

## International Monetary Fund

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June 10, 2013

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

May 10, 2013

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 a policy support instrument 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, May 10, 2013

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
700, 19th Street, N.W.  
Washington, D.C. 20431  
United States

Dear Madam Managing Director:

1. On January 28, 2013, the Executive Board of the International Monetary Fund (IMF) approved a disbursement of an amount equivalent to SDR 12 million (US\$18 million) for Mali under the Rapid Credit Facility (RCF) to support the government program seeking to maintain macroeconomic stability and to restore growth in 2013, as part of the broad-based support of technical and financial partners for the country's revival after the 2012 crisis.
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 in the final months of 2012 and early months of 2013. This memorandum also sets out the updated economic and financial policies that the Malian government intends to implement by the end of the year to safeguard macroeconomic stability, support growth, and further improve public financial management.
3. As explained in the MEFP, nearly all the indicators for our program at end-December 2012 and end-March 2013 have been achieved and all measures subject to structural benchmarks have been implemented.
4. Although the February disbursement under the RCF has already helped catalyze a considerable return of foreign aid to Mali, there remains a financing gap in the amount of 107 billion CFA francs (US\$214 million) in the balance of payments in 2013, with 30 billion CFA francs (US\$60 million) dedicated to financing expenditures set out in the 2013 supplementary budget and the remaining 77 billion CFA francs (US\$154 million) earmarked for humanitarian aid financing needs identified by humanitarian stakeholders in order to respond to the crisis.

5. In light of the outcomes obtained as a result of the implementation of its program, the government is requesting another disbursement of an amount equivalent to SDR 10 million (US\$15 million) under the Rapid Credit Facility (RCF) with a view to covering part of the anticipated balance of payments deficit.

6. The government believes that the measures and policies described in the attached MEFP are appropriate for attaining the objectives of its program in 2013. It will take any additional steps necessary to that end. Mali will consult with the IMF on the adoption of such measures before any revision of the policies described in the attached MEFP. This way, the government intends to continue to demonstrate to its development partners its commitment to sound policies, until the circumstances are ripe for requesting a new three-year arrangement under the ECF.

7. The government will provide Fund staff with any required information referred to in the Technical Memorandum of Understanding (TMU) 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.

8. The government intends to make public the contents of the IMF staff report, including this letter, the attached MEFP, the TMU, as well as the informational annex. It therefore authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the disbursement under the RCF.

Very truly yours,

/s/

Tièna Coulibaly, Minister of Economy, Finance, and Budget

Attachments:

1. Memorandum on Economic and Financial Policies
2. Technical Memorandum of Understanding

## Attachment I—Memorandum on Economic and Financial Policies

1. This Memorandum on Economic and Financial Policies (MEFP) presents recent developments and performance with respect to the economic and financial policies implemented in Mali in the context of a request for disbursement under the Rapid Credit Facility (RCF).

### Recent Economics Developments and Performance with Respect to RCF-Supported Program

#### A. Recent Economic Developments

2. In 2012, the Malian economy experienced a multitude of shocks:
- The poor harvest in 2011 caused a food crisis. The Early Warning System estimated that 196 communes, with an estimated population of 3.6 million, were at risk for malnutrition. With assistance from the international community, the government implemented an emergency response plan to the food crisis, including the free distribution of food, grain sales at subsidized prices, activities associated with social transfers, rebuilding of grain stocks, and support for agriculture, livestock, and nutrition.
  - In addition to the grain crisis, Mali faced a humanitarian crisis provoked by attacks in the north by rebels claiming independence for an area comprising the three northern regions and terrorist activities by Al Qaeda affiliates. These attacks displaced 470,000 people, 182,000 of whom have fled to neighboring countries (75,000 to Mauritania, 58,000 to Niger, and 49,000 to Burkina Faso).
  - In March 2012, the country suffered from a period of violence and confusion. In April, the President resigned and was succeeded by the president of the National Assembly, whose term will run up until the next presidential elections. A prime minister was appointed, a government was formed, and the National Assembly resumed its work. On August 20, 2012, the President expanded the composition of the government to form a government of national unity, whose priority objective is to reclaim northern Mali and organize presidential and legislative elections. On December 15, 2012, the prime minister was changed once again and a more inclusive government was installed. The national unity government requested assistance from the United Nations, the African Union, and the Economic Community of West African States to regain control of the north.
3. These shocks rattled the foundations of the economy. While real GDP growth had been estimated at 5.6 percent when the 2012 budget law was drafted, it actually contracted by 1.2 percent. This contraction was the result of a general slowdown in activity in the secondary and tertiary sectors. With the exception of gold production, cotton ginning, and textiles, which continued to perform well, all other branches of activity suffered from the crisis. Value added in the construction and public works sector contracted by 35 percent and by more than 40 percent in the

hotels and restaurants sector, as a result of the suspension of budgetary support by Mali's technical and financial partners (TFPs) following the March events, the sharp reduction in project assistance, and the decline in business tourism. Abundant and well-distributed rainfall produced strong growth in the primary sector (9 percent), which made it possible to contain the contraction of total GDP. The poor harvest in 2011 drove up food prices and raised inflation to an annual average of 5.3 percent in 2012, as opposed to a WAEMU standard of 3 percent.

4. The balance of payments current account deficit (excluding grants) was reduced to 3.3 percent of GDP owing to the strong performance of gold and cotton exports and transfers from migrant workers. This current account improvement was not sufficient to compensate for the deterioration in the capital and financial account given the sharp decline in foreign aid and foreign direct investment. As a result, Mali dipped into the BCEAO's foreign exchange reserves, withdrawing CFAF 43 billion (US\$87 million) to finance its overall balance of payments deficit in 2012.

5. In 2012, the money supply grew by 15 percent, driven by the government's use of its deposits to finance the budget deficit. Credit to the economy grew by only 5 percent as a result of the recession in the secondary and tertiary sectors.

6. Following the invasion of northern Mali by terrorist groups, banks were forced to close their agencies in that region and suffered damages valued at CFAF 18 billion (US\$36 million or 0.3 percent of GDP), including CFAF 4 billion in stolen cash, CFAF 12 billion in dubious loan receivables, and CFAF 2 billion in property damage. The damages suffered by the banks in the north and the recession undermined the stability of the banking sector. Risk-weighted capital ratio fell to 14.3 percent in December 2012 and nonperforming loan balances increased to 21.3 percent of total credit (8.7 percent after deducting provisions). The financial stability of the microfinance sector also declined: the share of nonperforming loans increased to 11.5 percent in 2012.

7. In the fiscal sphere, the government moved quickly to regulate expenditure and keep it in line with its revenue and cash assets. In so doing, the government sought to give priority to the payment of salaries, pensions, student scholarships, the army and security forces, and priority spending in the education, health, and social welfare sectors. In October 2012, the government submitted a supplementary budget law (LFR) to the National Assembly reducing revenue and grants by 3.2 percent of GDP and expenses by 6.4 percent of GDP from 2011 levels. At year-end, it appeared that tax revenue (before tax refunds) was very close to projections and domestically financed expenses were lower than the amounts projected in the supplementary budget law. The basic fiscal deficit<sup>1</sup> was therefore lower than projected.

8. In spite of a decline in general budgetary support from the TFPs—down CFAF 96 billion (1.8 percent of GDP) in 2012 from its 2011 level—as a result of the suspension of aid in the wake of

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<sup>1</sup> The basic fiscal balance is equal to the difference between the sum of revenue and expenses under the direct control of the authorities, i.e., revenue (including resources from the Heavily Indebted Poor Countries Initiative) plus grants for general budgetary support less current expenditure, domestically-financed capital expenditure, and net lending.

the March events and the downward revision of tax revenue by CFAF 70 billion (1.3 percent of GDP) from the amount projected in the initial Budget Law, the government managed to contain the budget deficit (on a cash basis, including grants) to a little less than CFAF 63 billion (1.2 percent of GDP). This was the result of a redoubling of efforts by the revenue offices, an increase in taxes on petroleum products, the reduction of consumer subsidies on butane gas, and cuts in investment spending. However, it was accompanied by the accumulation of external debt payments arrears totaling CFAF 27.1 billion (US\$54 million or 0.5 percent of GDP) and domestic payments arrears estimated so far at CFAF 29.8 billion (0.6 percent of GDP).

9. The government has contacted all the external creditors with which it had accumulated arrears to reaffirm its commitment to pay off all its arrears as soon as its cash flow situation permits. In 2013, the government included an appropriation of CFAF 27.1 billion in its supplementary budget law (PLFR) for 2013 to repay the entirety of these arrears in 2013 (¶125).

10. The domestic payments arrears identified to date are mostly the result of investment expenses that could not be authorized after investment credit was frozen following the events of March and the reduction in investment appropriations in the supplementary budget law. The government commissioned an audit to conduct an exhaustive inventory by August 31, 2013 of the domestic payments arrears accumulated in 2012 (structural benchmark, Table 2).

11. During the first quarter of 2013, inflation was subdued following a good agricultural campaign and public finances showed a small fiscal deficit. In March 2013 inflation was 0.6 percent lower than in March 2012, and average inflation over the last twelve months was 3.9 percent higher than in the previous twelve months. With government expenditure and revenue close to equilibrium, fiscal deficit (cash basis) stood at CFAF 18 billion (0.3 percent of GDP).

## **B. Performance with Respect to the RCF-Supported Program**

12. Five of the six program indicators at end-December 2012 presented in the Letter of Intent of January 10 have been met (Table 1). Gross tax revenue exceeded the target by CFAF 9 billion. The basic fiscal balance remained just within its ceiling. Priority spending in the education, health, and social development sectors was higher than the projected floor. The cumulative increase in external payments arrears was slightly lower than the amount projected. Net domestic bank and market financing of the government was lower than the adjusted ceiling. However, the authorities contracted two external loans totaling CFAF 53 billion (US\$107 million or 1.0 percent of GDP) with grant elements slightly below the minimum program threshold of 35 percent.<sup>2</sup> Although the larger of the two loans had a grant element above 35 percent at the time it was negotiated, this was not the case at the time it became effective due to an update of the grant element calculator made publicly available by IMF staff in the mean time. The government is committed, to the best of its ability, to tightening procedures in the Directorate General of Public Debt (DGDP) to ensure that the

<sup>2</sup> This refers to the loan of US\$100 million with a grant element of 33.5 percent from Exim Bank, India, to finance the connection of Mali's power grid with Côte d'Ivoire's and the loan of US\$6.7 million with a grant element of 33.1 percent from the Bank for Investment and Development of the Economic Community of West African States.

grant element in the external loans contracted amounts to the requirement minimum at the time the loans' effectiveness.

13. At end-March 2013, all program indicators have been met (Table 1). Gross tax revenue exceeded its target and basic fiscal balance and net domestic and market financing of the government stayed below their ceilings owing to the under execution of a large portion of expenditure relative to the programmed amount. Priority spending exceeded its target. The government has not accumulated arrears on its external debt during 2013. It has repaid CFAF 4.2 billion of its external arrears during the first quarter, reducing their amount to CFAF 22.9 billion on March 31, 2013. The government has not contracted any concessional loans since the beginning of the year.

14. All the measures constituting structural benchmarks were implemented (Table 2):

- Using the PRED5 and AICE programs, the Directorate General of the Budget (DGB) produced monthly reports, which showed that the total budgetary float at end-January 2013 stood at CFAF 56 billion (1.1 percent of GDP), including CFAF 33 billion in payments outstanding for less than 90 days since their validation and CFAF 23 billion in payments outstanding for more than 90 days since validation.
- After comparing the sales reported to the Directorate General of Taxes (DGI) with the imports declared to the Directorate General of Customs (DGD), the Joint Economic and Financial Intelligence Committee (CMRIEF) concluded that 81 percent of importers reported sales in 2010 and 2011 that appear to be uncharacteristically low compared with their imports in those years.<sup>3</sup>
- The National Directorate of Treasury and Public Accounting (DNTCP) studied in detail all the items in the net position of the government vis-à-vis the banking system (NPG) as at December 31, 2012 in conjunction with the National Directorate of the Central Bank of West African States (BCEAO). This study established that the NPG showed the net position of the government with regards to the banking system (PNG) in the broad sense of the directive on the Government Financial Operations Table (TOFE) of the West African Economic and Monetary Union (WAEMU) is in a net creditor position in the amount of CFAF 54 billion (1.1 percent of GDP). The broad NPG included a net debtor position for the Treasury (NPT) of CFAF 112 billion (2.1 percent of GDP), and a net creditor position for other government agencies of CFAF 166 billion (3.2 percent of GDP).

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<sup>3</sup> In 2011 and in 2012, the income reported to the DGI by some 1000 enterprises, or 80 percent of importers, totaled about CFAF 500 billion (US\$1 billion or 10 percent of GDP) less than the imports they declared to the DGD plus a margin of 30 percent.

## Economic and Financial Policies for 2013

15. 2013 began with rapid progress in recapturing northern Mali. After a massive attack at the beginning of January by organizations affiliated with Al Qaeda beyond the front line separating the north from the south, the transition government appealed to France for assistance in halting their advance. The French army intervened forcefully with 4,000 soldiers supporting the Malian army to first stop the advancement of these groups and then, accompanied by 2000 soldiers from the Chadian army, to take back all the towns in the north one by one and to attack their safe haven in a mountainous region north of Kidal, close to the Algerian and Nigerien borders. In addition, more than 4,000 African soldiers were deployed to Mali to assist the Malian army in securing the north. The transition government adopted a roadmap to reinstate the government in the northern part of the country and to hold presidential elections in July 2013.

16. After this progress towards restoring the territorial integrity of the country and organizing elections, several donors, also reassured by the IMF's disbursement of SDR 12 million under the Rapid Credit Facility (RCF) in January 2013, announced the resumption of their budgetary support to the government. At the time the supplementary budget law was prepared, these donors included:

- The Netherlands, which in March began to disburse €15 million in grants to the multi-donor National Economic and Social Stabilization Fund, which finances several specific government budget items;
- The European Union—€225 million in general budgetary assistance in 2013–14 in grants, of which €120 in 2013;
- The World Bank—US\$50 million in general budgetary support in 2013;
- The West African Development Bank—40 million units of account of general budgetary assistance, of which 20 million in grants and the rest in loans, in 2013;
- France—€15 in grants and CFAF 14.2 billion converted from external debt service to budget support; and
- The IMF, from which the government is requesting a new disbursement of SDR 10 million under the RCF in this letter of intent.

The sum of the amounts listed above is equivalent to CFAF 184.8 billion (\$370 million or 3.2 percent of GDP) in budgetary support for 2013 and CFAF 65.6 billion (\$132 million or 1.1 percent of GDP) in 2014.

17. Furthermore, a number of donors<sup>4</sup> have started to fund projects again, including CFAF 60 billion (\$120 million or 1.1 percent of GDP) in grants and CFAF 113 billion (\$226 million or 1.9 percent of GDP) in loans in 2013. Other donors are reviewing the conditions and modalities for resuming their development assistance, to be announced after the May 15 international donor conference for Mali's development in Brussels.

## **A. Formulating Policies on the Basis of a Realistic Macroeconomic Framework**

18. Following the 1.2 percent contraction of economic activity in 2012 (¶13), real GDP is expected to increase by 4.8 percent in 2012, reflecting an increase in the volume of activity in other sectors as a result of the gradual return to normalcy in the south and north of the country and the steady resumption of development assistance by the TFPs. Inflation could dip below 3 percent in 2013, in light of the good 2012–13 crop year. The balance of payments current account deficit (including grants) should further deepen to 8.7 percent of GDP in 2013 under the influence of stagnant export revenue owing to the slight decline in the production and price of gold, falling cotton prices, the surge in imports driven by the increase in economic activity, and food imports to help the population affected by the crisis since the events of March 2012. This deficit can only be partially funded by direct investments and anticipated disbursements by the TFPs. Without resorting to the BCEAO's foreign exchange reserves, the balance of payment shows a financing gap of CFAF 107 billion (\$214 million) in 2013, of which 30 billion to finance needs identified in the 2013 supplementary budget law (¶25), and CFAF 77 billion to finance the needs of several actors in the domain of humanitarian assistance identified by the World Food Program. With no clear prospects for budget support beyond 2013 at this stage, the 2014 financing gap is estimated at no less than CFAF 135 billion (\$270 million) in 2014 and CFAF 195 billion (\$390 million) in 2015, which is required for reconstruction in the north and implementation of the Poverty Reduction and Growth Strategy Paper for 2012–17 (PRGSP III) adopted in December 2011, and the Emergency Priority Action Plan and the Plan for Sustainable Recovery for 2013–14 adopted in March and April 2013.

19. Although the outlook is favorable, the Malian economy remains exposed to the vagaries of the weather and the price volatility of gold and cotton, which constitute the bulk of the country's exports. Furthermore, renewed political tensions during the transition to democratic elections could once again dampen consumer and investor confidence and the economic recovery.

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<sup>4</sup> Arab Bank for Economic Development in Africa, Islamic Development Bank, West African Development Bank, Exim Bank of China, African Development Bank, Kuwaiti Fund for Arab Economic Development, Saudi Fund, World Bank, India, Exim Bank of Korea, United Nations Development Program, Belgium, African Capacity Building Fund, Germany, Denmark, Sweden, and the Netherlands.

## B. Implementing a Fiscal Policy Focused on Maintaining Macroeconomic Stability

20. In the fiscal area, the government will continue its prudent fiscal policy to keep expenditure under control and in line with the resources on which it may reasonably rely. In this spirit, the government introduced a budget law (LF) for 2013, which the National Assembly adopted in December 2012, based on proactive efforts to mobilize domestic resources that do not assume the resumption of aid from the TFPs in 2013. It includes a financing gap of CFAF 55 billion bridged by freezing an equivalent amount of investment expenditure until capital resources are identified.<sup>5</sup>

21. Following the resumption of development assistance by the donors listed above (¶15), the government prepared a supplementary budget law (PLFR) to allocate the announced budgetary assistance and other additional resources to the priorities stated in the roadmap, namely:

- Organizing elections;
- Reinstating the government in the north of the country;
- Protecting gains in education and health; and
- Supporting the recovery of economic activity.

22. The supplementary budget law is built on revenue and grants equal to 21.2 percent of GDP (18.2 percent of GDP in the LF), net tax revenue of 15.2 percent of GDP (15.5 percent of GDP in the LF), total expenditure and net lending of 24 percent of GDP (18.4 percent in the LF), an overall deficit (on a cash basis, including grants) of 3.3 percent of GDP (0.3 percent of GDP in the LF), and a basic fiscal deficit of 0.4 percent of GDP (a basic balance in equilibrium in the LF).

23. The supplementary budget law projects CFAF 169.3 billion (US\$ 338 million or 2.9 percent of GDP) in revenue and grants in addition to the LF as follows:

- CFAF 173.9 billion in budget and project grants announced by the above-cited TFPs (¶15–16);
- CFAF 19.6 billion less in net tax revenue due mainly to the need to augment VAT credit and other tax refunds by CFAF 15 billion, for which credits in the LF appear insufficient in the light of observed refunds in 2012;
- CFAF 7.9 billion in domestic transfers to the Army, of which the contribution of the telecommunications regulatory authority amounts to 4.9 billion, and that of citizens to 3 billion; and

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<sup>5</sup> [Mali: Letter of Intent, Memorandum on Economic and Financial Policies, and Technical Memorandum of Understanding; January 10, 2013](#); ¶26.

- CFAF 1.5 billion in domestic transfers for humanitarian aid contributed by the mining companies.
24. On the expenditure side (including net lending), the supplementary budget law proposes CFAF 338.6 billion of spending in addition to the LF as follows:
- CFAF 177.8 billion of investment spending financed by project grants and loans and the return of sectoral budget support to the levels of 2010–11;
  - CFAF 60 billion for new domestically financed investment spending to refurbish the public buildings plundered in the north, increase contributions to education, health, and waterworks, restore the Sikasso-Yèrèmakono highway, provide the national counterpart funds for projects financed by the TFPs, and rebuild the national food buffer stock;
  - CFAF 29.8 billion to pay the arrears on government contracts identified to date and for which there are no appropriations in the initial budget law (¶17);
  - CFAF 25 billion to increase the funds necessary for the organization of elections from CFAF 25 billion to 50 billion;
  - CFAF 20 billion to increase transfers to the state-owned energy company *Energie du Mali* (EDM) to CFAF 40 billion and to provide it with the resources to respond to the demand for electricity; EDM has a structural imbalance between the sales price and the production price of electricity (¶28) and is urgently in need of cash flow to settle arrears to its oil suppliers and to service its debt;<sup>6</sup>
  - CFAF 8.2 billion to increase current expenditure in the sectors of education, health, and water services;
  - CFAF 7.9 billion for military spending, financed by the above mentioned domestic transfers;
  - CFAF 6 billion, including CFAF 4 million to compensate the victims of the events in north and south of Mali following the government's adoption of a law establishing compensation for these victims and CFAF 2 billion for the National Commission on Dialogue and Reconciliation;
  - CFAF 5 billion to finance subsidies to the agricultural sector; and
  - CFAF 1.5 billion humanitarian spending financed by the above mentioned domestic transfers;

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<sup>6</sup> EDM's short-term debt totaled CFAF 73 billion (1.4 percent of GDP) at end-2012, including CFAF 47 billion owed to suppliers and CFAF 26 billion to the banks.

25. The fiscal deficit (cash basis, including grants) in the supplementary budget law amounts to CFAF 187.7 billion and will be financed by:

- Net external financing to the amount of CFAF 102.5 billion owing to the return of the above mentioned TFP's (¶16–17), taking into account the repayment of the entirety of arrears on external debt of CFAF 27.1 billion (¶7); and
- Net domestic financing amounting to CFAF 55.2 billion, of which the main component are the proceeds from the sale of the third mobile telephony license.

26. Consequently, there is a financing gap of CFAF 30 billion (0.5 percent of GDP or US\$60 million) in the supplementary budget law, which the government hopes to fund with renewed inflows of development assistance from TFPs other than those that have already announced their return. Pending the confirmation of this additional budgetary support, the government will freeze planned spending in the supplementary budget law by the same amount and send the list of these expenses to the National Assembly before it votes on the supplementary budget law.

27. In the difficult circumstances that led to an increase in military spending by almost 48 percent in the 2013 supplementary budget law, compared with the amount spent in 2011, the last year before the crisis, the government will nonetheless give priority to spending by the ministries of Basic Education, Secondary and Higher Education and Scientific research, Health, and Social Development, in accordance with its growth and poverty reduction strategy. It is therefore committed to maintaining the level of these expenses above a certain floor in 2013 (indicator, Table 1).

### **C. Keeping the focus on Improving Public Financial Management**

28. The government will continue to improve public financial management, in particular by correcting the weaknesses found by the 2011 Public Expenditure and Financial Accountability (PEFA) assessment. This assessment showed progress in Mali's public financial management system in terms of the credibility, comprehensiveness, and transparency of the budget, and the preparation and execution of budget laws. However, it highlighted persistent weaknesses concerning tax collection, domestic debt service, cash management, accounting, reporting, and external control. The government is continuing to implement the 2011–15 Government Action Plan to Improve and Modernize Public Financial Management (PAGAM/GFP II).

### **Reducing Consumer Energy Subsidies**

29. In the country's currently delicate situation, the government intends to pave the way towards a gradual reduction of consumer subsidies for electricity and butane gas and to automatic adjustment of domestic energy prices (petroleum products and electricity) to changes in international oil prices. This strategy includes the following:

- Presentation in the draft budget laws of an estimate of the impact on the budget of a lack of adjustment of oil and electricity prices started in the 2013 Budget.<sup>7</sup>
- Increase in the prices of petroleum products. Since May 2012, the government has raised the prices of petroleum products three times totaling a 6–percent increase by more heavily taxing petroleum products and cutting the butane gas subsidy in half.
- Increase in electricity rates. Faced with the need to repeatedly increase budget transfers to the state electricity company EDM because of the structural imbalance between the sales price of electricity and production costs,<sup>8</sup> the government decreed an increase in electricity rates by an average of 7 percent, which took effect on February 1, 2013. By end-June 2013, the Council of Ministers will review new proposals prepared jointly by the Ministry of Economy, Finance, and Budget, the Ministry of Energy, EDM, and the Electricity and Water Regulatory Commission (CREE) to establish a positive margin between the sales price and the average cost price of electricity (structural benchmark, Table 2).
- Preparation, by end-August 2013, of different options for automatically adjusting petroleum product prices to changes in international prices, accompanying measures to minimize the social impact, and a communications policy to manage public opinion by the National Petroleum Products Office (ONAP), Customs (the DGD), and the other agencies involved, in light of the proposals prepared by ONAP in February 2010, the recommendations of the IMF Fiscal Affairs Department at the seminar organized by the WAEMU Commission in September 2011, and Annex II of the IMF Staff Report on the 2012 Article IV Consultation with Mali;<sup>9</sup>
- Preparation, with assistance from World Bank staff, of transfers targeting the poorest segments of the population, which could be increased in the event of a spike in energy or food prices, with a view to curtailing any social tensions associated with an increase in these prices.

## Reforming Tax Policy

30. The government plans to continue to gradually reduce exemptions by implementing the following measures:

<sup>7</sup> Given the very limited pass through of international oil prices in domestic oil prices during 2009–11, oil tax revenue declined by CFAF 47 billion (1 percent of GDP) during that period. With no adjustments in electricity rates, the government ended up transferring almost CFAF 30 billion (0.6 percent of GDP) to the state electricity company EDM to keep it afloat in 2012.

<sup>8</sup> In 2012, the average sales price of electricity was CFAF 91/kWh and the cost price was CFAF 127/kWh. In 2013, the average sales price of electricity is CFAF 96/kWh after the adjustment made on February 1, 2013 and the cost price is expected to be CFAF 119/kWh.

<sup>9</sup> [IMF Report No. 13/44 -- Mali: 2012 Article IV Consultation](#).

- Beginning with the 2013 Budget Law,<sup>10</sup> present as an attachment to draft budget a table listing all the exemptions included in the General Tax Code, Customs Code, Investment Code, Mining Code, and all other laws or government decisions granting tax benefits; the legal basis for the exemptions and effective dates; and an estimate of the foregone revenue they represent;
- Control the exemptions granted under the current laws; and
- Gradually reduce, to the extent possible, all exemptions under the General Tax Code, Customs Code, Investment Code, Mining Code, and all other laws or government decisions granting tax benefits.

## **Reforming the Tax, Customs, and Government Property Administrations**

31. *Priority will be given to implementing the reforms undertaken in 2011 to sustainably improve the functioning and yield of the VAT, which accounts for roughly 40 percent of tax revenue. The following measures have been implemented to that end:*

- On January 18, 2011, a Treasury account was opened with the BCEAO to receive all VAT receipts paid by the mining companies on their imports and 10 percent of domestic VAT receipts. The DGI and DGD began depositing monthly receipts to the account on June 1, 2011. The use of the account is restricted to VAT credit refunds. This mechanism will ensure that VAT credits are duly refunded on a regular basis in accordance with WAEMU law to gold companies and to all other companies that generate VAT credits, except retailers. The VAT credits due to gold mining companies for FY 2012 amounted to CFAF 47.9 billion, of which CFAF 7.2 billion were still outstanding in 2013, and the estimate for FY 2013 is CFAF 40 billion. In 2012, the Public Treasury also cleared arrears on VAT credits dating back to December 31, 2011 in the amount of CFAF 11.1 billion.
- To further expedite refunds of VAT credits, by end-June 2013, the government will explore the option of refunding VAT credits to mining companies through a simplified procedure in accordance with government accounting rules, beginning on January 1, 2014. Using this approach, the VAT paid by mining corporations would be collected, refunded, and recorded as follows:
  - The DGD and DGI collect the VAT from non-exempt mining companies;

<sup>10</sup> The 2013 budget includes attachments showing exemptions from duties and taxes to be CFAF 231 billion in 2011 (4.6 percent of GDP), including CFAF 121 billion (2.4 percent of GDP) in taxes collected by the DGI and CFAF 111 billion (2.2 percent of GDP) in duties and taxes collected by the DGD. In 2012, tax exemptions amounted to CFAF 228 billion (4.3 percent of GDP), including CFAF 111 billion (2.1 percent of GDP) in taxes collected by the DGI and CFAF 117 billion (2.2 percent of GDP) in duties and taxes collected by the DGD.

- The Treasury refunds VAT credits directly from the account held with the BCEAO (without prior issuance of payment orders); and
- The amount of VAT collected from mining companies is excluded from DGD receipts and the amount of mining company VAT credits attributable to their domestic transactions is excluded from DGI revenue.
- The system of VAT withholding at source was abolished on December 31, 2011, except for the Treasury, where it is being phased out starting January 1, 2013. Since that date, the Treasury has withheld at source only 40 percent of the VAT and the withholding will be entirely abolished as of January 1, 2014. In April 2012, the DGI sent a letter to all companies identified not subject to VAT withholding at source since January 1, 2012 to remind them of their VAT declaration and payment obligations. Every month (two weeks after the end of the month), the DGI will monitor whether these enterprises have met their filing requirements with respect to the VAT and will report its findings every quarter to the Minister of Economy, Finance, and Budget.
- In April 2013, the government submitted a draft law to the National Assembly raising the VAT liability threshold from CFAF 30 million to CFAF 100 million in earnings, with a view to simplifying VAT collection.

32. The DGI, DGD, the National Directorate of Public Property and Lands (DNDC), and the Directorate General of Government Property Administration (DGABE) will continue their efforts to improve tax, customs, and public property administration:

- *Introduction of multidisciplinary supervision.* The Joint Economic and Financial Intelligence Committee (CMRIEF) was established on March 15, 2012 to strengthen the effectiveness of tax audits and identify new taxpayers using, notably, all the databases of taxpayers or economic operators available to the DGI, DGD, DNDC, DGABE, and the directorate responsible for public procurement. The CMRIEF identified CFAF 7 billion in possible tax adjustments in the oil and gas sector and in the automotive spare parts sector, which the DGI and the DGD will process. Along with this sectoral approach, by comparing DGD and DGI data, the CMRIEF found that more than 80 percent of importers—about 1,000 enterprises, seem to have underreported their income to the DGI in 2011 and 2012 by a total of CFAF 500 billion (113). The DGI will include these enterprises in its verification program in 2013 starting with the files of 430 enterprises with the largest apparent underestimation of income in absolute terms, and will report the interim results of this program by August 31, 2013 (structural benchmark, Table 2). The CMRIEF will produce a report by June 30, 2013 comparing the value of the government contracts awarded to these operators in the database of the Directorate responsible for public procurement with the earnings reported to the DGI and the value of the imports declared by these operators in the DGD's ASYCUDA database for FY 2010, FY 2011, and FY 2012 in order to identify taxpayers who

may be underestimating their taxable earnings or overestimating the exemptions they request.

- *New income thresholds used by the large enterprise (DGE) and medium-sized enterprise (DME) directorates to streamline taxpayer administration.* In order to improve taxpayer management by the DGE and the DME, the Council of Ministers adopted an ordinance raising the DGE threshold from CFAF 500 million to CFAF 1 billion in income and lowered the DME threshold from CFAF 150 million to CFAF 100 million. This adjustment will improve the DGE's management and supervision of companies, quickly increase the number of taxpayers managed by the DME, and improve VAT management by assigning all responsibility for VAT to the DGE and DME as soon as the parliament adopts the draft law increasing the VAT threshold to CFAF 100 million in income.
- *Improvement in the taxpayer registration system SIGTAS.* The SIGTAS database contains numerous data entry errors, which will be corrected by June 30, 2013. Regular reports will be produced for that purpose.
- *Improved administration of taxpayers managed by the DGE.* The DGI will take all the necessary steps to increase by end-2013 the number of taxpayers paying taxes by bank transfer among the enterprises managed by the DGE.
- *Improved administration of taxpayers managed by the DME.* The DGI will continue to pay particular attention to the operations of the DME, which will implement the following measures: (i) expand its portfolio to increase the number of its taxpayers to at least 2,000 by January 1, 2014; (ii) reduce the VAT non-filer rate to less than 10 percent by end-2013 and less than 5 percent by end-2014; and (iii) increase the tax audit coverage rate for FY 2013 to at least 20 percent of its portfolio by end-December 2013. The DGI paid special attention to upgrading the office space and increasing the staff of the DME. The DME moved into its new premises in February 2013.
- *Promote tax compliance.* The published the list of taxpayers managed by the DGE and DME, respectively, on the website of the Ministry of Economy, Finance, and Budget in October 2011 and updated it at end-February 2013, in order to inform the public of the results of the efforts to broaden the tax base. On February 13, 2013, the DGE had 462 taxpayers and the DME 1,002.
- *Implementation of automated selection for customs inspections as soon as possible.* To this end, the DGD installed a technical risk management unit, which performed the necessary preparatory tasks up until the events of March 2012. This work was resumed with technical assistance from the IMF's West Africa Regional Technical Assistance Center (West AFRITAC).
- *Modernization of the DNDC.* In 2011, the DNDC conducted a study to determine the potential revenue from public property and improve collection of that revenue, and a study to design and implement a computerization plan. The DNDC has collected the capital gains

tax on transfers of real property by individuals since October 1, 2011. It will continue its activities to implement a land registry and will set up a secure filing system.

- *Modernization of the DGABE.* The MEFB will modernize the DGABE by introducing modern management tools, such as results-based management, greater use of information technology (use of accrual accounting software in the accounting offices of ministries and public institutions), and the implementation of reforms to better monitor and optimize the value of the government's portfolio.
- *Improved accounting of tax revenue.* The Treasury's new integrated accounting application AICE and its interface with applications in the DGD (ASYCUDA) and the DGI (SIGTAS) was implemented in the Bamako District General Revenue Office (RGD) on January 3, 2012. The interface with ASYCUDA was interrupted when the DGD's IT equipment was destroyed during the events of March 2012 and was restored to operation in February 2013.

33. To consolidate its efforts to reform the tax system and the tax, customs, and public property administrations, the government will request the IMF's intervention through its Topical Trust Fund on Tax Policy and Tax Administration to develop a multiyear technical assistance program linked to the achievement of results. In order to develop its capacity for supervising mining corporations and to explore the possibility of introducing a surcharge on the windfall profits from exceptionally high prices as part of the tax provisions applicable to mining companies, the government will also request the intervention of the IMF's Topical Trust Fund on Managing Natural Resource Wealth.

## **Improving Fiscal Transparency, as well as Public Expenditure and Cash Management**

34. The government is committed to incorporating WAEMU directives N° 01 and N°06 of 10/2009 concerning the transparency code, budget laws, government accounting, budget classification, the government chart of accounts, and the Government Financial Operations Table (TOFE) in Mali's laws and regulations. The administration has drafted the texts transposing these directives and has submitted them to the WAEMU Commission for its opinion. The transposition of Directive N°06 concerning the budget laws is complete and the proposed law for its incorporation has been approved by the Council of Ministers.

35. Pursuant to these directives, the following cutoff dates have been established for budget execution in 2013: ordinary operating and capital expenditure to be committed by November 30, 2013; other expenses to be committed by December 20; payment orders to be issued by December 31, 2013, and payments to be authorized by accountants, payment vouchers attached, and expenditure regularized by January 31, 2014. Thus, the carryover period will be limited to accounting operations and a fiscal closing circular will be published by end-September specifying the cutoff dates for commitment and validation so that payment orders can be completed by December 31, 2013.

36. Under the program, the government also hope to complete the following actions undertaken to improve cash management, accounting, and government finance statistics:

- *The Treasury Single Account (TSA) with the BCEAO will be phased in.* A study on the impact of transferring all 3,415 government accounts as defined in the TOFE (except for project accounts established pursuant to the explicit provisions of agreements signed with the TFPs) from the commercial banks to the BCEAO was completed on September 15, 2011. The study concluded that seven banks were able to immediately transfer these accounts to the BCEAO without compromising their liquidity ratios, but six banks would see their ratios fall below the required minimum. Accordingly, the authorities transferred the accounts (other than project accounts) of the RGD, the Treasury General Payments Office (PGT), the Treasury Central Accounting Agency (ACCT), and the accounting offices of the regional treasurers-paymasters (TPR) in Mopti and Sikasso at the seven commercial banks to the BCEAO in December 2011. The authorities took additional time to determine the strategy for transferring those entities' accounts at the other six banks, as well as the accounts (excluding project accounts) of other administrations and public administrative entities (EPA) held at any commercial banks, to the BCEAO.<sup>11</sup> However, following the events of March 2012 and the suspension of access to its accounts with the BCEAO, the government decided to reopen the accounts of the above-cited entities at the seven commercial banks. The government decided to wait until the political-military crisis was resolved before taking any further steps to implement the TSA. In the meantime, the balances of 101 dormant government accounts in the banking sector, totaling CFAF 6.960 billion, were transferred to the TSA by end-February 2013. The Minister of Economy, Finance, and Budget will set the conditions for opening, operating, and closing the bank accounts of government agencies. An agreement between the Ministry of Economy, Finance, and Budget and the BCEAO governing the operation of the TSA will be finalized.
- *Implementation of the Treasury's new integrated accounting application AICE will continue.* The application was rolled out in the Koulikoro treasurer general's office in January 2013 and will be deployed at the ACCT by end-2013. The rollout of AICE at the ACCT will make it possible to produce all the consolidated statistical accounting reports of government entities connected to the system, including the Treasury's integrated balance sheet and the TOFE.
- *The quality of the accounts will be gradually improved.* The unusually high balances found in reciprocal accounts, third-party accounts, and the financial accounts in the general account balances of the ACCT, PGT, and RGD have begun to be reviewed and corrected.

<sup>11</sup> See the third point in ¶33 of the Memorandum on Economic and Financial Policies of November 23, 2011 ([IMF Report No 12/3 Mali: Seventh Review Under the Extended Credit Facility and Request for a new Three-Year Arrangement Under the Extended Credit Facility](#)).

- *The improvement in government finance statistics will be continued.* The TOFE was modified, as specified in the Technical Memorandum of Understanding (TMU, ¶25), starting May 31, 2011. Efforts will be made to reduce the adjustment required to reconcile the resulting overall balance and its financing. The Ministry of Economy, Finance, and Budget and the BCEAO will work closely together to enable the BCEAO to continue to produce a narrow net position of the government (NPG) covering the transactions reflected in the TOFE (TMU, 6). By August 31, 2013, the DNTCP and the BCEAO will analyze the NPG items that are not included in the net position of the Treasury (NPT) to identify the public institutions other than the Treasury responsible for movement of the position (13).
- *Payment deadlines will be more strictly monitored to prevent the accumulation of arrears.* The public financial management programs (PRED5 and AICE) will be used to monitor the time taken to execute payment orders and ensure that payments are made, to the extent possible, in less than 90 days after validation of the expense. Monthly tables will be produced for that purpose.
- *Projected cash plans will be prepared every month.* On a monthly basis starting in January 2013, the National Directorate of the Treasury and Government Accounting (DNTCP) will prepare a projected cash plan covering the following months.
- *All government contracts, including those of the Ministry of Defense, will continue to be implemented pursuant to the provisions of the Government Procurement Code.*

37. The following measures will be adopted to gradually improve procedures for budgeting and monitoring the execution of investment appropriations:

- The 2013 Budget Law introduced the budgeting of commitment authorizations (CA) and payment appropriations (PA) related to three-year public investment expenditures. On that basis, the Ministry of Economy and Finance is making arrangements to track the use of CA and PA in the PRED5 expenditure management software.
- The procedure for carrying forward PAs will be implemented on a transitional basis in preparation for full implementation carryover provisions established in the WAEMU directives. The transitional system authorizes the carryover of PAs provided that they are secure (i.e., covered by appropriate financing arrangements or budget savings in the following year) and provided for in the following year's cash plan. Unsecured PAs may also be carried forward, up to a limit of 10 percent of the initial appropriations provided in the domestically-financed investment budget, subject to the availability of financing resources in the following year's cash plan. PAs pertaining to validated expenditures that are not yet authorized are carried forward on a priority basis, up to the limit of the above-mentioned ceiling; for amounts above that ceiling, the authorities must prepare a supplementary budget law. The procedures for carrying forward PAs will include: a decree adopted by the Council of Ministers by March 31 of the following year, which will indicate: (i) PAs for which

no payment orders have been issued by December 31 that have been cancelled and carried forward to the following fiscal year in accordance with the conditions indicated above; and (ii) PAs that have been cancelled and not carried forward.

- When the 2015 Budget Law is implemented, the procedure for carrying forward PAs take effect under a mechanism that provides for full implementation of the carryover provisions established in WAEMU directives, allowing only PAs that are secured and provided for in the cash plan to be carried forward.

## Strengthening Internal and External Controls

38. *Internal control structures will be strengthened.* The internal and external control structures have revealed numerous administrative weaknesses in Mali's public financial management. With respect to internal control, the Government Comptroller's Office (CGSP) noted the shortage and inadequate use of procedures manuals in the administration. To correct these deficiencies, in August 2011, the government adopted a 2011–15 national internal control strategy, which it will implement with the support of several of its technical and financial partners. With respect to external control, the Office of the Auditor General (BVG) has drawn attention to large sums pending collection for the Public Treasury. To enhance the transparency of the BVG's work, the government is examining the possibility of the publication of its sectoral reports on its website, in addition to its annual reports, which are already published there. The number of staff in the accounts section of the Supreme Court will be increased. This section will be converted into an Audit Court in accordance with the corresponding WAEMU directive as soon as possible.

39. *The production and audit of the government's annual accounts will be expedited.* The accounts section of the Supreme Court is implementing a strategy of reviewing accounts based on the assessment of account positions produced by the DNTCP. For government accounts predating 1992, the government adopted a proposed validation law on June 29, 2011, which the National Assembly approved on January 3, 2013. The accounts section examined the government accounts for fiscal years 1992 through 2008. The National Assembly approved the budget review laws for 2008 and 2009. The government submitted the draft budget review laws for FY 2010 and FY 2011 to the National Assembly. It will adopt the draft budget review law for FY 2012 by end-2013, in accordance with WAEMU directives.

## Implementing a Sustainable Debt Policy

40. The most recent debt sustainability analysis conducted by IMF and World Bank staff concluded that the risk of debt distress remains moderate.<sup>12</sup> This analysis also confirmed that debt sustainability remains highly sensitive to gold prices (gold accounts for three-fourths of exports and gold production will decline over the medium term), the cost of borrowing, and the pursuit of sustainable fiscal policies. Accordingly, the government reaffirms its commitment to cover its external financing needs with grants and the balance with loans having a grant element of no less than 35 percent.

41. However, the government obtained a proposal of the Islamic Development Bank for financing the expansion of a thermal plant in Bamako in the amount of € 24.5 million (CFAF 16 billion or 0.3 percent of GDP), with a grant element of 29.7 percent. In keeping with its commitments, the government has contacted the financing partner with a view to increasing the grant element to 35 percent, but without success. The government has also signed an agreement for a loan of \$ 138.3 million (CFAF 69 billion or 1.2 percent of GDP) with the Exim Bank of China to finance the construction of a hydroelectric plant, with a grant element of 32.8 percent. The project involves Mali, Senegal, and Mauritania, and the loan will only become effective once Senegal and Mauritania will have signed their respective loans with the same financing. Therefore, as the projects financed by these loans are of strategic importance for the expansion of electricity production, they have a significant grant element, and they amount to a moderate total which does not threaten Mali's external debt sustainability, the government will conclude them under the above mentioned terms, but it commits to limiting the amount of non-concessional borrowing in 2013 to the amount corresponding to these loans (continuous indicator, Table 1).

42. *Management of domestic debt will be improved.* The Minister of Economy and Finance tasked the Directorate General of the Public Debt (DGDP) with compiling a list of all the agreements related to domestic debt and the commitments to guarantee domestic debt given by the government in an effort to include their repayment schedules in the public debt database and in the budget laws. The DGDP has begun the inventory effort with local banks. This project has already served to identify direct and indirect government liabilities to the banking sector in the amount of CFAF 195.1 billion (4.0 percent of GDP) at December 31, 2012, including CFAF 17 billion (0.3 percent of GDP) in amounts that are past due. A payment timetable is currently being negotiated with creditors, under which the payment of CFAF 7.5 billion has been authorized in 2012 and CFAF 9.2 billion has included in the 2013 budget law.

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<sup>12</sup> See Mali—Joint IDA/IMF Debt Sustainability Analysis under the Debt Sustainability Framework for Low-Income Countries in [IMF Report No. 13/44 -- Mali: 2012 Article IV Consultation](#).

## **Program Monitoring**

43. The program will be evaluated on the basis of indicators at end-June, end-September, and end-December 2013 (Table 1), continuous indicators, and structural benchmarks (Table 2). The indicators are defined in the TMU, which also specifies the nature and frequency of the data reporting requirements for proper program monitoring.

Table 1. Mali: Indicative Targets 2012–13<sup>1</sup>

	2012				2013									
	Dec.				March				June		Sep.		Dec.	
	Prog. <sup>2</sup>	Adj. Target	Est.	Status	Prog. <sup>2</sup>	Adj. Target	Est.	Status	Prog. <sup>2</sup>	Rev. Prog.	Prog. <sup>2</sup>	Rev. Prog.	Prog. <sup>2</sup>	Rev. Prog.
	(in CFAF billions)													
Government bank and market financing (ceiling) <sup>3</sup>	107	100	74	Met	29	77	-24	Met	28	52	8	34	7	24
Cumulative increase in external payments arrears (ceiling) <sup>4</sup>	29 <sup>7</sup>		27 <sup>7</sup>	Met	0		0	Met	0	0	0	0	0	0
New external borrowing contracted or guaranteed														
by the government on nonconcessional terms (ceiling) <sup>4,5</sup>	0		53	Not Met	0		0	Met	0	85	0	85	0	85
Gross tax revenue (floor)	807		816	Met	182		189	Met	413	418	671	676	909	907
Basic fiscal balance (floor) <sup>6</sup>	-55	-72	-40	Met	-15	-27	19	Met	20	-41	0	-40	-5	-22
Priority spending (floor)	243		312	Met	38		62	Met	89	122	175	217	296	346
<i>Memorandum items:</i>														
External budget support	4		4		0		0		0	10	0	114	0	154
General budgetary grant	4		4		0		0		0	10	0	74	0	114
Net change in pending bills (- = reduction)	4		-8		0		-14		-20	-13	-20	-10	0	7
Tax refunds (-)	-41		-58		-9		-21		-20	-25	-32	-37	-44	-50
Net change in arrears (- = reduction)	-21		14		-4		-25		-8	-37	-11	-50	-15	-66
<b>Sources: Malian authorities; and IMF staff projections.</b>														
<sup>1</sup> Cumulative figures from the beginning of the year. See Technical memorandum of understanding (TMU) for definitions.														
<sup>2</sup> Country Report No. 13/44: Mali-Staff Report for 2012 Article IV Consultation and RCF Disbursement.														
<sup>3</sup> The targets for this indicative target are subject to adjustment for external budget support, reduction of pending bills, tax refunds, and arrears payment. See TMU for more details.														
<sup>4</sup> These indicative targets will be monitored on a continuous basis since the beginning of the year.														
<sup>5</sup> These indicative targets in 2013 are linked to a loan \$ 138.3 million by the Exim Bank of China of and a loan of € 24.5 million by the Islamic Development Bank of to increase the supply of electricity (see MEF, ¶41).														
<sup>6</sup> The targets for this indicative target are subject to adjustment for budgetary grants and tax refunds.														
<sup>7</sup> Cumulative figures from the beginning of 2011.														

Table 2. Mali: Structural Benchmarks for 2013

Measures	Timing	Macroeconomic rationale	Status
Produce, using the expenditure management software PRED 5, monthly reports tracking the time elapsed between the issuance of payment orders and actual payment.	28-Feb-13	Prevent the accumulation of arrears	Met
Produce a report, by the Joint Economic and Financial Intelligence Committee (CMRIEF), comparing the value of imports declared by operators in the ASYCUDA database of the Customs Directorate (DGD) with the turnover declared to the Tax Directorate (DGI) to identify taxpayers who might have underestimated their taxable earnings.	28-Feb-13	Increase tax revenue	Met
Prepare a report, by the National Directorate of the Treasury and Public Accounting (DNTCP), on the net government position vis-à-vis the banking system (NGP) at December 31, 2012, examining in detail all the items of the NGP and identifying—within all the items included in the NGP in the broad sense as used by the BCEAO pursuant to Community provisions—all those that are included in the narrow NGP and, within these, government assets in the banking system that are available for cash operations in 2013.	28-Feb-13	Improve cash management	Met
Review, by the Council of Ministers, the proposals prepared jointly by the Ministry of Economy, Finance and Budget, the Ministry of Energy, the state electricity company (EDM) and the Water and Energy Regulatory Commission (CREE) with a view to establish a profit margin between the sales price and the average cost of electricity.	30-Jun-13	Reduce budget transfers and raise economic growth	
Draft a report, by the Tax Directorate (DGI), on the interim results of its tax audits on importers whose reported turnover seemed uncharacteristically low according to the February 2013 report of the Joint Economic and Financial Intelligence Committee (CMRIEF).	31-Aug-13	Increase tax revenue	
Report on the results of an audit of domestic arrears accumulated by the government in 2012 following the spending freeze in the wake of the March 2012 events and the reduction of appropriations in the 2012 supplementary budget.	31-Aug-13	Support economic activity by clearing arrears owed to operators.	

Source: Malian authorities.

## Attachment II—Technical Memorandum of Understanding

1. This TMU defines the program indicators accompanying the request for disbursement under the Rapid Credit Facility (RCF) presented in Table 1 of the Memorandum on Economic and Financial Policies (MEFP). It also determines the frequency and deadlines for reporting data to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

### Definitions

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

### Indicators

3. Except as noted, the following financial targets will serve as indicators for end-June, end-September, and end-December 2013.

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

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

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

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

## Adjusters

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

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

9. Lastly, the ceiling on net bank and market financing to government will be adjusted upward (downward) for the **payment of VAT credits, other tax refunds, and a net reduction in external and audited domestic arrears**, which exceed (fall short of) program amounts (MEFP, Table 1).

## B. Non-accumulation of external government payments arrears

10. The balance of external payments arrears is defined as the sum of payments due and not paid on the government's external liabilities and the external debt owed or guaranteed by the government. The definition of external debt given in paragraph 11(a) applies here.

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

## C. Ceiling on non-concessional external debt at terms of one year or more and on short-term external debt contracted or guaranteed by the government and/or public enterprises

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

- (a) The term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
- i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
  - ii. Suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some times after the date on which the goods are delivered or services are provided; and
  - iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
- (b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

14. **Concessional debt.** A debt is understood to be concessional if it includes a grant element of at least 35 percent;<sup>1</sup> the grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of its nominal value. The present value of the debt is calculated on the date on which it is contracted by discounting the future stream of payments of debt service due on this debt.<sup>2</sup> The discount rates used for this purpose are the currency-specific commercial interest reference rates (CIRR) as published by the OECD.<sup>3</sup> For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the present value of the debt and, hence, its grant element. For debt with a shorter maturity, the six-month-average CIRR is used. The margins for differing repayment periods (0.75 percent at  $\leq 15$  years, 1 percent at 15-19 years, 1.15 percent at 20-29 years, and 1.25 percent at  $\geq 30$  years) are added to the ten-year or six-month CIRR averages.

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

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

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

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

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

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

<sup>3</sup>In the case of the loans denominated in foreign currencies, for which the OECD does not calculate the CIRR, the grant element must be calculated on the basis of the composite (weighted average) CIRR of the currencies included in the composition of the SDR.

## D. Floor on gross tax revenue

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

## E. Floor on the basic fiscal balance

20. The basic fiscal balance is defined as the difference between net total revenue, plus budgetary grants (general budgetary support) and HIPC resources, and total authorized expenses plus net lending, excluding capital expenditure financed by creditors or donors, pursuant to the definition of the basic fiscal balance in the WAEMU texts (Additional Act N° 05/2009/CCEG/JEMOA of March 17, 2009, amending Act N°04/1999 on the Convergence, Stability, Growth, and Solidarity Pact).

## Adjuster

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

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

## F. Floor on priority poverty-reducing expenditure

23. Priority poverty-reducing expenditure is defined as the sum of expenditure in the sectors of basic education, secondary and higher education, scientific research, health, and social development. It excludes project-related capital expenditure financed by foreign technical and financial partners.

## Structural Measures

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

25. As of May 31, 2011, **changes** have been to the **Government Financial Operations Table (TOFE)** as described below. Income and expenses recorded in suspense accounts are reported above the line as income or expenses, with no breakdown. In cash basis adjustments, a distinction is made between operations charged to previous fiscal years and those charged to the current fiscal year and, as well as, in the latter case, a distinction between funds in transit (less than three months) and types of arrears (more than three months) with respect to budgetary expenditures (including VAT credits and called guarantees and pledges). Under the heading "net domestic financing," bank financing is separated from privatization income and from other financing. Bank financing includes

changes in the net position of the government vis-à-vis the central bank, the IMF, and the resident commercial banks. In showing operations with commercial banks, a distinction is made between the Treasury, the National Social Security Institute (INPS), and other government agencies. Other financing includes mainly changes in cash accounts (un-cashed checks), advance tax installments received for the following year, adjustments to the installments received the previous year for the current year, operations with nonresident WAEMU creditors, and changes in deposits and consignments from Treasury correspondents.

### **Additional Information for Program Monitoring**

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

### Summary of Reporting Requirements

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

<b>Sectors</b>	<b>Type of Data</b>	<b>Frequency</b>	<b>Reporting Deadline</b>
	Basic fiscal balance as recorded in the TOFE	Monthly	Month-end + 6 weeks
	Tax and customs exemptions	Monthly	Month-end + 4 weeks
	Order fixing petroleum prices, tax revenue from petroleum products, and total exemptions granted	Monthly	Month-end
	Imports of petroleum products broken down by type and by point of entry	Monthly	Month-end + 2 weeks
	Expenses authorized and not paid 90 days after validation by the financial comptroller	Monthly	Month-end + 1 week
Monetary and Financial Data	Summary survey of the BCEAO, summary survey of the banks, survey of monetary institutions	Monthly	Month-end + 4 weeks (provisional); Month-end + 8 weeks (final)
	Foreign assets and liabilities and breakdown of other items net (OIN) of the BCEAO and the commercial banks	Monthly	Month-end + 8 weeks
	Lending and deposit interest rates, BCEAO policy rate, BCEAO reserve requirements	Monthly	Month-end + 4 weeks
	Bank prudential ratios	Monthly	Month-end + 6 weeks
Balance of Payments	Balance of payments	Yearly	Year-end + 12 months
	Revised balance of payments	Variable	8 weeks after each revision
External Debt	Breakdown of all new external loans	Monthly	Month-end + 4 weeks

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<b>Sectors</b>	<b>Type of Data</b>	<b>Frequency</b>	<b>Reporting Deadline</b>
	Debt service with breakdown of principal, interest, relief obtained under the HIPC Initiative	Monthly	Month-end + 4 weeks
Budget Directorate	Priority poverty-reducing expenditure as defined in ¶23.	Quarterly	End of quarter + 4 weeks

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