing by the same amount.

17. Consequently, the overall domestic financing requirement in the program totals CFAF 49 billion (1.0 percent of GDP). This will be covered mainly by using income from the privatization of SOTELMA in the amount of CFAF 36 billion (0.7 percent of GDP).

18. Income from the privatization of SOTELMA will continue to be dedicated primarily to capital expenditure. Such expenditure as proposed in the draft 2011 budget will focus mainly on projects in the areas of infrastructure (roads, transport, communication), agriculture, human resources development, and private sector development (funds to guarantee credits and promote investment, Table 6).

Reforms in public financial management

Tax policy

19. In light of the tax reform strategy established by the DGI (¶8), the government will, by June 30, identify the fiscal measures to be included in the 2012 draft budget and will, in that 2012 draft budget, propose an action plan for the next three years aimed at modernizing and simplifying tax legislation and bringing it into line with regional directives (proposed structural benchmark, Table 4). Without waiting for this to be done, the government will take the necessary steps to make a lasting improvement in the workings of the VAT as described below (¶21).

20. By February 28, 2011, the government will do a study to implement a mechanism to index gasoline prices at the pump to changes in supplier prices, so that the government's tax revenue will remain stable while nevertheless dampening spikes in pump prices. The current policy of lowering petroleum taxes or narrowing operators' margins when supplier prices increase has brought about large shortfalls in government budget revenues, estimated at CFAF 62 billion (1.6 percent of GDP) in 2008, CFAF 7 billion (0.2 percent of GDP) in 2009, and CFAF 13 billion (0.3 percent of GDP) in the first nine months of 2010.

Tax and customs administration

21. In 2011, priority will be given to putting reforms in place that will make a lasting improvement in the workings of the VAT, which accounts for about 40 percent of tax revenue. To that end, the government will implement the following measures:

- Starting January 1, 2011, all VAT revenue collected by DGD from gold mining companies on their imports and 10 percent of VAT collected by DGI will be deposited into a Treasury account with the BCEAO. The proceeds of this account will be used solely to refund VAT credits. Such a mechanism will make it possible to make regular refunds of VAT credits owed to gold mining companies on their imports CFAF, and to other operators, estimated at, respectively, CFAF 21 and 11 billion in 2011.
- By February 28, 2011, the DGI will determine the value of VAT credits accumulated as of December 31, 2010, remaining to be refunded by the government (¶16).¹ These results will be validated by all stakeholders and will be used to determine the timing and other modalities of reimbursement.
- As of June 30, 2011, the import tax regime enjoyed by two mining companies (which provides for a reduced 6 percent rate without entitlement to a refund of VAT credit) and the VAT exemption enjoyed by the subcontractors of mining companies will end. This means that all gold mining companies and their subcontractors will be subject to the standard VAT regime at the sole rate of 18 percent after that.
- As of June, 30, 2011, the application threshold will be raised from CFAF 30 million to CFAF 50 million to simplify the collection of VAT.
- As of September 30, 2011, the system of withholding of VAT at source will end for all government administrations and companies with the exception of the Treasury. The Treasury will stop withholding of VAT at source by end-June 2012.
- Not later than by the time the 2012 draft budget is presented to Parliament, the government will propose amendments to tax legislation to bring Malian legislation on VAT into line with the WAEMU directive on VAT.

22. The DGI and DGD will pursue their efforts to improve tax and customs administration, with technical assistance from the IMF. The DGI will continue to pay special attention to the functioning of the new Medium-Size Business Directorate (DME), which will take steps to follow up systematically on taxpayers that do not abide by their filing obligations. Similarly, the DGD will introduce automated selectivity in customs inspections from the beginning of 2012 onward. To that end, the DGD will set up a technical Risk Management Section which will complete all the necessary preparatory tasks in 2011. Strengthening tax administration resources will also make it necessary to modernize the

¹ A detailed examination of the data in the DGI's information system (SIGTAS) seems to show an accumulation of CFAF 154 billion (3.3 percent of GDP) in VAT credits as of January 31, 2010. These data are subject to confirmation because they may include VAT credits already refunded, VAT payments not eligible for a refund, or coding errors.

National Directorate of Property Titles and the Land Registry (DNDC), established in 2002, and to build up its capacities.

23. The Treasury's new integrated accounting application and its interface with the DGD (ASYCUDA) and DGI (SIGTAS) applications will be put into service in the District of Bamako tax collection office (RGD) by November 30, 2011.

Management of public expenditure and transparency of public finance

24. The preliminary results of the Public Expenditure and Financial Accountability (PEFA) assessment done in 2010 show the progress made in the public expenditure management system in Mali, particularly in regard to budget credibility and comprehensiveness and the preparation of budget legislation. Nevertheless, there are some persistent weaknesses regarding the monitoring of domestic arrears, accounting, and external auditing.

25. To build on the progress made thus far, the government adopted a new action plan in July 2010 to strengthen and modernize the management of public finance (PAGAM-GFP II), covering the period from 2011-15. The action plan is organized around four strategic objectives: sustainable optimization of revenues; budget preparation and execution consistent with international standards; accountability of stakeholders and increasing transparency of public finance; and further decentralization.

26. This action plan reflects the government's desire to play a leading role in implementing WAEMU directives in the area of public expenditure. The government is committed to incorporating WAEMU Directives 5 to 10 of 2009 in Malian laws and regulations in regard to transparency, budgets, public accounting, budget nomenclature, the government's chart of accounts, and the TOFE by October 31, 2011.

27. In the short term, the government also hopes to pursue its efforts in improving budget execution, managing cash flow and internal debt, and strengthening accounting, external auditing, and government finance statistics:

- *Changes in borrowing during the year will be reported in consolidated fashion in draft supplementary budgets or draft legislation to settle accounts.* All regulatory measures to alter borrowings during the course of the year (decrees concerning advances, transfers, payments, carry-overs, cancellations, etc.) will be provided as reference information attached to the first draft supplementary budget following the measure in question or, if there is no such supplementary budget, attached to the draft legislation concerned with the settlement of accounts (*loi de règlement*) for the corresponding fiscal year.
- *A key step will be made toward establishing a Single Treasury Account.* Beginning in January 2011, the Treasury will produce a full status report on the bank accounts of

government entities held with commercial banks and the BCEAO. It will be updated every month in the case of those entities covered by the TOFE and every three months for other entities. Some accounts that are held with commercial banks will be closed. An impact study on the transfer from commercial banks to the BCEAO of all accounts held by government entities situated in Bamako, Mopti, and Sikasso (except for project accounts whose establishment is explicitly provided for under agreements concluded with technical and financial partners) will be carried out by June 30, 2011 (proposed structural benchmark, Table 4). Accounts held with commercial banks by services within the Ministry of Economy and Finance in Bamako, Mopti, and Sikasso will be transferred to the BCEAO according to a timetable based on the results of that study.

- *The quality of accounts will be progressively strengthened.* Abnormal balances found on current accounts, third-party accounts, and financial accounts of the Central Treasury Accounting Bureau (ACCT), the PGT, and the RGD will be cleared by June 30, 2011.
- *The production and auditing of the government's annual accounts will be speeded up.* For the accounts prior to 1991, the government will implement strategy flowing from the results of a study to be completed by end-December 2010. The judgment of the accounts of 1992-2006 will be integrated in the yearly action plans of PAGAM-GFP II. The government adopted draft legislation validating the 2007-09 accounts and will adopt draft legislation validating the 2010 accounts before September 30, 2011.
- *Work will continue on improving government financial statistics.* As of May 31, 2011, changes will be made to the TOFE as described in the Technical Memorandum of Understanding (TMU, ¶22; proposed structural benchmark, Table 4).
- *Tracking of payment times will be strengthened.* The new PRED 5 expenditure management software will be used to ensure that payments are made within 90 days after payment orders have been issued. For this purpose, monthly reports will be produced.

Internal and external oversight

28. Internal and external oversight mechanisms have shown a number of administrative weaknesses in the management of Mali's public finances. At the internal level, the Office of the Inspector General of Public Services has highlighted the fact that there are not enough procedures manuals and they are not being used. At the external level, the Office of the Auditor General has drawn attention to large sums outstanding to be recovered by the Treasury. To remedy these problems, the government is working swiftly to adopt a national

internal oversight strategy for the period 2011-15, with the support of several technical and financial partners. Similarly, the government is determined to improve procedures for recovering outstanding sums, and has asked for technical assistance from the IMF in regard to the accounting of revenue (¶23) in the first quarter of 2011.

Debt management

29. From the updated debt sustainability analysis prepared with IMF and World Bank staff, it is clear that Mali's risk of debt distress has shifted from low to moderate because its debt sustainability has become more vulnerable to external shocks. This increased vulnerability stems from the volatility of gold exports, which increased more than was expected in the previous analysis. The update also confirmed that Mali's debt sustainability depends on pursuing a prudent macroeconomic policy anchored on maintaining the deficit level, in terms of the basic budget balance, at close to 1 percent of GDP. The government therefore reiterates its commitment to cover its external financing requirement preferably by means of grants and concessional borrowings having a level of concessionality of at least 35 percent.

30. To strengthen domestic debt management, the Minister of Economy and Finance has just assigned the DGDP the task of producing a full list of all the agreements under which the government has contracted domestic debt or given a commitment to guarantee external debt, with deadlines and maturity dates, so that this information can be recorded in public debt data and budgets (proposed structural benchmark, Table 4). The DGDP has started working on this by contacting ministries and local banks. These efforts have already made it possible to identify callable guarantees in the amount of CFAF 19 billion (0.4 percent of GDP), for which the payment schedule is now being negotiated with creditors.

Policy for the development of the financial sector

31. The government will continue to implement its development strategy for the financial sector adopted in 2008, taking into account the Financial Sector Assessment Program (FSAP) recommendations of the same year. The strategy has four main pillars:

- strengthening and developing the banking and capital markets sector;
- strengthening and developing nonbanking financial institutions;
- consolidating, strengthening, and developing the microfinance sector; and
- improving the legal and judicial framework.

32. In 2011, the government will place high priority on the following measures:
- *Restructuring the BHM*: implementing the restructuring plan adopted on December 30, 2009, calls for the government to withdraw its equity stake in the BHM by 2012. A tender is being prepared with the support of the World Bank to recruit a consultant to implement the privatization. Until then, the Ministry of Economy and Finance and the BCEAO are closely following the BHM's operations to ensure that the government resources made available to it for recapitalization (up to CFAF 11.4 billion in 2010) and the allocation to the BHM of funds from the national budget to finance social housing (up to CFAF 7 billion in 2011) will result in productive loans.
 - *Raising the minimum capital requirements for banks and other financial institutions*: the increase in the minimum capital requirement under WAEMU regulations (CFAF 5 billion as of December 31, 2010, and CFAF 10 billion as of some future time to be determined) will be regularly monitored by the BCEAO.
 - *Putting in place mechanisms to guarantee loans to small and medium-size enterprises (SMEs)*: a mechanism to provide partial guarantees in the amount of \$26 million (0.3 percent of GDP) has been set up with two banks, in collaboration with the International Finance Corporation (IFC). The government has set up a fund in the amount of CFAF 595 million (less than 0.1 percent of GDP) to provide partial guarantees during 2009-13 to facilitate access to bank financing for 200 SMEs. The government has also launched two studies to set up a guarantee fund and an investment fund for the private sector.
 - *Setting up a corporation to manage the banks' real estate holdings*: the purpose of this entity will be to buy real estate assets received by banks as a result of the execution of guarantees so as to take them off the banks' books. In agreement with the World Bank, it has been decided to assign this role to the Property Transfer Agency (ACI), a State enterprise whose purpose is to clean up property holdings and sell them.
 - *Developing microfinance*: microfinance will be promoted by adopting new regulations concerned with decentralized financial systems and implementing a national microfinance development plan, in collaboration with technical and financial partners.
 - *Enabling the financial sector to mobilize remittances from migrants*: this effort will focus on a study and a workshop on initiatives and mechanisms relating to remittances from migrants.

Reform of the cotton sector

33. The government plans to complete the privatization of the CMDT in 2011. Six potential investors visited the sites of four CMDT subsidiaries from October 27 to November 5, 2010. Bids are to be submitted by December 20, 2010, and the selected bidders are to be announced in April 2011, so that they can take control of the subsidiaries in May 2011, before the start of the 2011-12 crop season. The government will watch this privatization operation closely to ensure that it takes place in optimal conditions, to assure the continued economic and financial viability of the cotton sector.

Governance

34. Moved by the desire to make the mining sector an engine of development and a means of combating poverty, Mali applied to join the Extractive Industries Transparency Initiative (EITI) in 2006. As part of that process, Mali produced an initial report on reconciling flows of payments by mining companies against government revenues for the 2006 fiscal year, on the basis of external auditors' findings. From the results contained in that report, the assessor named by the EITI Secretariat concluded that Mali had made significant progress but was not yet compliant. Drawing lessons from that first report, the government has started work on preparing a second report concerned with mining revenue in 2007 and 2008 with a view to joining the EITI by end-2012.

III. PROGRAM MONITORING

35. The 2011 program will be evaluated on the basis of performance criteria and indicative targets for end-June, continuous performance criteria (Table 3), and structural benchmarks (Table 4). These criteria are defined in the Technical Memorandum of Understanding (TMU), which also specifies the nature and frequency of the information to be supplied in order to assure the proper monitoring of the program.

36. Discussions for the sixth review of the program will focus on the implementation of structural reforms regarding public financial management, while those for the seventh review will focus on the preparation of the 2012 draft budget, taking into account the need to anchor the government's finances on an underlying basic deficit of close to 1 percent of GDP.

Table 1. Mali: Quantitative Performance Criteria and Indicative Targets for 2010 ¹

	March				June				Sep.				Dec.
	Indic. Targets	Adjusted Targets	Prel.	Status	Perf. Criteria	Adjusted Targets	Prel.	Status	Indic. Targets	Adjusted	Prel.	Status	Perf. Criteria
(in CFAF billions)													
Quantitative performance criteria													
Net domestic financing of the Government (ceiling) ²	0.0	52.4	19.3	Met	79.8	128.7	-32.8	Met	113.7	176.0	-1.4	Met	127.0
<i>Of which: Bank and market financing</i> ²	0.0	52.4	46.9	Met	99.3	148.2	62.7	Met	128.7	191.0	56.7	Met	138.6
Cumulative increase in external payments arrears (ceiling) ³	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0
New external borrowing at terms of one year or more contracted or guaranteed by the government on nonconcessional terms (ceiling) ³	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0
New short-term external credits (less than one year) contracted or guaranteed by the government on nonconcessional terms (ceiling) ³	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0
Net tax revenue (floor)	130.0	...	154.8	Met	304.7	...	343.0	Met	490.9	...	503.0	Met	677.1
Indicative targets													
Basic fiscal balance (floor)	-30.0	...	23.3	Met	-52.8	...	80.8	Met	-92.4	...	55.4	Met	-111.5
Basic fiscal balance, underlying (floor) ⁴	10.0	...	23.3	Met	-38.8	...	106.7	Met	-48.4	...	81.3	Met	-51.7
Priority spending (floor)	...	...	...		117.0	...	97.3	Not met	175.0	...	150.0	Not met	235.0
<i>Memorandum items:</i>													
External budgetary assistance	20.0	...	15.5		68.3	...	50.9	...	96.4	...	90.6		144.1
Pending bills reduction	-2.0	...	-54.4		-43.7	...	-83.6	...	-48.7	...	-108.2		-49.1
VAT credits refunds	0.0	...	0.0		0.0	...	-1.8	...	0.0	...	-2.8		-29.0

Source: Malian authorities.

¹ Cumulative figures from the beginning of the year. Noncontinuous targets at end-March and end-September 2010 are indicative targets. See Technical Memorandum of Understanding (TMU) of June 28, 2010 for definitions.

² The targets for these performance criteria and indicative targets are subject to adjustment for external budgetary assistance, reduction of pending bills and payment of VAT credits. See TMU of June 28, 2010 for more details.

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

⁴ Excluding expenditure financed with revenue from the privatization of SOTELMA.

Table 2. Mali: Structural Benchmarks for the Fifth and Sixth Reviews Under the ECF Program

Measures	Macroeconomic rationale	Status
For end-June 2010 (in the context of the fifth program review)		
1 Implement the new expenditure management software PRED 5.	To improve budgetary management.	Met on September 1
2 Introduce new reporting on the financial operations of the State (the "TOFE" table) which conforms to best international practices, including for the presentation of domestic financing.	To strengthen government statistics and reporting.	Work in progress
3 Create an interministerial committee for treasury management planning under the authority of the Minister of Economy and Finance, with a permanent technical secretariat provided by Treasury.	To improve treasury management and its coordination with budgetary management.	Met on October 25
4 Prepare a draft policy paper on the role of the State in the cotton sector after the privatization of the CMDT.	To set the business environment in the cotton sector in a post-privatization of the state monopsony CMDT.	Met in August
For end-December 2010 (in the context of the sixth program review)		
1 Implement a system for the management and timely payment of Value Added Tax (VAT) credits to eligible companies.	To prevent accumulation of VAT credit arrears and ensure neutrality of VAT on exports.	
2 Produce an evaluation of restructuring of the Housing Bank of Mali (BHM), including the use of State funds transferred to the BHM in the first half of 2010 to relaunch its lending activities.	To ensure that the BHM is effectively on a recovery track.	
3 Elaborate a program for the reform of the tax system, aiming at a greater mobilization of revenue while ensuring greater rationalization and modernization of the tax laws, including through reconsideration of tax exemptions.	To simplify and make the tax system more buoyant, while implementing regional directives.	
4 Implement the new public accounting software in the Treasury with the necessary links to the budget application software to ensure monitoring of spending from commitment to payment, including the stock of pending bills.	To ensure improved recording and reporting of financial operations of the State.	

Source: Malian authorities.

Table 3. Mali: Proposed Quantitative Performance Criteria and Indicative Targets, 2011 ¹

	March	June	Sep.	Dec.
	Indic. Targets	Perf. Criteria	Indic. Targets	Proj.
	(CFAF billions)			
Quantitative performance criteria				
Government bank and market financing (ceiling) ²	118.4	189.8	179.2	66.5
Cumulative increase in external payments arrears (ceiling) ³	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 (ceiling) ³	0.0	0.0	0.0	0.0
New short-term external credits (less than one year) contracted or guaranteed by the government on nonconcessional terms (ceiling) ³	0.0	0.0	0.0	0.0
Gross tax revenue (floor)	181.4	362.9	559.4	755.8
Indicative targets				
Basic fiscal balance (floor)	-26.0	-62.7	-79.9	-100.4
Basic fiscal balance, underlying (floor) ⁴	-17.0	-44.7	-52.9	-64.4
Priority spending (floor)	50.8	112.8	188.3	271.4
<i>Memorandum items:</i>				
External budgetary assistance	73.9	74.5	94.1	121.1
Pending bills reduction	-80.0	-80.0	-80.0	0.0
Tax refunds	-7.7	-15.4	-24.0	-32.6
Arrears payment	-5.2	-10.3	-10.3	-10.3

Sources: Malian authorities; and IMF staff projections.

¹ Cumulative figures from the beginning of the year. Noncontinuous targets at end-March and end-September 2010 are indicative targets. See Technical memorandum of understanding (TMU) for definitions.

² The targets for this performance criterion or indicative target are subject to adjustment for external budgetary assistance, 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 since the beginning of the year.

⁴ Excluding expenditure financed with revenue from the privatization of SOTELMA.

Table 4. Mali: Proposed Structural Benchmarks for the ECF Program, 2011

Measures	Macroeconomic rationale	Timing
In the context of the seventh program review		
Prepare a data base of: (i) all the domestic debt contracts signed by the government including the stock of the debt at end-2010, and the quarterly interest payments and amortization due; and (ii) the debts guaranteed by the government.	Strengthen domestic debt management.	28-Feb
Present the Central Government Consolidated Financial Operation (TOFE) at end-March 2011 according to the presentation described in paragraph 22 of the Technical Memorandum of Understanding (TMU).	Strengthen fiscal transparency.	31-May
Do a study to analyze the impact of transferring all outstanding balances of accounts held by line ministries in commercial banks, except of accounts established by contracts with donors in the context of externally-financed projects, to the Treasury Single Account at the BCEAO.	Strengthen cash management.	30-Jun
Introduce in the draft 2012 budget law a reform of the tax system, aiming at a greater mobilization of revenue while ensuring greater rationalization and modernization of the tax laws, including through a reduction of tax exemptions.	Strengthen revenue mobilization and the business environment.	30-Sep

Table 5. Mali: Central Government Consolidated Financial Operations, 2011

	March Prog.	June Prog.	Sept Prog.	Dec Prog.
	(in CFAF billions)			
Revenue and grants	244.4	465.2	753.4	1,062.6
Total revenue	199.1	398.3	611.6	824.8
Budgetary revenue	181.3	362.5	557.9	753.3
Tax revenue	173.7	347.5	535.4	723.2
Direct taxes	51.1	102.3	153.4	204.5
Indirect taxes	122.6	245.2	382.0	518.7
VAT	69.0	138.0	215.6	293.1
Excises on petroleum products	5.4	10.8	17.3	23.9
Import duties	24.0	48.0	77.3	106.6
Other indirect taxes	31.9	63.9	95.8	127.7
Tax refund	-7.7	-15.4	-24.0	-32.6
Nontax revenue	7.5	15.1	22.6	30.1
Special funds and annexed budgets	17.9	35.8	53.6	71.5
Grants	45.3	66.9	141.8	237.8
Projects	38.7	77.3	116.0	154.6
Budgetary support	45.8	46.4	66.0	83.2
Of which: general	17.2	17.8	34.4	47.1
Of which: sectoral	28.6	28.6	31.6	36.1
Total expenditure and net lending (payment order basis)	331.4	649.5	960.7	1,279.4
Budgetary expenditure	311.5	609.8	901.1	1,199.9
Current expenditure	160.3	335.9	501.5	673.2
Wages and salaries	63.7	127.4	198.6	269.8
Goods and services	53.3	113.1	164.5	224.8
Transfers and subsidies	37.4	83.4	121.0	153.5
Interest	5.9	12.1	17.5	25.1
Of which: domestic	2.5	2.5	4.4	8.0
Other current expenditure	151.2	273.9	399.5	526.7
Capital expenditure	151.2	273.9	399.5	526.7
Externally financed	104.6	180.6	259.6	340.1
Domestically financed	46.6	93.3	139.9	186.6
Special funds and annexed budgets	17.9	35.8	53.6	71.5
Net lending	2.0	4.0	6.0	8.0
Overall fiscal balance (excl. grants)	-132.2	-251.3	-349.1	-454.5
Overall fiscal balance (incl. grants)	-87.0	-184.4	-207.3	-216.7
Variation of arrears	-5.2	-10.3	-10.3	-10.3
Adjustment to cash basis	-80.0	-80.0	-80.0	0.0
Overall balance (cash basis, incl. grants)	-172.1	-274.7	-297.6	-227.0
Financing	172.1	274.7	297.6	227.0
External financing (net)	62.5	97.6	131.9	177.9
Loans	65.5	102.8	140.2	187.3
Project loans	37.4	74.7	112.1	149.4
Budgetary loans	28.1	28.1	28.1	37.9
Amortization	-4.6	-13.1	-17.9	-23.4
Debt relief	1.6	7.9	9.6	14.0
Domestic financing (net)	109.7	177.1	165.7	49.1
Banking system	98.6	161.1	154.0	80.4
Net credit to the government	98.6	161.1	154.0	80.4
IMF (net)	1.4	1.2	1.1	2.7
Central bank credit (net)	-0.6	-1.3	-1.9	-2.6
Other	97.8	161.1	154.8	80.3
Privatization receipts	0.0	0.0	3.3	3.3
Other financing	11.1	16.0	8.4	-34.6
Financing gap	0.0	0.0	0.0	0.0
<i>Memorandum items</i>				
Basic fiscal balance ¹	-26.0	-62.7	-79.9	-100.4
Underlying basic fiscal balance ²	-17.0	-44.7	-52.9	-64.4
External budgetary assistance	73.9	74.5	94.1	121.1
Government bank and market financing	118.4	189.8	179.2	66.5

Sources: Ministry of Finance; and IMF staff projections.

² Total revenue excluding grants and privatization receipts, less total expenditure plus net lending, excluding capital expenditure financed by foreign donors and lenders and HIPC Initiative-related expenditures.

³ Basic fiscal balance excluding spending financed by privatization revenue of the telecom company SOTELMA.

Table 6: Use of Revenue from the Sale of 51 percent of the Telecom Company SOTELMA

	2009	2010	2011	2012	Total
	(in CFA millions)				
<u>Arrears payment</u>	<u>9,500</u>	<u>23,000</u>	<u>0</u>	<u>9,500</u>	<u>42,000</u>
Non Banks	0	21,000	0	3,000	24,000
Banks	9,500	2,000	0	6,500	18,000
<u>Human resource development</u>	<u>1,000</u>	<u>11,253</u>	<u>5,255</u>	<u>0</u>	<u>17,508</u>
Youth, education, jobs	0	9,300	5,255	0	14,555
Higher education	0	3,900	3,755	0	7,655
Construction of university facilities in Bamako and Ségou	0	3,188	3,755	0	6,943
Research competitiveness fund	0	500	0	0	500
University of Bamako interconnection	0	212	0	0	212
Secondary education, professional training, youth, and jobs	0	5,400	1,500	0	6,900
Construction and equipment, technical high schools and IFPs (1)	0	4,400	1,000	0	5,400
Building financial capacities of the Youth Employment Agency (APEJ)	0	1,000	500	0	1,500
Health and social development	1,000	1,953	0	0	2,953
Supplemental funding for construction of Mopti Hospital	0	1,000	0	0	1,000
Supplemental funding for construction of Sikasso Hospital	1,000	0	0	0	1,000
Computer equipment, mandatory health insurance	0	953	0	0	953
<u>Infrastructure and equipment</u>	<u>0</u>	<u>7,747</u>	<u>11,263</u>	<u>0</u>	<u>19,010</u>
Roads and bridges	0	3,375	3,875	0	7,250
Kayes: Paving of 6 km of Bafoulabé-Mahina road	0	1,000	0	0	1,000
Koulikoro: Paving of 5 km of roads	0	1,000	0	0	1,000
Kidal: Paving of 5 km of roads	0	375	875	0	1,250
Bamako: Construction of Yirimadio hospital access road	0	1,000	0	0	1,000
Sikasso: Bridge over the Baoulé between Manankoro-Tienfinzo	0	0	3,000	0	3,000
Communication and transportation	0	4,372	7,388	0	11,760
1 outdoor broadcasting van, 12 cameras	0	1,950	0	0	1,950
1 production van with four cameras	0	700	0	0	700
1 audio production and broadcasting van	0	45	105	0	150
1 Fly and vehicle accessories	0	108	252	0	360
1 terrestrial broadcasting station	0	669	931	0	1,600
Acquisition of second national television (ORTM) channel	0	0	4,000	0	4,000
Acquisition of 2 flatboats for the Malian Navigation Company (COMANAV)	0	900	2,100	0	3,000
<u>Agricultural development</u>	<u>0</u>	<u>13,675</u>	<u>225</u>	<u>0</u>	<u>13,900</u>
Municipal works	0	3,330	225	0	3,555
Maintenance upgrade outreach infrastructures Niger Office	0	4,100	0	0	4,100
Contribution to National Agricultural Development Fund	0	5,000	0	0	5,000
Support for development/assistance measures	0	445	0	0	445
PRODEVALAIT (2)	0	800	0	0	800
<u>Improving living conditions</u>	<u>0</u>	<u>18,206</u>	<u>5,708</u>	<u>0</u>	<u>23,914</u>
Contribution to the National Fund for Local Government Investment	0	6,000	4,000	0	10,000
Rehabilitation of military barracks	0	3,292	1,708	0	5,000
Social-interest housing program	0	6,500	0	0	6,500
Development of Diafrana Ko	0	1,614	0	0	1,614
Construction of the fiftieth anniversary monument	0	800	0	0	800
<u>Financial support for development of small and medium-size enterprises and industries</u>	<u>0</u>	<u>0</u>	<u>6,000</u>	<u>0</u>	<u>6,000</u>
Establishment of a private sector guarantee fund	0	0	3,000	0	3,000
Establishment of a national investment fund	0	0	3,000	0	3,000
<u>Economic reform and improved governance</u>	<u>0</u>	<u>6,900</u>	<u>0</u>	<u>0</u>	<u>6,900</u>
Restructuring of the government-controlled mortgage bank (Banque de l'Habitat de Mali, BHM)	0	5,000	0	0	5,000
Support for the national civil-registration census (recensement administratif à vocation d'état civil, RAVEC)	0	1,900	0	0	1,900
<u>Miscellaneous projects</u>	<u>0</u>	<u>0</u>	<u>7,579</u>	<u>0</u>	<u>7,579</u>
<u>Public investments in partnership with donors and lenders</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>28,577</u>	<u>28,577</u>
Establishment of the technology hub	0	0	...	...	...
Connection of secondary cities to the national road network, over 100 Km	0	0	...	...	...
Construction of a second bridge in Kayes	0	0	...	...	...
Improvement and development of the Lake Faguibine System	0	0	...	...	...
Improvement of the Bamako Sénou industrial park	0	0	...	...	...
Implementation of modern land register for the cities of Bamako and Kati	0	0	...	...	...
Strengthening logistical capacities of the armed forces and regional governments	0	0	...	...	...
<u>Restructuring plan</u>	<u>15,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>15,000</u>
Total	25,500	80,781	36,030	38,077	180,388

1/ IFP: Professional training institutions

2/ Project to Develop and Promote Dairy Production in Mali.

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum of understanding defines the quantitative performance criteria and indicative targets for the program supported by the Extended Credit Facility (ECF) in 2011. It also specifies the frequency and deadlines for reporting data 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 government of the Republic of Mali and does not include local governments, the central bank, or any other public entity with autonomous legal personality that is not included in the Central Government Consolidated Financial Operations Table (TOFE).

3. For the purposes of this memorandum of understanding, the terms “debt” and “concessional loans” are defined as follows:

- (a) The definition of debt is set out in Executive Board Decision No. 6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91).
- (b) A loan is considered concessional if, on the initial contract signing date, the ratio of the present value of the loan, calculated on the basis of the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The rates used in this assessment are the commercial interest reference rates (CIRR) for borrowing currencies established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity of more than 15 years, the ten-year average 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. The same margins used by the OECD for differing repayment periods are added to the 10-year and 6-month average rates (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

II. PERFORMANCE CRITERIA AND INDICATIVE TARGETS

4. Except as noted, the following financial targets will constitute performance criteria for end-June 2011 and indicative targets for end-March and end-September 2011.

A. Ceiling on Net Domestic Financing of the Government by Banks and the Financial Market

5. **Net domestic financing of the government by banks and the financial market** is defined as the sum of (i) the net government position as defined below, and (ii) financing of the government through the issuance (net of redemptions) of securities to legal entities or

individuals outside the banking system or to nonresident banks domiciled in the West African Economic and Monetary Union (WAEMU).

6. The net government position is defined as the balance between government claims and debts vis-à-vis the central bank and commercial banks. The scope of the net government position is that used by the Central Bank for West African States (BCEAO) and is consistent with the IMF's general practice in this area. It implies a broader definition of the government than that specified in paragraph 2 and includes local governments and certain government administrative agencies and projects. Government claims include the CFAF cash balance, postal checking accounts, secured liabilities, and all deposits of government agencies with the BCEAO and commercial banks, with the exception of government industrial and commercial agencies (EPIC) 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 the net government position. The net government position vis-à-vis the State is calculated by the BCEAO.

Adjustment factors

7. The ceiling on net domestic financing of the government by banks and the financial market will be adjusted downward if **external budget support** exceeds program projections (Memorandum of Economic and Financial Policies (MEFP), Table 3). Budget support is defined as grants, loans, and debt relief operations (excluding project loans and grants, IMF resources, and debt relief under the HIPC Initiative, but including general and sectoral budget support). The adjustment factor will be applied at the rate of 0 percent for amounts up to CFAF 25 billion; and 100 percent for amounts in excess of CFAF 25 billion. The ceiling on net domestic financing of the government by banks and the financial market will be adjusted upward if external budget support falls short of program projections. The adjustment factor will be applied at the rate of 100 percent up to a threshold of CFAF 25 billion and at the rate of 0 percent for larger amounts.

8. The ceiling on net domestic financing of the government by banks and the financial market in 2010 will be adjusted upward (downward) if the **net reduction in pending bills** exceeds (is less than) the programmed amounts (MEFP, Table 3). Pending bills are defined as payment orders not paid by the DNCT in the context of budget execution or on miscellaneous correspondent and depositor accounts, regardless of their age.

9. Finally, the ceiling on net domestic financing of the government by banks and the financial market in 2010 will be adjusted upward (downward) for the **payment of VAT credits, other tax refunds, and arrears from previous fiscal years** exceeding (under) the programmed amounts (MEFP, Table 3).

B. Non-accumulation of External Public Payments Arrears

10. The stock of external payments arrears is defined as the sum of payments due but not paid on external liabilities of the government and the external debt owed or guaranteed by the government. The definition of external debt provided in paragraph 3(a) applies here.

11. During the program, the government undertakes not to accumulate external payments arrears (except with regard to debt being renegotiated or rescheduled). The performance criterion on 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 with a Maturity of One Year or More Contracted or Guaranteed by the Government and/or Public Enterprises

12. This performance criterion applies not only to debt as defined in Executive Board Decision No. 6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91), but also to commitments contracted or guaranteed and for which no value has been received.

13. For the purposes of this performance criterion, the concept of government includes the government as defined in paragraph 2, government administrative agencies (EPA), government scientific and technical agencies, public professional entities, government industrial and commercial agencies (EPIC), public enterprises, and local governments.

14. A ceiling of zero is set for non-concessional borrowing. This performance criterion is monitored on a continuous basis.

15. The government undertakes not to contract or guarantee any external debt having a maturity of one year or more and a grant element of less than 35 percent as defined in paragraph 3 (b). However, this performance criterion does not apply to: (i) financing granted by the IMF; (ii) debt rescheduling transactions existing on the date of approval of the program by the IMF Executive Board; and (iii) CFAF debt contracted or guaranteed by the government with residents of the WAEMU, including CFAF debt originally 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

16. The definition in paragraphs 2 and 3 also 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 with the proceeds of cotton exports, and debt-relief operations are excluded from this performance criterion. Treasury bills and bonds issued in CFAF on the WAEMU regional market are also excluded from this performance criterion.

During the program, the government and public enterprises will not contract or guarantee short-term non-concessional external debt. This performance criterion is monitored on a continuous basis.

E. Floor on Gross Tax Revenue

17. Gross tax revenue of the government is defined as the revenue appearing in the TOFE and includes all tax revenue in the national budget, before deduction of tax refunds generated in 2011, particularly VAT credits accumulated in 2011.

F. Floor on the Basic Fiscal Balance

18. The basic fiscal balance is defined as the difference between total net revenue, excluding grants and privatization receipts, and total expenditure cleared for payment plus net lending, excluding capital expenditure financed by foreign creditors or donors and HIPC expenditure.

G. Floor on the Basic Fiscal Balance Excluding Expenditure Financed with SOTELMA Privatization Receipts

19. The basic fiscal balance expenditure financed with SOTELMA privatization receipts is defined in accordance with the basic fiscal balance defined in paragraph 18, less expenditure financed with SOTELMA privatization receipts drawn from the special account at the BCEAO.

H. Floor on Priority Poverty-Reducing Expenditure

20. Priority poverty-reducing expenditure is defined as the sum of the expenditure of the Ministry of Elementary Education, the Ministry of Secondary and Higher Education and Scientific Research, the Ministry of Health, and the Ministry of Social Development. It excludes capital expenditure financed by external technical and financial partners in the form of projects.

III. STRUCTURAL MEASURES

21. Information on the introduction of measures constituting structural benchmarks will be sent to IMF staff no later than two weeks after the date set for their implementation.

22. As of May 31, 2011, **changes will be made to the Central Government Consolidated Financial Operations Table (TOFE)** as described below. Revenues and expenditures recorded in suspense accounts will be recorded above the line as revenues or expenditures without being broken down. As part of the adjustment to cash basis, a distinction will be made between transactions under previous fiscal years and transactions under the current fiscal year, as well as, in the latter case, a distinction between the “float” (less than three months) and types of arrears (more than three months) with respect to budget

expenditures (including VAT credits and calls upon guarantees and pledges). Within the entry “net domestic financing,” a distinction will be made between bank financing, privatization income, and other financing sources. Bank financing includes changes in the net government position vis-à-vis the central bank, the IMF, and resident commercial banks. In showing operations with commercial banks, a distinction will be made between the Treasury, the National Social Insurance Administration (INPS), and other government entities. Within Treasury transactions, deposits and withdrawals on the SOTELMA privatization income account will be specifically identified. Other financing will consist mainly of checks that have not been cashed, advance tax installments received in the current year for the following year, the regularization of advance tax installments received the previous year for the current year, operations with nonresident WAEMU creditors, and changes in deposits from Treasury correspondents.

IV. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

23. To facilitate program monitoring, the government will provide IMF staff with the information indicated in the following summary table.

Summary of Reporting Requirements

Type of data	Tables	Frequency	Reporting deadline
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of the national accounts	Variable	8 weeks following the revision
Government finances	Disaggregated consumer price indexes	Monthly	End of month + 2 weeks
	Net government position (including the position of other government agencies' accounts with the banking system) and breakdown of nonbank financing	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Balance of the account recording SOTELMA privatization receipts on deposit with the BCEAO	Monthly	End of month + 3 weeks
	Aggregate Treasury balance	Monthly	End of month + 6 weeks
	Central government TOFE 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 the revenue and expenditure recorded in the TOFE	Monthly	End of month + 6 weeks
	Separate report on HIPC-financed expenditure	Monthly	End of month + 6 weeks
	Execution of the capital budget	Quarterly	End of quarter + 8 weeks
	Tax revenue as recorded in the TOFE Showing tax refunds (including VAT credits)	Monthly	End of month + 6 weeks
	Wage bill as recorded in the TOFE	Monthly	End of month + 6 weeks
	Basic fiscal balance as recorded in the TOFE	Monthly	End of month + 6 weeks
	Customs exemptions	Monthly	End of month + 4 weeks
	Order setting the prices of petroleum products, tax revenue from petroleum products, and total exemptions granted	Monthly	End of month

Type of data	Tables	Frequency	Reporting deadline
	Imports of petroleum products by type and point of entry	Monthly	End of month + 2 weeks
	CMDT cash transactions	Monthly	End of month + 4 weeks
	Expenditure cleared for payment but not paid 90 days after issuance of the payment order	Monthly	End of month + 1 week
Monetary and financial data	Summary accounts of the BCEAO, summary accounts of banks, accounts of monetary institutions	Monthly	End of month + 4 weeks (provisional); end of month + 8 weeks (final)
	Foreign assets and liabilities and breakdown of other items net of the BCEAO and of commercial banks	Monthly	End of month + 8 weeks
	Lending and deposit interest rates, BCEAO policy rate, 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 the balance of payments	Variable	8 weeks following each revision
External debt	Breakdown of all new external borrowing	Monthly	End of month + 4 weeks
	Debt service, indicating amortization, interest expenses, and relief obtained under the HIPC Initiative	Monthly	End of month + 4 weeks
CSCR	Priority poverty-reducing expenditure as defined in ¶ 20.	Quarterly	End of quarter + 4 weeks