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Mali and the IMF

Press Release:
IMF Executive Board Approves US$18.4 Million Disbursement Under the Rapid Credit Facility for Mali
January 28, 2013

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

January 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 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, Mali
January 10, 2013

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C, 20431
USA

Dear Madame Managing Director:

1. On December 27, 2011, the Executive Board of the International Monetary Fund (IMF) approved a new three-year arrangement amounting to SDR 30 million under the Extended Credit Facility (ECF) in favor of Mali in support of the country's poverty reduction and growth strategy.

2. Since then, the Malian economy has undergone a variety of shocks. First, the poor harvest in 2011 resulted in a food crisis, with 3.6 million people at risk from malnutrition. Next, the attacks perpetrated in the north of Mali by rebels claiming independence for the zone comprising the three regions in the North, as well as terrorist activities by organizations affiliated with Al-Qaeda, triggered a humanitarian crisis for 420,000 people who fled the North of the country, with approximately half seeking refuge in neighboring countries. Finally, beginning in March 2012, Mali underwent a period of violence and upheaval that lasted for several months, until the formation of a transition government of national union that could concentrate on regaining control of the northern region with assistance from the international community and with the organization of presidential and legislative elections.

3. Unfortunately, as a result of these shocks, the ECF-supported program has gone off track and the cumulative overall balance of payments deficit for 2012–13 has worsened to US$380 million. The government has thus decided to cancel the three-year arrangement under the ECF with immediate effect and request a SDR 12 million disbursement under the Rapid Credit Facility (RCF) with a view to covering part of the anticipated balance of payments deficit.

4. The attached Memorandum of Economic and Financial Policies (MEFP) describes recent developments in the Malian economy and the progress made in implementing our program in 2011 and 2012. This memorandum also sets out the economic and financial policies that the Malian government intends to pursue over the next 12 months. For 2013, the government has designed a program of economic and financial policies for implementing a budget policy aimed at safeguarding macroeconomic stability and further improving public financial management.

5. The government believes that the measures and policies described in the attached MEFP are adequate for attaining the objectives of its program for the next 12 months. It will take additional measures as appropriate. Mali will consult with the IMF on the adoption of such measures and before any revision of the policies described in the attached MEFP. 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.

6. In the case of a protracted balance-of-payments deficit, and with a satisfactory performance with respect to the objectives under the program as outlined in the MEFP, the government envisages requesting additional disbursements under the RCF supported by new commitments in the areas of macroeconomic policy and public finance management. 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 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 and the debt sustainability analysis. 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:
- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

ATTACHMENT I—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. This memorandum of economic and financial policies (MEFP) presents recent developments and performance with respect to the program supported by the Extended Credit Facility (ECF) in 2011 and 2012 and Mali's economic and financial policies in 2013 in the context of the request for a disbursement under the Rapid Credit Facility (RCF).

RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE WITH RESPECT TO PROGRAM SUPPORTED BY THE EXTENDED CREDIT FACILITY

A. Recent Economic Developments

Economic Developments in 2011

2. In 2011, real GDP growth slowed to 2.7 percent. Agricultural production contracted by 4.5 percent, reflecting a 10 percent decline in cereal production due to uneven distribution of rainfall in the Sahel region. Solid performance in manufacturing increased the sector's value added by 20.8 percent, attenuating the slowdown of GDP growth. Inflation was contained at an annual average of 3.1 percent, as the cereal crisis did not begin to impact food prices until the end of the year.

3. The current account deficit (including grants) was reduced to 10.4 percent of GDP in 2011 due to the favorable impact of increased gold and cotton prices. The deficit was more than offset by net inflows of capital, primarily in the form of external assistance and foreign direct investment (FDI). As a result, the overall balance of payments recorded a surplus of CFAF 29 billion (US$60 million), which contributed to the accumulation of international reserves of the Central Bank of West African States (BCEAO).

4. The money supply expanded by 15 percent in 2011, driven by credit to the economy. Nearly half of bank credits were absorbed by the wholesale and retail trade and restaurant and hotel sectors, well ahead of the energy sector, whose relative share increased due to loans contracted by the Malian energy concern EDM.

5. The public finance deficit (cash basis) stood at 3.8 percent of GDP, a decrease of 0.6 percent of GDP compared to 2010. Gross tax revenue totaled 15.3 percent of GDP, representing an increase of 0.6 percent of GDP relative to the previous year. Net tax revenue was maintained at 14.6 percent of GDP due to the government's decision to value refunds of VAT credits—payable mostly to gold exporters—at fair cost and to accelerate the refund of those credits. Total expenditure and net lending increased by 2 percent of GDP, to 24.8 percent of GDP. The deficit of 3.8 percent of GDP was

financed through foreign-currency-denominated loans made under concessional terms equivalent to 2.7 percent of GDP and by domestic financing equivalent to 1.1 percent of GDP, including utilization of SOTELMA privatization receipts equivalent to 0.6 percent of GDP.

Economic Developments in 2012

6. In 2012, the Malian economy suffered a multitude of shocks. The poor harvest in 2011 (¶2) provoked a food crisis. The February 2012 final assessment report of the early warning system (SAP) estimated that 196 communities and their estimated 3.6 million inhabitants should be considered at risk for malnutrition. Those communities are located on the Mauritanian border, along the Niger River, and in the north (Kayes, Koulikouro, Nara, Mopti, and Timbuktu regions). As soon as the results of the initial SAP assessment were announced in November 2011, the government prepared an emergency plan to respond to the food crisis. The plan provides for the free distribution of food, grain sales at subsidized prices, activities associated with social transfers, the reconstitution of grain inventories, and support in the areas of agriculture, stock farming, and nutrition. The total cost of the emergency food security plan is CFAF 131 billion (US$260 million, or 2.5 percent of GDP), of which approximately CFAF 66 billion (US$130 million) was covered, until now, by different donors, including several NGOs, and CFAF 19 billion (US$37 million) by the government, according to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA).

7. In addition to the cereal crisis, Mali faces a humanitarian crisis provoked by attacks in the north by rebels claiming independence for an area comprising the three northern regions, and terrorist activities of organizations affiliated with Al Qaeda. These attacks and the humanitarian crisis have displaced approximately 420,000 persons, of whom roughly 210,000 have fled to neighboring countries (109,000 in Mauritania, 65,000 in Niger, and 36,000 in Burkina Faso).

8. In March, the country suffered 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 until the next presidential elections. A prime minister was appointed, a government was formed, and the National Assembly resumed its work. On August 20, the president expanded the composition of the government to establish a national unity government whose priority objective is to reclaim northern Mali and organize presidential and legislative elections. On December 15, 2012, a new prime minister was appointed and the government was reshuffled to make it more inclusive. The national unity government has requested assistance from the United Nations, the African Union, and the Economic Community of West African States to recapture northern Mali. Preparations are under way to deploy an intervention force of several thousand soldiers to support the Malian army in this operation.

9. These shocks weakened the foundations of the economy. While real GDP growth in 2012 had been estimated at 5.6 percent at the time the 2012 budget law was being prepared, all signs now point to real GDP contracting by 1.5 percent. This contraction of GDP is explained by a general decline of activities in the secondary and tertiary sectors. With the exception of gold production, cotton ginning, and textiles, which have continued to hold up, all other sub sectors have suffered

from the crisis. The building and public works sector and hotel and restaurant sector were severely affected by the suspension of budget support from Mali's technical and financial partners (TFPs) following the March events, the sharp reduction of project assistance, and plummeting business tourism. Abundant, well-distributed rainfall is expected to produce strong growth in the primary sector (8 percent), which should limit the contraction of total GDP to a moderate level. The poor harvest in 2011 drove up food prices, which in turn pushed inflation to an annual average of 5.6 percent at end-October 2012, or close to twice the objective established in the West African Economic and Monetary Union (WAEMU).

10. The data on the monetary situation at end-September indicate that the overall balance of payments deficit will be high in 2012. The BCEAO international reserves imputed to Mali have declined by CFAF 110 billion (US$220 million) since the start of the year, pointing to an overall balance of payments deficit of at least that amount at year-end. For the 12 months of 2012, the current account deficit (including grants) is expected to fall to 5.8 percent of GDP due to the sharp increase in gold and cotton exports. However, the improved current account may not suffice to offset the deterioration of the capital and financial operations account in light of the sharp reduction of external aid. As a result, Mali may need to use roughly CFAF 130 billion (US$260 million) of BCEAO international reserves to finance its balance of payments deficit in 2012.

11. At end-September 2012, the money supply increased by 11 percent on an annual basis, driven by the government's use of deposits to finance the budget deficit. Credit to the economy and deposits declined slightly with respect to the beginning of the year, while currency in circulation increased sharply.

12. Following the invasion by terrorist groups in northern Mali, banks were forced to close offices in that region and withstood damage estimated at CFAF 18 billion (US$ 36 million, or 0.3 percent of GDP), including CFAF 2.8 billion in stolen cash, CFAF 11.9 billion in impaired loan receivables, and CFAF 2.1 billion in property damage. The impact of the crisis had only begun to be seen in the most recent data available on banking sector stability (end-June 2012). In fact, the risk-weighted capital ratio increased during the first half, to 14.8 percent. All but one bank met the new minimum 8 percent capital adequacy ratio. Nonperforming loans (after deducting provisions) increased slightly to 7.5 percent of total credits (after deducting provisions), but a larger increase is expected by year-end, when a good number of outstanding receivables will not have been paid in over 6 months due to the crisis, increasing the proportion of nonperforming loans as defined by prudential regulations.

13. In the fiscal area, the government quickly reduced expenditures to maintain spending levels compatible with revenue and available bank deposits. In doing so, the government sought to give priority to payment of salaries, pensions, scholarships, the army and security forces, and, to the extent possible, priority spending on education, health, and social protection. Accordingly, despite a shortfall of CFAF 67 billion in tax revenue (1.3 percent of GDP) at end-September 2012 and the suspension of budget support from the TFPs since the events of March, the government managed to contain the budget deficit at CFAF 40 billion (0.7 percent of GDP), at the cost of drastic cuts in

domestically financed investment spending and the accumulation of CFAF 29 billion (US$58 million, or 0.5 percent of GDP) in external debt payment arrears at mid-November 2012. The government contacted all external creditors towards which it accumulated arrears to reaffirm its commitment to honor all of its payment obligations as soon as its cash flow situation permits. The government also contacted banks in the WAEMU area to secure refinancing of its treasury bills and bonds maturing in 2012 in order to renew them under the same terms, which has been agreed at this point.

14. After a period of uncertainty following the March events, the revenue administrations redoubled their efforts to collect tax revenue to enable the government to continue functioning. To support this effort, the government implemented three tax increases on petroleum products in order to end the erosion of tax revenue on petroleum products observed since 2009.[1] The increases in petroleum taxes will increase revenues by CFAF 7.8 billion in 2012. In the same vein, the government decided to reduce the butane gas subsidy, which generated savings of CFAF 2.9 billion in 2012.

B. Performance with Respect to the ECF-Supported Program

15. The ECF-supported program approved in December 2011 began well but has lost ground since March 2012 due to the multiple shocks that have affected Mali since the start of the year (Table 1). In December 2011, all but one of the performance criteria were met as a result of solid tax revenue performance and control of spending. Only the zero ceiling on accumulation of arrears on external debt was not met due to the difficulty in identifying interlocutors for the purpose of servicing one debt, to Libya (in the amount of CFAF 3.4 billion, or US$6.8 million) since the change of regime in that country. Beginning in March 2012, public financial performance no longer met the program objectives, as tax receipts fell short of targets due to the contraction of economic activity and destruction of IT equipment at the Directorate General of Customs (DGD) during the events of March, and the use of bank and market financing exceeded targets due to shortfalls in tax receipts and the suspension of budget support (¶13).

16. The crisis also affected the implementation of structural measures for which structural benchmarks were established (Table 2). During the first half year, three out of four measures were implemented (the preparation of petroleum product and electricity price adjustment formulas, the startup of a multidisciplinary unit to expand the tax base by identifying taxpayers who may have underreported their income, and the analysis of strengths and weaknesses in the process of selecting and monitoring investment expenditures). During the second half, only one out of four measures was implemented on time (the commitment and payment appropriation authorizations procedure used in accounting for investment projects in the proposed 2013 budget law), but all were implemented by year-end.

[1] Oil tax revenue shrank from CFAF 97 billion (2.3 percent of GDP) in 2009 to CFAF 50 billion (1 percent of GDP) in 2011.

ECONOMIC AND FINANCIAL POLICIES FOR END-2012 AND 2013

A. Formulate Policies on the Basis of a Realistic Macroeconomic Framework

17. After a 1.5 percent contraction of economic activity in 2012 (¶9), real GDP is expected to increase by 4.8 percent in 2013, reflecting increased gold production and recovered activity in the other sectors following a return to normalcy in southern Mali and the gradual resumption of projects financed by the TFPs. Inflation is expected to decline to 3 percent in 2013 if rainfall is favorable. The current account deficit (including grants) is expected to widen to 8 percent of GDP in 2013 as economic activity recovers. Only a portion of the deficit could be financed by direct investment and anticipated disbursements of project loans financed by the TFPs. The use of BCEAO international reserves, in the amount of CFAF 83 billion (US$160 million) may again prove necessary.

18. Although these prospects are favorable, the Malian economy remains exposed to vagaries of the climate and the volatility of gold and cotton prices, which represent most of Mali's exports. Moreover, renewed political tension in the south during the transition toward democratic elections and the re-conquest of the north could once again weigh on consumer and investor confidence. Finally, the prospects do not take account of the effects of the forthcoming military intervention in northern Mali, the impacts of which will be integrated in the government's macroeconomic framework as information becomes available.

B. Implement a Fiscal Policy Focused on Maintaining Macroeconomic and Financial Stability

19. In the fiscal area, while awaiting the resumption of budget support from the TFPs, the government will continue to conduct a prudent policy aimed at maintaining expenditures under its control in balance with the resources on which it may reasonably rely. From that perspective, in October 2012 the government introduced a 2012 supplementary budget proposal (LFR) and proposed 2013 budget law, which are both based on ambitious efforts to mobilize domestic resources but do not assume resumption of assistance from the TFPs in 2012 and 2013.

The Fiscal Program in 2012

20. The proposed 2012 LFR assumes revenue and grants representing 18.0 percent of GDP (20.5 percent of GDP in the initial budget law), net tax revenue of 15.0 percent of GDP (15.1 percent of GDP in the initial law), total expenditure and net lending of 18.5 percent of GDP (23.4 percent of GDP in the initial law), a total deficit (cash basis, including grants) of 0.8 percent of GDP (3.1 percent

of GDP in the initial law), and a basic fiscal deficit[2] of 1.0 percent of GDP (1.2 percent of GDP in the initial law).

21. During a November budget review conducted with IMF staff, several risks were identified with respect to the amounts shown in several 2012 LFR line items:

- a CFAF 10 billion shortfall in domestic VAT revenue (with respect to the CFAF 130 billion provided in the LFR);
- a likely CFAF 10 billion underestimation of VAT credits to be refunded (with respect to the CFAF 25 billion provided);
- the need to increase the transfer to EDM by CFAF 10 billion (above the CFAF 20 billion provided); EDM suffers from a structural imbalance between the selling price of electricity and the production cost, and is in urgent need of cash to settle its arrears vis-à-vis petroleum suppliers;[3] and
- the need to increase external debt service by CFAF 5 billion (with respect to the CFAF 49.8 billion provided).

22. Accordingly, the government decided to increase transfers to EDM by CFAF 10 billion, audit the company to identify potential approaches to improving the company's management, and gradually increase electricity prices to eliminate the subsidy on electricity consumption, following the example of the gradual elimination of cooking gas subsidies and increased petroleum taxes undertaken in 2012 (¶14). It also identified CFAF 25 billion in expenditure (CFAF 20 billion in current expenditure and CFAF 5billion in capital expenditure) in the 2012 LFR to be reduced in case the risks identified should materialize.

23. At the time of the budget review, it was also determined that the TFPs were executing expenditures in the form of projects for amounts well in excess of the amounts provided in the 2012 LFR. In fact, the expenditures executed in the form of projects are now estimated at 1.2 percent of GDP (of which 0.3 percent of GDP are financed by grants and 0.9 percent of GDP by loans) compared to 0.1 percent of GDP provided in the 2012 LFR. The government will include the amounts executed in the form of projects in 2012 in the draft law reporting on the 2012 budget execution.

24. The government commits not to increase external arrears beyond CFAF 29 billion (¶13), the stock outstanding at mid-November 2012 (indicative target, Table 3).

[2] Since 2012, the definition of the basic fiscal balance under the program has been aligned with the new WAEMU definition of the basic fiscal balance, namely revenue including resources from the Enhanced Initiative for Heavily Indebted Poor Countries plus grants intended for general budgetary assistance less current expenditure and domestically financed expenditure.

[3] In 2012, the average of sales price of electricity was CFAF 91 FCFA per kWh and the production cost was CFAF 119 per kWh.

The fiscal program in 2013

25. The proposed 2013 budget law provides for a total of expenditure and net lending of 18.2 percent of GDP, in balance with tax and non-tax revenue, and comes very close to an overall fiscal balance. Net tax revenue is estimated to increase from 14.6 percent of GDP in 2012 to 15.3 percent of GDP in 2013, reflecting a 25 percent increase in petroleum taxes compared to those in place at end-2012, and renewed efforts to improve the collection of tax, customs, and property revenue (¶¶31-34).

26. During the budget review conducted with IMF staff, it also became apparent that a financing gap remained in the amount of CFAF 55 billion (US$110 million, or 1.0 percent of GDP) in 2013, primarily due to the following conclusions relating to the review of assumptions underlying the proposed 2013 budget law:

- downward revisions of revenue targets for the General Tax Directorate (DGI) by CFAF 6 billion (compared to the CFAF 521 billion provided);
- upward revision of CFAF 10 billion in VAT credits to be refunded (compared to the CFAF 30 billion provided); and
- upward revision of external debt service by CFAF 23 billion (with respect to the CFAF 35 billion provided).

27. The government hopes to count on resumed budget support from donors to cover the financing gap in 2013. While awaiting confirmation of budget support in that amount, the government will freeze capital expenditures provided in the 2013 budget law by the same amount, and provided the National Assembly with a list of those expenditures prior to the vote on the 2013 budget law.

28. At the time of the budget audit, it was also determined that Mali's TFPs were preparing to execute expenditures in the form of projects in amounts well in excess of those provided in the 2013 budget law. In fact, expenditures executed in the form of projects are now projected at 3.1 percent of GDP (of which 1.1 percent of GDP are financed by grants and 2.0 percent of GDP by loans) compared to zero in the 2013 budget law. The government will increase the amounts of those expenses in a 2013 supplementary budget to be introduced in the National Assembly as soon as possible.

29. In the difficult circumstances that led to an increase in military spending by one-third in the proposed 2013 budget law with respect to the 2012 LFR, the government will nonetheless accord priority to expenditures of the ministries of basic education, secondary education, higher education and scientific research, health, and social development, in accordance with the 2011–17 Growth and Poverty Reduction Strategy adopted in December 2011. Accordingly, the government is committed to maintaining these expenditures above a floor in 2013 (Table 3).

30. To ensure the quality of the sharp increase in projected military spending, the government, with the assistance of World Bank public financial management experts, will conduct an evaluation of the defense and security forces' public expenditures and financial management in order to improve management performance, increase the forces' effectiveness in this area, and reduce fiduciary risks.

31. The government commits not to accumulate fresh external arrears in 2013 (indicative targets, Table 3). It furthers commits to clear the outstanding external arrears (¶24) as soon as its financial situation permits.

C. Maintain Focus on Improving Public Financial Management

32. While awaiting the resumption of technical assistance, the government will continue to improve public financial management, in particular by remedying the weaknesses revealed by the public expenditure and financial accountability assessment (PEFA) conducted in 2011. The assessment indicated 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 flow management, accounting, reporting, and external control. The government is continuing implementation of the 2011–15 Government Action Plan to Improve and Modernize Public Financial Management (PAGAM/GFP II), albeit with more targeted priorities and a substantially reduced budget (from CFAF 11 billion, or US$22 million, to CFAF 2.2 billion, or US$4.4 million).

Reform tax policy

33. In the country's current fragile context, the government plans to prepare the way for the gradual implementation of the following fiscal measures:

- *Identification and gradual reduction of exemptions*:

  - beginning with the proposed 2013 budget law, the inclusion of a table annexed to the budget bill identifying all exemptions provided in the General Tax Code, Customs Code, Investment Code, Mining Code, and all other laws or government decisions establishing tax benefits; the legal bases for the exemptions and effective dates; and an estimate of the forgone revenue they represent (structural benchmark, Table 2);

  - gradual reduction of exemptions to the extent possible.

- *Preparation of a strategy to adjust domestic energy prices (petroleum products and electricity) to international oil prices movements*. This strategy includes the following elements:

- beginning with the 2013 budget law, the inclusion in budget bills of a presentation of the estimated consequences of the lack of petroleum and electricity price adjustment mechanism for the government budget (structural benchmark, Table 2)

- by end-February 2013, development of proposals for adjustment of domestic energy prices (petroleum products and electricity) to international prices:

    - preparation by the National Petroleum Office (ONAP), the DGD, and other units concerned of different options to adjust petroleum product prices, accompanying measures to minimize social consequences, and a communication policy in respect of public opinion, taking account of the ONAP proposals of February 2010, the recommendations of the IMF Fiscal Affairs Department provided during the September 2011 WAEMU Commission seminar, and the report presented by the IMF mission in March 2012;

    - commitment by the Malian authorities, EDM, and the Water and Electricity Regulatory Commission (CREE), within the scope of their respective functions and responsibilities, to adopt the public electricity tariff indexing formula, launch a communication campaign to enlist public support and introduce electricity tariff adjustment by end-February 2013.

- *development, with assistance from World Bank staff, of a system of transfers to limit social tension* that could result from increased food or energy price; the transfers would target the most vulnerable segments of the population and could be increased if those prices rise.

Reform the Tax, Customs, and Government Property Administrations

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

- On January 18, 2011, a Treasury account was opened at the BCEAO to receive all VAT receipts paid by mining companies on imports, and 10 percent of domestic VAT receipts. The DGI and DGD began to deposit 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 exporters and all other companies that generate VAT credits. The amount of VAT credits payable to gold mining companies is estimated at CFAF 35.6 billion in 2012 and CFAF 38.5 billion in 2013. The DGI prepared an estimate of accumulated VAT credits as at December 31, 2011 to be refunded by the government in 2012, which came to CFAF 11 billion. These amounts will be reviewed in March 2013 during the budget review to be conducted with IMF staff.

- To continue to decrease the time required to refund VAT credits, between now and February 2013, the government will analyze the option of refunding VAT credits to mining companies by a simplified procedure in accordance with public accounting rules, beginning on January 1, 2014. Under this approach, the VAT on mining companies would be collected, refunded, and recorded as follows:

- ➢ The DGD and DGI collect the VAT from non-exempt mining companies;

- ➢ The Treasury refunds VAT credits directly from the account maintained at 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 withholding VAT at the source was eliminated on December 31, 2011 except for the Treasury, for which it will be eliminated gradually beginning on January 1, 2013. From that date, the Treasury will withhold only 40 percent of the VAT at the source, and the withholding will be eliminated entirely as of January 1, 2014. In April 2012, the DGI sent a letter to all companies no longer subject to VAT withholding at the source as at January 1, 2012 to remind them of their obligations in regard to reporting and paying VAT. The DGI will verify those companies' compliance with their VAT reporting obligations on a monthly basis (two weeks after the close of the month) and report each quarter to the Minister of Economy, Finance, and Budget on compliance with their reporting obligations.

- To simplify the collection of VAT, the revenue threshold for payment of VAT will be increased from CFAF 30 million to CFAF 50 million beginning on January 1, 2013 (structural benchmark, Table 2). On January 1, 2014, the threshold will be raised to CFAF 100 million after consultation with the WAEMU Commission, coordinating with the change of revenue thresholds established by the Directorate of Large Enterprises (DGE) and the Directorate of Medium-Sized Enterprises (DME) explained below.

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

- *Modification of revenue thresholds used by the DGE and DME in order to rationalize taxpayer administration*. To improve management of taxpayers and expand the number of taxpayers managed by the DGE and the DME, the threshold for the DGE will be increased from CFAF 500 million to CFAF 1 billion, and will be lowered for the DME from CFAF 150 million to CFAF 100 million beginning on January 1, 2013 (structural benchmark, Table 2). This adjustment will improve the DGE's management and control of companies, quickly increase the number of taxpayers managed by the DME, and improve the management of VAT by assigning all responsibility for VAT to the DGE and DME effective January 1, 2014.

- *Improvement of the SIGTAS taxpayer data base*. The SIGTAS database contains numerous data entry errors to be corrected by end-2013. Regular reports will be produced for this purpose.

- *Improved administration of taxpayers managed by the DGE*. The DGI will take all steps necessary to increase the number of taxpayers paying taxes by bank transfers for all companies managed by the DGE by January 1, 2013.

- *Improved administration of taxpayers managed by the DME*. The DGI will continue to pay special attention to the operations of the DME, which will implement the following measures: (i) expand its portfolio to increase the number of 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 year 2012 to at least 20 percent of its portfolio by end-February 2013. The DGI will give special attention to upgrading the DME offices and expanding its staff. The DME will move into its new offices by end-February 2013.

- *Strengthening of tax payment compliance*. In October 2011, the DGI began publishing and regularly updating lists of the taxpayers managed by the DGE and DME, respectively, on the MEFB website, in order to inform the public of the results of efforts to broaden the taxable base.

- *Implementation of automated selection for customs inspections* as soon as possible. To this end, the DGD established a technical risk management unit, which had completed the necessary preparatory tasks at the time of the March 2012 events.

- *Modernization of the DNDC*. In 2011, the DNDC conducted a study to determine the potential public property receipts and improve collection of that revenue, and a study to prepare and implement an automation scheme. The DNDC has collected capital gains taxes on real property sold by private individuals since October 1, 2011. It is continuing efforts to establish a land registry and will implement a secure data storage system.

- *Modernization of the DGABE*. The MEFB will modernize the DGABE through the introduction of modern management tools such as results-based management, greater utilization of automation (use of materials accounting software in the accounting offices of ministries and public institutions), and the implementation of reforms to better monitor and optimize the government portfolio.

- *Multidisciplinary tax control*. 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 by using, notably, all databases of taxpayers or economic operators available at the DGI, the DGD, the DNDC, the DGABE, and the directorate responsible for public procurement. The CMRIEF identified potential tax deficiencies estimated at CFAF 7 billion in the hydrocarbon sector and the automotive spare parts sector, which the DGI or the DGD will process. In parallel with the sector-based approach, the CMRIEF will compare the values of imports reported by operators in the DGD ASYCUDA database with the revenue figures reported to the DGI to identify taxpayers who might have underestimated their taxable earnings, and report the results of this investigation by end-February 2013 (structural benchmark, Table 4).

- *Improved accounting of tax revenue*. The new Treasury integrated accounting application (AICE) and its interface with DGD applications (ASYCUDA) and DGI applications (SIGTAS) was put in operation in the Bamako District General Revenue Office (RGD) on January 3, 2012. The interface with ASYCUDA was interrupted following the destruction of DGD IT equipment during the events of March 2012, and will be restored to operation as soon as possible.

36. To consolidate its efforts to reform the tax system and the tax, customs, and property administrations, by end-February 2013 the government will request the IMF's intervention through the Fund's Topical Trust Fund on Tax Policy and Tax Administration to develop a multi-year technical assistance program linked to the achievement of results. In order to develop its capacities in the control of mining companies and review the possibility of introducing a surcharge on profits generated by exceptionally high prices as part of the tax provisions applicable to mining companies, the government will also request the IMF's intervention through the Fund's Topical Trust Fund on Managing Natural Resource Wealth.

Improve Expenditure Management and Transparency in Public Finance

37. The government has agreed to incorporate the WAEMU directives 5/2009 through 10/2009 concerning transparency, budget laws, public accounting, budget nomenclature, the government chart of accounts, and the government financial operations table (TOFE) in Mali's laws and regulations. The administration has elaborated drafts of the relevant amendments to domestic legislation and regulation and has submitted those to the WAEMU Commission for opinion. The Council of Ministers approved the proposed regulation for incorporation of Directive No. 05 covering the budget laws.

38. Pursuant to these directives, the following cutoff dates have been established for 2012 budget execution: ordinary operating and capital expenditures to be committed by November 30, 2012; commitments of other expenditures by December 20; payment orders issued by December 31, 2012; and accountants' payment order acceptances, approvals, and regularization of expenditures by January 31, 2013. Accordingly, the carryover period will be limited to accounting operations, and a circular on the annual closing was published on October 10, 2012 setting the deadlines for commitment and validation so as to allow payment orders to be closed as at December 31, 2012.

39. In the context of the program, the government also intends to complete the following actions undertaken to improve cash management, accounting, and public finance statistics:

- *The Treasury single account (TSA) will be gradually implemented at the BCEAO*. A study of the impact of transferring all 3,415 government accounts as defined in the TOFE (other than project accounts established pursuant to explicit provisions of agreements signed with TFPs) from commercial banks to the BCEAO was completed on September 15, 2011. The study concluded that seven banks could withstand the immediate transfer of these accounts to the BCEAO without compromising their liquidity ratios, but six banks would see their ratios fall below the minimum required. Accordingly, the authorities transferred the accounts (other than project accounts) of the RGD, the Treasury Payment 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 will take additional time to determine the strategy for transferring those entities' accounts at the other six commercial banks, as well as accounts (other than project accounts) of other public administrations and specialized agencies (EPA) held at any commercial bank, to the BCEAO. However, following the events of March 2012 and the suspension of access to its accounts at the BCEAO, the government decided to reopen the accounts of the above entities at the seven commercial banks. The government decided to await resolution of the political-military crisis before taking further steps to implement the TSA. In the meantime, the dormant government accounts in the banking sector will be transferred to the TSA by end-February 2013. The Minister of Economy, Finance and Budget will determine the conditions for the opening, operation, and closing of public entities' bank accounts. An agreement between the MEFB and the BCEAO governing the operation of the TSA will be finalized.

- *The implementation of the new accounting software at the Treasury (AICE) will go on*. The application will be deployed at the Koulikoro treasurer general's office by end-January 2013 and at the ACCT by end-2013. The AICE deployment at the ACCT will allow the production of all consolidated accounting statistical reports of government entities connected to the system, including the Treasury balance and TOFE.

- *The quality of the accounts will be gradually improved*. Efforts have begun to review and correct the unusually high balances observed in reciprocal accounts, third-party accounts, and the financial accounts of the ACCT, PGT, and RGD.

- *The government will continue efforts to improve public finance statistics*. The TOFE was modified as specified in the technical memorandum of understanding (TMU, ¶25) as of May 31, 2011. Efforts will continue to reduce the statistical error required to reconcile the total balance recorded and it's financing. The MEFB and the BCEAO will continue to work closely to ensure that the BCEAO continues to produce a narrow net government position covering the transactions reflected in the TOFE (TMU, ¶6).

- *Monitoring of the net government position (NGP) in the banking system will be stepped up*. By February 28, 2013, the National Directorate of Treasury and Public Accounting (DNTCP) will conduct a detailed review of all broad NGP components, as the term is applied by the BCEAO pursuant to community provisions; all items constituting the narrow NGP (TMU, ¶6), including government assets in the banking system available for treasury operations in 2013 (structural benchmark, Table 4).

- *Payment dates will be monitored more closely in order to avoid accumulation of arrears*. The expenditure management software (PRED5) will be used to monitor the time taken to execute payment orders and ensure that payments are made in less than 90 days after validation of the expenditures if possible. Monthly tables will be produced for this purpose (structural benchmark, Table 4).

- *Projected cash flow plans will be prepared each month*. Beginning in January 2013, the DNTCP will prepare a projected cash flow plan covering the following 12 months.

40. The following measures will be taken to gradually improve budget procedures and monitoring of the execution of investment appropriations:

- *The draft 2013 budget law introduced the budgeting of commitment authorizations (CA) and payment appropriations (PA) relating to triennial public investment expenditures*. On that basis, the MEFB will arrange to monitor the utilization of CA and PA in the PRED5 expenditure management application.

- *The procedure for carryover of PA will take effect on a transitional basis to prepare for full application of the carryover provisions established by WAEMU directives*. The transitional system authorizes PA to be carried over provided they are secured (i.e., covered by corresponding financing or budget savings the following year) and provided for in the following year's cash flow plan. Unsecured payment appropriations may also be carried over, up to a limit of 10 percent of the initial appropriations provided in the investment budget from domestic resources, provided the financing is established in the following year's cash flow plan. Payment appropriations associated with validated expenditures not yet authorized are carried over on a priority basis, subject to the same ceiling; for amounts above the ceiling, the authorities must prepare a supplemental budget bill (LFR). The terms of implementation of carryovers will include an executive order adopted by the Council of Ministers no later than March 31 of the following year identifying: (i) PA for which payment authorizations were not issued as at December 31 that were canceled for the preceding fiscal year and carried over to the following fiscal year in accordance with the preceding terms; and (ii) canceled PA that were not carried over

- *The procedure for carrying over payment appropriations will take effect by 2014 under a mechanism that provides for full application of the carryover provisions established by WAEMU directives* and allows only secured payment appropriations included in the cash flow plan to be carried over.

Strengthen Internal and External Control

41. *Internal control structures will be strengthened*. The internal and external control structures revealed numerous administrative weaknesses in public financial management in Mali. With respect to internal control, the Government Comptroller's Office (CGSP) noted the shortage of and inadequate use of procedures manuals in the administration. To correct these weaknesses, in

August 2011 the government adopted a 2011–15 national internal control strategy, which it will implement with the support of several of its TFPs. With respect to external control, the Auditor General's Bureau (BVG) directed attention to significant amounts pending collection for the Treasury. The staffing of the Supreme Court accounting section will be increased, and the section will be converted into a Court of Accounts in accordance with the applicable WAEMU directives as soon as possible.

42. *The production and audit of the annual government accounts will be expedited*. The Supreme Court accounting section is implementing a strategy of reviewing accounts based on the assessment of account positions produced by the DNTCP. For government accounts prior to 1992, the government enacted a proposed validation law on June 29, 2011 and submitted it to the National Assembly that approved it on January 3, 2013. The accounting section reviewed the government accounts for fiscal years 1992 through 2008. The National Assembly approved the budget execution laws for 2008 and 2009. The government submitted proposed budget execution laws for fiscal years 2010 and 2011 to the National Assembly. The government will adopt the draft budget execution law for fiscal year 2012 by end-2013, in accordance with WAEMU directives.

Conduct a Sustainable Borrowing Policy

43. The most recent debt sustainability analysis conducted by IMF and World Bank staff concluded that the risk of debt distress remains moderate. The analysis also confirmed that the sustainability of the debt remains highly sensitive to gold prices (gold represents three-fourths of exports, and gold production will decrease in the medium term), the financial terms of the debt, and the pursuit of sustainable fiscal policies. Accordingly, the government reiterates its commitment to cover its external financing needs with grants and the balance with loans having a minimum grant element of 35 percent (continuous indicator, Table 3).

44. Management of domestic debt will be improved. To this end, the MEFB tasked the Directorate General of Public Debt (DGDP) with compiling an inventory of all domestic borrowing agreements signed by the government and all government domestic debt guarantees in order to include to payment schedules in the public debt data and the budget laws. The DGDP has begun the inventory effort with local banks. The project has already served to identify CFAF 238.1 billion in direct and indirect government commitments vis-à-vis the banking sector, representing 4.7 percent of GDP, as at December 31, 2011, of which CFAF 32.3 billion (0.7 percent of GDP) in payments past due. A payment schedule is being negotiated with the creditors, and CFAF 7.5 billion is included in the proposed 2012 LFR and CFAF 9.2 billion in the 2013 budget proposal to cover these payments.

PROGRAM MONITORING

45. The program will be evaluated based on the indicators as at December 31, 2012 and as at March 31, June 30, September 30, and December 31, 2013 (Table 3) as well as continuous indicators and structural benchmarks (Table 4). The indicators are defined in the TMU, which also identifies the nature and frequency of reports to be provided for program monitoring purposes.

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MALI

Table 1. Mali: Quantitative Performance Criteria and Indicative Targets for December 2011 and 2012 [1]

	2011				2012												
	Dec.				March				June				Sep.				Dec.
	Perf. criteria [2]	Adjusted targets	Est.	Status	Indicative targets [2]	Adjusted targets	Est.	Status	Perf. criteria [2]	Adjusted targets	Est.	Status	Indicative targets [2]	Adjusted targets	Est.	Status	Perf. criteria [2]
	(in CFAF billions)																
Performance criteria																	
Government bank and market financing (ceiling) [3]	74.1	70.1	64.1	Met	63.4	-16.3	72.8	Not met	70.7	92.4	100.0	Not met	82.8	63.9	132.6	Not met	63.8
Cumulative increase in external payments arrears (ceiling) [4]	0.0		3.5	Not met	0.0		5.3	Not met	0.0		14.1	Not met	0.0		20.6	Not met	0.0
New external borrowing contracted or guaranteed																	
by the government on nonconcessional terms (ceiling) [4 5]	0.0		0.0	Met	51.1		0.0	Met	51.1		0.0	Met	51.1		0.0	Met	51.1
Gross tax revenue (floor)	768.0		768.3	Met	219.1		178.5	Not met	438.1		394.1	Not met	657.2		587.2	Not met	876.2
Indicative targets																	
Basic fiscal balance (floor)	-129.4		-112.2	Met	-0.8	-18.1	-53.7	Not met	-7.9	-32.9	13.9	Met	-6.2	-31.2	8.6	Met	-21.1
Basic fiscal balance, underlying (floor)	-73.5		-79.7	Not met	3.2	-14.1	-44.9	Not met	0.1	-24.9	28.8	Met	5.8	-19.2	24.4	Met	-5.1
Priority spending (floor)	352.0		358.7	Met	61.2		75.5	Met	135.4		148.6	Met	250.1		234.8	Not met	405.3
Memorandum items:																	
External budget support	140.5		141.9		17.3		0.0		27.1		0.0		80.4		0.0		88.5
General budgetary grant	49.2		55.7		17.3		0.0		27.1		0.0		46.4		0.0		46.4
Net change in pending bills (– = reduction)	4.2		2.2		-41.3		45.6		-20.3		-14.4		-46.9		-6.0		0.0
Tax refunds (–)	-37.0		-34.1		-10.0		-3.5		-20.0		-20.2		-30.0		-27.3		-40.0
Net change in arrears (– = reduction)	-12.3		-9.2		-3.6		0.0		-7.1		-9.4		-10.7		-10.4		-14.2

Sources: Malian authorities; and IMF staff projections.

[1] Cumulative figures from the beginning of the year. Noncontinuous targets at end-March and end-September are indicative targets. See Technical memorandum of understanding (TMU) of November 23, 2011 for definitions.
[2] IMF Country Report No. 12/3: Mali —Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.
[3] The targets for this performance criterion or indicative target are subject to adjustment for external budget support, reduction of pending bills, tax refunds, and arrears payment. See TMU of November 23, 2011 for more details.
[4] These performance criteria will be monitored on a continuous basis since the beginning of the year.
[5] Ceiling starts in 2012 and applies for the period 2012-14.

Table 2. Mali: Structural Benchmarks for the First and Second ECF Program Reviews			
Measures	Timing	Macroeconomic rationale	Status
In the context of the first review of the program			
Transfer the accounts (except the project-accounts) from the District of Bamako's tax collections office (RGD), the General Payments Office (PGT), the Central Accounting Agency of the Treasury (ACCT) and the accounting units of the Regional Treasurers-Paymasters (TPR) in Mopti and Sikasso, that are held in commercial banks, to the BCEAO, as indicated in ¶33, third indent, of the MEFP.	31-Dec-11	Improve cash management	Partially met
Prepare formulas to adjust domestic oil and electricity prices to international oil prices.	29-Feb-12	Increase tax revenue	Met
Set up a tax intelligence unit which brings together staff from the Directorate General of Taxes (DGI) and the Directorate General of Customs (DGD) to collect information and conduct joint inspections using, in particular, the databases of the tax and customs authorities as well as the public spending agencies, in order to audit tax returns and identify new taxpayers.	29-Feb-12	Increase tax revenue	Met
Analyse the strengths and weaknesses of the current process of selection, budgeting, implementation monitoring, and ex-post evaluation of public infrastructure invesment projects, and make recommendations to improve this process.	29-Feb-12	Improve public investment management	Met
In the context of the second review of the program			
Introduce in the draft budget law for 2013 submitted to Parliament a Table listing: (i) all the exemptions included in the General Tax Code, the Customs Code, the Investment Code, the Mining Codes and all other laws and government decisions which provide tax advantages; (ii) their legal basis and date of enactment; and (iii) an	30-Sep-12	Increase tax revenue	Met in November 2012
Introduce in the draft budget law for 2013 submitted to Parliament a Table presenting an estimate of the fiscal cost of not adjusting oil and electricity prices to international oil prices.	30-Sep-12	Increase tax revenue and reduce transfers	Met in November 2012
Implement the budgeting of commitment authorizations (AE) and payment appropriations (CP) pertaining to the three-year public investment expenditures, consistent with the modalities explained in ¶28, indents one and two, of the MEFP.	30-Sep-12	Improve public investment management	Met
Adopt the regulatory texts which would establish the business turnover threshold at the Large-sized Taxpayers Office (DGE) at CFAF 1 billion and at the Medium-sized Taxpayers Office (DME) at CFAF 50 million and raise the VAT threshold to CFAF 50 million starting January 1st, 2013.	31-Oct-12	Increase tax revenue	Met in November 2012

Source: Malian authorities.

Table 3. Mali: Indicative Targets 2012-13 [1]

	2012	2013			
	Dec.	March	June	Sep.	Dec.
		(in CFAF billions)			
Government bank and market financing (ceiling) [2]	107	29	28	8	7
Cumulative increase in external payments arrears (ceiling) [3]	29	0	0	0	0
New external borrowing contracted or guaranteed by the government on nonconcessional terms (ceiling) [3]	0	0	0	0	0
Gross tax revenue (floor)	807	182	413	671	909
Basic fiscal balance (floor) [4]	-55	-15	20	0	-5
Priority spending (floor)	243	38	89	175	296
Memorandum items:					
External budget support	4	0	0	0	0
General budgetary grant	4	0	0	0	0
Net change in pending bills (– = reduction)	4	0	-20	-20	0
Tax refunds (–)	-41	-9	-20	-32	-44
Net change in arrears (– = reduction)	-21	-4	-8	-11	-15

Sources: Malian authorities; and IMF staff projections.

[1] Cumulative figures from the beginning of the year. See Technical memorandum of understanding (TMU) for definitions.
[2] 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.
[3] These indicative targets will be monitored on a continuous basis since the beginning of the year.
[4] The targets for this indicative target are subject to adjustment for budgetary grants and tax refunds.

Table 4. Mali: Proposed Structural Benchmarks for 2013

Measures	Timing	Macroeconomic rationale
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
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 DGD with the turnover declared to the DGI to identify taxpayers who might have underestimated their taxable earnings.	28-Feb-13	Increase tax revenue
Preparate 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

Table 5. Mali: Central Government Consolidated Financial Operations, 2013

	March	June	September	December
		(in CFAF billions)		
Revenue and grants	219.6	495.7	793.4	1,079.2
Total revenue	204.4	465.3	747.7	1,018.3
Budgetary revenue	179.4	415.2	672.6	918.1
Tax revenue	172.5	392.9	638.7	865.2
Direct taxes	53.6	128.4	196.6	265.4
Indirect taxes	118.9	264.6	442.1	599.8
VAT	67.3	154.3	247.3	336.7
Excises on petroleum products	4.2	9.6	14.7	19.9
Import duties	24.4	55.8	85.4	115.3
Other indirect taxes	32.1	64.9	126.9	171.4
Tax refund	-9.2	-20.1	-32.2	-43.5
Nontax revenue	6.9	22.3	33.9	52.9
Special funds and annexed budgets	25.1	50.1	75.2	100.2
Grants	15.2	30.4	45.6	60.8
Projects	15.2	30.4	45.6	60.8
Budgetary support	0.0	0.0	0.0	0.0
Of which: general	0.0	0.0	0.0	0.0
Of which: sectoral	0.0	0.0	0.0	0.0
Total expenditure and net lending (payment order basis)	265.4	537.5	885.8	1,207.6
Budgetary expenditure	240.8	488.3	812.1	1,109.3
Current expenditure	197.5	398.8	587.5	772.6
Wages and salaries	78.0	155.9	233.9	311.8
Goods and services	64.4	128.8	178.0	232.6
Transfers and subsidies	47.3	98.3	152.0	196.6
Interest	7.9	15.8	23.6	31.5
Of which: domestic	2.9	5.8	8.6	11.5
Capital expenditure	43.3	89.5	224.6	336.8
Externally financed	43.3	86.6	130.0	173.3
Domestically financed	0.0	2.9	94.6	163.5
Special funds and annexed budgets	25.1	50.1	75.2	100.2
Net lending	-0.5	-1.0	-1.4	-1.9
Overall fiscal balance (excl. grants)	-61.0	-72.2	-138.1	-189.3
Overall fiscal balance (incl. grants)	-45.7	-41.8	-92.5	-128.5
Variation of arrears	-3.8	-7.6	-11.3	-15.1
Adjustment to cash basis	0.0	-20.0	-20.0	0.0
Overall balance (cash basis, incl. grants)	-49.5	-69.3	-123.8	-143.6
Financing	49.6	69.3	69.2	89.0
External financing (net)	18.7	37.4	56.0	74.7
Loans	28.1	56.2	84.3	112.5
Project loans	28.1	56.2	84.3	112.5
Of which: non-concessional	0.0	0.0	0.0	0.0
Budgetary loans	0.0	0.0	0.0	0.0
Amortization	-12.3	-24.6	-36.8	-49.1
Debt relief	2.8	5.7	8.5	11.4
Domestic financing (net)	30.9	31.9	13.1	14.3
Banking system	29.1	28.3	7.7	7.0
Central bank	7.3	4.9	2.6	0.3
Commercial banks	21.8	23.4	5.1	6.8
Net credit to the government	9.0	8.4	7.9	7.3
IMF (net)	9.0	8.4	7.9	7.3
Central bank credit (net)	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Other domestic financing	0.0	0.0	0.0	0.0
Privatization receipts	5.5	11.0	16.5	22.0
Non-bank financing	-3.7	-7.4	-11.1	-14.7
Financing gap	0.0	0.0	54.6	54.6
Memorandum items				
Basic fiscal balance[2]	-14.8	20.1	0.4	-4.7
External budget support	0.0	0.0	0.0	0.0
Government bank and market financing	29.1	28.3	7.7	7.0

Sources: Ministry of Finance; and IMF staff projections.

[1]IMF Country Report No. 12/3 Mali — Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.

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

ATTACHMENT II—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical memorandum of understanding defines the program indicators accompanying the request for disbursement under the Rapid Credit Facility (RCF) presented in Table 3 of the Memorandum on Economic and Financial Policies (MEFP). 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 Financial Operations Table (TOFE). The National Directorate of the Treasury and Public Accounting (DNTCP) reports the scope of the TOFE in accordance with the presentation of the accounts nomenclature provided by the BCEAO and forwards it to the Central Bank and IMF staff.

II. INDICATORS

3. Except as noted, the following financial targets will constitute indicators for end-December 2012 and end-March, end-June, end-September, and end-December 2013.

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

4. Net domestic financing of the government by banks and the financial market is defined as the sum of (i) the narrow 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).

5. The broad net government position is defined as the difference between government debts and claims 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) pursuant to Community provisions. 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 is calculated by the BCEAO.

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

Adjusters

7. 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. External budget support is defined as grants, loans, and debt relief operations (excluding project loans and grants, sectoral budget grants, IMF resources, and debt relief under the HIPC Initiative, but including general budget support). 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 will be adjusted upward (downward) if the net reduction in outstanding bills exceeds (is less than) the programmed amounts (MEFP, Table 3). Outstanding bills are defined as payment orders not paid by the DNTCP 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 will be adjusted upward (downward) for the payment of VAT credits, other tax refunds, and audited 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 obligations 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 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 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 and on Short-Term External Debt Contracted or Guaranteed by the Government and/or Public Enterprises

12. Definition of debt. For the purposes of the relevant assessment criteria, 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):

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

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

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

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this 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 above, arrears, penalties, and judicially awarded damages arising from 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. Debt guarantees. For the purposes of the relevant assessment criteria, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

14. Debt concessionality. A debt is considered concessional if it includes a grant element of at least 35 percent; the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.

The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by OECD. For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. The margins for differing repayment periods (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) are added to the ten-year and six-month CIRR averages.

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

16. Debt-related assessment criteria. The relevant assessment criteria apply to the contracting and guaranteeing of new nonconcessional external debt by the government, Energie du Mali (EDM), and the Compagnie Malienne des Textiles (CMDT), insofar as the government is a majority shareholder. The criteria apply to debt and commitments contracted or guaranteed for which value has not yet been received. The criteria also apply to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government. These program indicators are monitored on a continuous basis. No adjuster will be applied to these program indicators.

17. Special provisions. The program indicators do not apply to: (i) debt rescheduling transactions of debt existing at the time of the approval of the arrangement; (ii) short-term external debt (maturity of less than one year) related to imports; (iii) external debt of the CMDT guaranteed by cotton export proceeds; and iv) short-term external debt (maturity of less than one year) contracted by EDM to finance the purchase of petroleum products.

18. Reporting requirements. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

D. Floor on Gross Tax Revenue

19. 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 during the year, particularly accumulated VAT credits.

E. Floor on the Basic Fiscal Balance

20. The basic fiscal balance is defined as the difference between total net revenue, plus budgetary grants (general budget support) and HIPC resources, and total expenditure cleared for payment plus net lending, excluding capital expenditure financed by creditors or donors, pursuant to the definition of basic fiscal balance in the WAEMU texts (WAEMU Additional Act No. 05/2009/CCEG/UEMOA of March 17, 2009, amending Act No. 4/1999 pertaining to the Convergence, Stability, Growth, and Solidarity Pact).

Adjuster

21. The floor on the basic fiscal balance will be adjusted downward if budgetary grants (general budget 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. Finally, 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 the expenditure in the sectors of elementary education, secondary and higher education, scientific research, health, and social development. It excludes capital expenditure financed by external technical and financial partners in the form of projects.

III. STRUCTURAL MEASURES

24. 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.

As of May 31, 2011, changes have been made to the Central Government Consolidated Financial Operations Table (TOFE) as described below. Revenues and expenditures recorded in suspense accounts are recorded above the line as revenues or expenditures without being broken down. As part of the adjustment to cash basis, a distinction is 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 is 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 are 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

26. 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
	Disaggregated consumer price indexes	Monthly	End of month + 2 weeks
Government finances	Broad net government position (including the position of other government agencies' accounts with the banking system); narrow NGP; 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
	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 resources	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 and tax 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
	Imports of petroleum products by type and point of entry	Monthly	End of month + 2 weeks
	Expenditure cleared for payment but not paid 90 days after issuance of the payment order	Monthly	End of month + 1 week

Type of data	Tables	Frequency	Reporting deadline
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
Budget Directorate	Priority poverty-reducing expenditure as defined in ¶23	Quarterly	End of quarter + 4 weeks