

**Statement by Alexandre Barro Chambrier
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Introduction

My Malian authorities would like to express their appreciation to Fund management and staff for their continuous assistance in their adjustment effort and are thankful for the support received from the international community in their fight against poverty. They generally share the candid analysis and recommendations provided by the staff on economic developments, on program implementation and on their interim PRSP.

It is to be noted that Mali has made significant economic progress under Fund-supported programs, recording positive real GDP per capita growth since 1995, while reducing inflation to very low levels. However, the economy still faces a number of structural constraints and a heavy debt burden that are major impediments to growth and poverty reduction. Notwithstanding the slight declining trend in poverty observed since 1996, about three quarters of the population live below the absolute poverty line and a large part of the population has no access to basic social services, such as education, health, drinking water and decent housing. In this context, much remains to be done to achieve sustainable development and to improve the living standards of the population. In particular, despite some gains made in recent years, one should bear in mind that the illiteracy rate (notably for the female population) and child malnutrition remain very high. Such deficiencies constitute serious constraints to human capital development and labor productivity, which are essential for the diversification of Mali's economy that is still much dependent on the cotton sector.

My Malian authorities are determined to strengthen their adjustment effort, so as to achieve a strong and sustainable growth, to increase employment opportunities and to reduce poverty in a meaningful manner. Policies are being centered on the maintenance of a stable macroeconomic environment and the deepening of structural and social reforms. They count on the continued support of the international community, including a substantial debt relief in the context of the HIPC Initiative.

Recent economic developments

Developments in real activity were affected negatively by a number of shocks, including the weak export prices for cotton, compounded by poor management at the national cotton company (CMDT), the increase in world oil prices, and acute shortages in the electricity supply. As a result, real GDP growth for 1999 is estimated at 5.2, relative to a program objective of some 6.2 percent. Growth was pulled by buoyant food production,

particularly cereal production, which benefited greatly from the abundant rainfall, and by gold production, which continued its upward trend, despite the low international prices. The abundant rainfall, however, affected negatively cotton production which stabilized at around 520,000 metric tons. Reflecting the 11 percent deterioration in the terms of trade, the external current account deficit (excluding current official transfers) widened to 102 percent, exceeding the program target by 2 percentage points of GDP. However, owing to exceptionally abundant food supply, the consumer price index declined by some 13 percent, as compared with a projected 1 percent increase under the program.

Following this difficult environment, the implementation of the PRGF-supported program came under strains. In particular, reflecting the serious financial difficulties at the cotton company, the budgetary contribution of the cotton sector dropped considerably. Moreover, revenue shortfalls associated with the phased introduction of the Common External Tariff (CET) under the West African Economic and Monetary Union (WAEMU) were higher than foreseen under the program. With Fund technical assistance, the government took administrative measures to strengthen the collection of domestic revenue and put in place a comprehensive tax reform that included the introduction of the VAT at a single rate of 18 percent, and with minimum exemptions. Owing to strengthened revenue collection, the budgetary performance was broadly satisfactory, resulting in the stabilization of government savings at about 92 percent of GDP, or some 0.8 percentage point of GDP over program target.

Although core government expenditures were within program limits, notably with current expenditures below programmed levels, they were not adjusted enough to reflect the less favorable economic environment. In addition, failure to adjust retail prices for petroleum prices to reflect rises in world oil prices resulted in considerable budget transfers. Total expenditures exceeded program targets by some 2.3 percentage points of GDP. Allocations to the sectors of health and education, however, were maintained at 28 percent of current spending. Moreover, the outstanding stock of audited domestic payments arrears were eliminated as planned. The overall fiscal deficit widened by 0.7 percentage point to 9 percent of GDP, or 1.4 percentage point above program target. Most of the quantitative performance criteria and benchmarks for September 1999, December and March 2000 were met, except for the performance criterion on net bank credit for end-September and end-December 1999, which was exceeded by a slight margin.

In contrast with the broadly satisfactory macroeconomic results, there were lapses in program implementation in the period preceding the government reshuffle, and slippages were recorded on the structural front. Indeed, as detailed in paragraphs 4-5 and Table 2 of the Memorandum on Economic and Financial Policies, none of the four structural performance criteria set for end-November 1999 and end-March 2000 were met. The one-year performance contract for the cotton sector that was signed in October 1999 between the government, CMDT, and producers did not include all the elements of the sectoral action plan, while the reforms planned for the electricity and telecommunications sectors, as well as for social security were postponed to 2000. In addition, only two out of the seven structural

benchmarks were observed. However, some progress was made in the areas of privatization and private sector promotion.

Corrective actions and policies for the rest of 2000

The new Government that took office in mid-February 2000 carried out energetic actions to reverse past slippages and to bring the program back on track. Government commitment to the program was set out in the new Prime Minister's Policy Declaration addressed to the Parliament. In the fiscal area, retail prices for petroleum products were adjusted by 12-18 percent, well above the 10 percent that had been proposed by Fund staff. In addition, the Declaration announced the future introduction of an automatic mechanism for the adjustment of retail oil prices, so as to fully reflect changes in world oil prices.

On the structural front, the government showed strong determination to speed up the implementation of the delayed reforms, particularly in the cotton, electricity and telecommunications sectors. The authorities realized that delays in the implementation of structural reforms had a bearing on macroeconomic performance, affecting negatively real activity and government revenue. In particular, inefficiencies in the electricity sector were a major constraint to the development of the industrial sector, while financial difficulties at the CMDT weakened the financial position of the local banking sector, thereby limiting its capacity to extend new credit.

In the cotton sector, the government speeded up the financial audit of CMDT, which was completed in mid-July 2000 and initiated efficiency-enhancement studies. A new three-year performance contract is expected to be signed by end-December 2000. In the meantime, concrete steps were taken to restructure the management of CMDT and to improve its financial position. In the electricity sector, pre-qualification bids for the privatization of 60 percent of the capital of EDM were issued on April 28, 2000, and final call for bids was launched in early August 2000. In the telecommunications sector, the government reaffirmed its commitment to open the sector to competition. To this end, the government suspended the operations of the mixed cellular phone company (MALITEL-SA) that had not been established in accordance with the general policy agreed with the World Bank, a legal and regulatory framework was adopted in April 2000, and an open call for bids for granting of at least one cellular telephony license to private operators is to be launched by end-November 2000. An action plan for the financial sector is under preparation in consultation with the World Bank. In particular, the action envisages a phased divestiture of government interests in the banking sector. As regards social security, the audits for CRM (Caisse des retraites du Mali) and INPS (Institut national de prévoyance sociale) are under way and rehabilitation plans are to be adopted by end-October 2000.

The authorities expect real activity to expand by only 3 percent in 2000, reflecting the projected 11 percent reduction in cotton production, and the continued high world oil prices. Preparations for the African Football Championship (CAN 2002) are also expected to increase government spending by some 1 percentage point of GDP, in complement of private sector contribution. The authorities are determined to strengthen tax administration, so as to

compensate the revenue losses stemming from the introduction of the CET in January 2000, the drop in budgetary revenue from the cotton sector, and the increasing oil prices. They aim at stabilizing government revenue at 17 percent of GDP in 2000. Owing to saving measures on non-priority spending and to strengthened budget control, total expenditure is to be kept at 26 percent of GDP, leading to the stabilization of the overall budget deficit at 9 percent of GDP. The government is committed to raising the share of health and education in current expenditures from 28 percent to 32 percent. Reflecting the envisaged financial sector reforms, the improvement in the CMDT's financial position and a reduction in government resort to bank financing, bank credit to the private sector is to expand by some 172 percent. Broad money is expected to expand by some 4 percent, while inflation is to be contained at below 3 percent.

The fight against poverty

In 1996, the authorities established an Observatory for Human Development and Poverty Reduction. A "National Strategy for the Fight Against Poverty" (SNLP) was prepared with the UNDP assistance and presented to the donor community at a Roundtable held in Geneva during September 16-17, 1998. Surveys on household consumption were also conducted in 1988/89, 1994 and 1996 with a view to establishing the poverty line and profile. It is estimated that, after the increase that followed the 1994 devaluation, the incidence of poverty declined from 71.6 percent in 1996 to 69 percent in 1998. Preliminary indications point to a special poverty prevalence in rural, large families, in which the head is old or illiterate. Moreover, the female population appears to be more vulnerable, and there are strong regional disparities of poverty. According to the UNDP, social indicators in Mali range among the lowest in the world. The authorities are cognizant that the low level of human development is a serious impediment to Mali's competitiveness and to economic diversification.

On the basis of the SNLP and these surveys, the authorities have prepared an Interim Poverty Reduction Strategy Paper (PRSP), which gives preliminary indications on the nature and extent of poverty, and outlines policies for sustainable growth and poverty reduction for the medium term. Comprehensive poverty surveys are envisaged in 2000/01, so as to provide a complete picture on poverty. The full PRSP will be developed in full consultation with all stakeholders, including within various levels of government, the civil society, the media, the Parliament and donors, in the context of Mali's democratic system and of the well-established participatory process. The authorities are of the view that rapid growth is a major factor for poverty reduction. Accordingly, the PRSP will present key components of the general poverty reduction strategy, including policies necessary to maintain a sound and stable macroeconomic framework, as well as structural and sectoral reforms designed to raise investment, create employment opportunities, and maximize Mali's growth and diversification potential.

The authorities attach special importance to the development of the judicial system, improved governance, transparency, administrative decentralization, civil service modernization, privatization, and regional integration. They are also convinced that growth

cannot be sustained without specific policies designed to improve basic social indicators. In this regard, ten-year sectoral strategies have been developed for the sectors of health (PRODESS) and education (PRODEC) in consultation with all the sector stakeholders. The PRSP will include social indicators, which will be monitored on a regular basis. A steering committee coordinated by the Ministry of Finance has been set up to monitor the PRSP process. The full PRSP is expected to be completed by end-June 2001.

The authorities are aware that the PRSP process is a major undertaking and count on the assistance of development partners. They share the concerns expressed in the Joint Staff Assessment, as regards the need to establish priorities, to evaluate risks carefully, and to take better account of gender issues.

Debt Relief under the HIPC Initiative

Mali reached the decision point under the original HIPC Initiative on September 15, 1998 and the completion point was set for end-December 1999, under the condition that the structural reform program remained on track. Due to policy slippages, the midterm review could not be completed before end-1999 as envisaged. However, in view of the corrective actions taken by the authorities in 2000, and the wide range of economic and structural reforms implemented under Fund-and Bank-supported programs, my authorities consider that they have met the conditions for the completion point under the original HIPC Initiative. Moreover, given Mali's continued solid track record of macroeconomic and structural implementation, as well as the strength of the PRGF-supported program and the high-quality Interim PRSP, the authorities consider that they have met the conditions for the decision point under the enhanced HIPC Initiative. Also, given the satisfactory track record in budget management, as well as the authorities' determination to improve governance at the highest level of government, a credible framework exists for the efficient use of resources generated from debt relief for poverty reduction. The authorities expect to benefit rapidly from interim assistance from the Fund and the World Bank. They are also determined to meet rapidly the conditions proposed for the completion point.

Conclusion

In view of the satisfactory track record in program implementation, I request the Board to grant waivers for the quantitative performance criterion and the four structural performance criteria that were not observed and to conclude the first review under the PRGF. Finally, given the high-quality Interim PRSP, I look forward to my colleagues' support for the approval of the decision point under the enhanced HIPC, to enable the rapid delivery of interim debt relief.