26649

FROM: The President

August 18, 2003

REPUBLIC OF MALI
THIRD STRUCTURAL ADJUSTMENT CREDIT
(CREDIT NO. 3582-MLI)

Release of the Third Tranche – Full Compliance

1. In view of the overall performance and progress with the implementation of the program supported by the Third Structural Adjustment Credit for the Republic of Mali, and in compliance with the specific conditions of release as described in the attached Tranche Release Document, the Association has informed the Borrower that the third tranche in the amount of SDR 19.6 million (US$25 million equivalent) is available for disbursement.

2. The Third Structural Adjustment Credit for the Republic of Mali is subject to the provisions of the Bank's former disclosure policy. As such, and after confirmation with the Borrower, the accompanying Tranche Release Document will not be made publicly available.

James D. Wolfensohn
President

By Shengman Zhang

Vice President:	Callisto Madavo
Country Director:	A. David Craig
Sector Managers:	Emmanuel Akpa / Joseph Baah-Dwomoh
Team Leaders:	Christina A. Wood / Patrick Labaste

Republic of Mali
Third Structural Adjustment Credit
(Credit No. 3582-MLI)
Release of the Third Tranche – Full Compliance

I. BACKGROUND

1. This memorandum summarizes progress made under the Third Structural Adjustment Credit (SAC III), Credit No. 3582-MLI, for the Republic of Mali and recommends release of the third tranche of the credit. The SAC III, in the amount of SDR 55 million (US$70 million equivalent), was approved by the Board of Directors on December 11, 2001. The credit aims to provide balance of payments support to the Government to close the financing gap stemming from the recent crisis in the cotton sector, enabling the Government to maintain momentum on its ongoing reform agenda, notably the following priority reform areas: (i) public expenditure reforms aimed specifically at advancing the Government's poverty reduction objectives; and (ii) recovery and restructuring of the cotton sector to restore positive economic growth. By focusing on reforms to improve public expenditure management and liberalize the cotton sector, the SAC III targets the programs most critical to Mali's poverty reduction objectives.

2. The SAC III is a three tranche operation, and conditions for each tranche release are specified in Schedule 2 of the Development Credit Agreement as amended in December 2002. The first tranche of SDR 19.6 million (US$25 million equivalent) was released on January 3, 2002 upon credit effectiveness, and the second tranche of SDR 15.7 million (US$20 million equivalent) was released on December 24, 2002 following Board approval to an amendment of the DCA. The third tranche is for an amount of SDR 19.6 million (US$25 million equivalent).

3. Since effectiveness, the implementation of the reform program as specified in the Letter of Development Policy for the SAC III, has been satisfactory. The progress made on macroeconomic management and on the reform program is noteworthy in view of (i) the difficult international context of heavily subsidized cotton production (a recent studyestimates Mali's foregone export earnings in 2001 at US$42 million[1]), and (ii) the negative impact of the Côte d'Ivoire crisis on the Malian economy.[2]

4. Significant progress has been made on the overall program, and the specific conditions for third tranche release have been met. This memorandum presents the actions taken by the Government to meet the conditions under the SAC III. It recommends that the Association release the third tranche, providing timely assistance to the Government in

---

[1] Goreux, Louis (2003). "Prejudice caused by subsidies to cotton sectors in AOC;" (AOC is the French acronym for West and Central Africa).

[2] The crisis have resulted in: (i) the closure of the main transport link for 70 to 80 percent of Mali's external trade; (ii) the collapse of livestock exports (Mali's third most important export which was sold mainly to Côte d'Ivoire), amounting to a loss of US$12 million equivalent in 2002; (iii) diversion of trade to other ports in neighboring countries, resulting in an increase in transportation costs (the cost premium for cotton exports is estimated at 40 percent); (iv) a collapse in workers remittances from Côte d'Ivoire; and (v) the return of over 10,000 Malians to Mali with many more thousands expected in the coming months.

weathering the impact of the Cote d'Ivoire crisis and continuing to lay the foundations for macroeconomic stability and growth.

II. RECENT ECONOMIC DEVELOPMENTS

5. Mali reached the Completion Point of the Enhanced HIPC Initiative in March 2003, in parallel with the approval of its PRSP. These milestones were reached following a decade-long period of growth and good macroeconomic performance. Despite a number of adverse shocks, real GDP growth has averaged about 5 percent per annum between 1994-2002, enabling real per capita GDP to rise by 2.5 percent per year. The Malian authorities have been successful at limiting inflation to single-digit figures and reining in the fiscal deficit in line with the convergence obligations under the West African Economic and Monetary Union (WAEMU) regional integration agreement. Mali also made good progress on revenue generation (Table 1), with revenues reaching more than 17% of GDP (well above the Sub-Saharan Africa average).

6. Mali's macroeconomic performance can be attributed to reestablishment of political and social stability in the early 1990s,[3] and to the effective implementation of macroeconomic stabilization and economic liberalization policies since the 1994 devaluation of the CFA franc, both of which created the foundations of a market-led economy and encouraged private sector development.[4] Recent economic developments have been influenced, however, by weak performance of the country's cotton sector. The sector, which achieved impressive growth and significant gains in the world export market share following the 1994 devaluation, experienced a severe financial and structural crisis in 2000 in the wake of the falling international cotton price. Coverage of the sector's losses by transfers from the budget to the cotton parastatal company (*Compagnie Malienne pour le Développement des Textiles* – CMDT), which have been exacerbated by the Cote d'Ivoire crisis, risked derailing Mali's otherwise satisfactory fiscal and economic performance over a decade-long process of economic and structural reforms. The emergence of gold as Mali's leading export product since 1999 fortunately helped mitigate some of the negative impact of the cotton sector and Cote d'Ivoire crises.

Table 1: Recent Macroeconomic Performance

	1999	2002 (estimate)	2003 (projection)
Real growth rates (%)			
GDP	6.7	9.7	-1.1
Exports GNFS	6.2	23.1	-7.3
Shares of nominal GDP (%)			
Gross domestic investment/GDP	20.0	18.9	20.5
Gross domestic savings	16.2	17.8	17.1
Public Finance (% of GDP)			

[3] This included transition to pluralist democracy (1991-92) and establishment of peace in the north of the country following a period of rebellion (1994).

[4] This included implementation of the WAEMU common external tariff in January 2000, which lowered tariffs to below 20 percent and greatly simplified their structure to four tariff levels.

Overall fiscal balance, excl. grants	-8.7	-7.7	-9.1
Total revenues	16.3	17.7	19.0
Current expenditures	11.6	12.9	12.6
External current account (% of GDP)			
Excluding official transfers	-10.8	-6.3	-8.2
Including official transfers	-9.3	-4.9	-7.4
Other			
Inflation (CPI for Bamako)	-1.2	5.0	3.8

Sources: Malian authorities and staff estimates

7. Mali's economic performance remains fragile in view of the economy's vulnerability to climatic conditions, fluctuating terms of trade, dependence on ports in neighboring countries, the concentration of its exports in three primary sector products[5], and weak administrative capabilities. The favorable average real growth experienced since the 1994 devaluation masks significant annual volatility. Economic growth fell to 3.5 percent in 2001 owing to the cotton sector crisis and difficulties in food crop production, but rebounded in 2002 to an estimated 9.7 percent due to the sharp increase in gold, cotton and cereal production. GDP growth is estimated to be –1.1 percent in 2003, and is projected to rebound above 5 percent in 2004 barring additional exogenous shocks.

8. Mali's macroeconomic performance has generally been within the Government's targets, and it has managed to attract both multilateral and bilateral funds aimed at deepening structural reforms and enhancing its socio-economic situation. The sixth and final review of Mali's PRGF concluded in July 2003 that Mali continued to make good progress in implementing their Fund-supported program, under difficult conditions. All performance criteria and indicative targets were met. In view of the negative exogenous shocks in 2002-03, the authorities would need to adjust expenditures downward (except for priority sectors) in line with a shortfall in revenues, in order to achieve program and fiscal objectives. The authorities are committed to pursuing prudent macroeconomic policies over the medium term and to implementing needed structural reforms, in order to remain on track with the poverty reduction strategy. The Bank and other donors are providing the necessary support to the Mali authorities to ensure successful implementation of Mali's poverty reduction strategy.

III. PROGRESS AGAINST TRANCHE RELEASE CRITERIA

9. The General Requirements for Tranche Releases, as spelled out in Schedule 2, Part A, of the Development Credit Agreement, are:

a) the Association is satisfied with the progress achieved by the Borrower in the carrying out of the reform program.

b) the macroeconomic policy framework of the Borrower is satisfactory, as measured on

---

[5] Gold and cotton together comprise over 80 percent of export earnings, while livestock – exported primarily to West Africa regional markets – accounts for about 8 percent of export earnings. Cotton has historically been the number one export earner ahead of gold, although gold has only recently surpassed cotton export revenues and today accounts for about 55 percent of export receipts.

the basis of indicators agreed between the Borrower and the Association.

10. With respect to the first requirement, the authorities are on track with the implementation of the reform program. The status of implementation of the reform program is as follows:

For the public expenditure management component:

- With the 2003 Budget, the authorities have introduced a three-year medium term expenditure framework compatible with the macroeconomic framework that integrates not only health and education sector expenditures defined under the respective ten-year development plans as required under the SAC III LDP, but also expenditures of all other ministries and government agencies;
- The functional and technical study to define the specifications for integrating the computer systems of the treasury, budget, and financial control departments has been completed, and the next action (development and testing of the integrated system) commenced in January 2003 as per schedule to ensure implementation of the new system during the first quarter of 2004;
- The procedures manual for budget execution has been prepared and deemed satisfactory by the Bank. The manual will be validated and disseminated, following its review by the new committee on procedures in the Prime Minister's office;
- Strengthening of internal and financial audit functions is evident in the steady increase in budget allocation to the concerned units between 2001 and 2003, as well as an increase in the number of inspection staff. Continued provision of additional resources is already envisioned in the 2004 budget currently under preparation;[6]
- Strengthening the capabilities of the General Accounts Office (i.e., the *Section de Compte* of the Supreme Court) is evident in the recruitment of additional personnel to increase staff numbers to legally mandated levels; the completion of a new building with sufficient space to house all personnel; ongoing renovations of the old building to house the archives and documents center; and the temporary loan of additional staff from the internal audit department to assist in clearing the backlog of work, notably the review of the Government's budget execution reports (the *Lois de règlement*) for 1996-1999.[7] Additional resources were provided to the Accounts Office early in calendar 2003, to support its work program.

For the cotton sector reform component:

- 2001 financial statements of the cotton parastatal company *Compagnie malienne des développement des textiles* (CMDT): initial qualifications to the accounts noted by

---

[6] It should be noted that, in addition to strengthening the audit functions, the authorities would need to ensure adequate follow up of the audit reports produced by these units.

[7] The *Section de Compte* is reviewing the 1996-99 budget execution reports. Final technical discussions have been held with the Treasury to clarify certain budget lines. Following a final review, the Section would be able to prepare its budget audit reports for submission to the parliament.

the CMDT-Board-appointed *Commissaire aux Comptes* were lifted in August 2002 in response to CMDT follow-up actions on recommendations made by the *Commissaire*;

- The plan for downsizing of CMDT has been articulated, comprising divestment of non-core activities, including public service missions (infrastructure works, land development and support to social services). The transfer of public service missions from CMDT to the state was approved on July 28, 2002 by the Council of Ministers, and the transfer was made effective on January 1, 2003. As far as the downsizing of the company is concerned, a redundancy program comprising 26 percent of the workforce (i.e., 596 layoffs) was implemented in June 2003

- Preparation and implementation of a financial restructuring plan: a first version of a financial restructuring plan was prepared in May/June 2002 with the assistance of an international consultant. The financial projections for the 2003/04 cropping season will be updated in September 2003, when some key restructuring measures concerning the company will have been implemented (downsizing of labor force, actual transfer of service public missions, etc.);

- A new producer price-setting mechanism for seed cotton that links to the world market price and takes into consideration prices in the sub-region in order to guarantee the viability of the sector in the long run, was adopted by the authorities on July 5, 2002. The producer price for the 2003-2004 cropping season, which is at the same level as the previous season's price, was determined in reference to the new mechanism and in consultation with producer organizations.

- The study on the stages and options of sector liberalization has been completed and the report discussed with the Bank and other partners in January and February 2003. The Government has announced its decision to implement option 2 of the study, which entails the privatization of CMDT through the creation of three or four privately-owned cotton companies. The Government is currently engaged with producers and other stakeholders to flesh out the second-phase reform program spanning the 2003-2005 period, in line with option 2 and leading to full sector liberalization. This process will be completed with the assistance of an investment bank (or equivalent), to be recruited by end calendar 2003. The second-phase plan will need to be formalized in a new sector development policy letter to be approved by Government during the first quarter of 2004.

11. As regards the macroeconomic requirement, progress is satisfactory. The macroeconomic framework is sound and the PRGF-supported program is on track (para. 8).

12. The specific conditions for release of the third tranche focus largely on the progress toward implementation of privatization of two cotton sector companies – *Office de la Haute Vallée du Niger* (OHVN) and *Huilerie Cotonnière du Mali* (HUICOMA) – and on progress in preparing the medium term expenditure frameworks particularly for the education and health sectors.

13. The Specific Conditions for the Release of the Third Tranche, as spelled out in Schedule 2, Part C, of the Development Credit Agreement are the following:

The Borrower has:

1. brought to the point of sale[8]:

   a) not less than 84% of HUICOMA's shares, pursuant to paragraph 13 (ii) of the Development Policy Letter; and,

   b) all assets belonging to CMDT and OHVN in the OHVN Zone pursuant to paragraph 7 (ii) of the Development Policy Letter; and,

2. submitted to the Association, a report of the Medium-Term Expenditure Framework for the Fiscal Years 2001-03, integrating the expenditures forecasted for the education and health sectors under PRODEC and PRODESS, respectively, and consistent with the Medium-Term Macroeconomic Framework, pursuant to paragraph 22 (ii) of the Development Policy Letter.

14. Progress in implementing the specific third tranche measures is as follows:

1.a) Brought to the point of sale not less than 84 percent of HUICOMA's shares: Fulfilled.
The bidding process was launched on December 9, 2002. Two companies submitted technical offers in March 2003 as part of the first round of the procedure. Though only one bid was considered as fulfilling the selection criteria, the decision was taken by government to nevertheless pursue the bidding process. The date for submitting the financial bid is now set to September 30, 2003, following a request from the remaining bidder to postpone the deadline. In view of the transparency of the process that has been followed so far, and the fact that only one bidder remains in competition despite government's best efforts, the condition of bringing Huicoma to the point of sale (i.e. invitation to negotiate) is deemed to have been fulfilled.[9]

1.b) Brought to the point of sale the ginning mills and all other assets belonging to the CMDT in the OHVN Zone: Fulfilled.
The authorities initiated the bidding process on September 30, 2002. Two international investor groups submitted technical bids in December 2002. By the deadline for presentation of the financial in February 2003, one of the groups had withdrawn from the process, and one bidder, a US cotton trading group, Dunavant S.A., submitted a

---

[8] As defined in the Development Credit Agreement (DCA), "bring to the point of sale" requires the Borrower to have taken the following steps: (i) prepared and distributed investment memoranda for the relevant state companies; (ii) solicited offers directly or through advertisement(s) in appropriate newspapers, under terms and conditions agreed upon between the Borrower and the Association; (iii) evaluated the offers and selected the bidder(s) (if any); and (iv) invited the successful bidder(s) (if any) to enter into good faith negotiations.

[9] Per the Procurement Guidelines (paragraph 2.59), "bidding documents usually provide that Borrowers may reject all bids. Rejection of all bids is justified when there is lack of effective competition, or bids are not substantially responsive. Lack of competition shall not be determined solely on the basis of the number of bidders. If all bids are rejected, the Borrower shall review the causes justifying the rejection and consider making revisions to the conditions of contract, design and specifications, scope of the contract, or a combination of these, before inviting new bids."

bid. After considering the amount offered to be very low, the government invited Dunavant to Mali in early May to discuss a possible improvement of their bid. Shortly following these discussions, Dunavant indicated their inability to maintain or improve their financial bid and withdrew from the process. On June 12, the government declared the bidding process unsuccessful. In view of the above, the transparency of the process, and the best efforts of government to bring these assets to the point of sale despite the unfavorable economic environment (essentially the political crisis in Cote d'Ivoire), the condition has been fulfilled.[10]

2. Submitted to the Association, a report of the Medium-Term Expenditure Framework for the Fiscal Years 2001-03, integrating the expenditures forecasted for the education and health sectors under PRODEC and PRODESS, respectively, and consistent with the Medium-Term Macroeconomic Framework, pursuant to paragraph 22 (ii) of the Development Policy Letter: Fulfilled.
   As already noted above, the authorities implemented a medium term expenditure framework (MTEF) with the 2003 Budget that also specified medium term envelopes for each of the ministries. In addition, the authorities prepared sector MTEFs for the health and education, which are currently being implemented in line with the 2004 budget preparation cycle.

15. As regards the cotton sector reforms, the authorities are continuing the efforts toward privatization and liberalization of the cotton sector, and are expected to initiate the process to recruit an investment bank (or equivalent) by October 2003 to oversee privatization of the CMDT. Furthermore, the OHVN Zone bidding process is expected to be re-launched, as would the HUICOMA process if it is not concluded successful during the current first round. A follow-on operation will ensure continued support to, and monitoring of, the reform process.

VI. CONCLUSION

16. All conditions for the release of the Third tranche of the Third Structural Adjustment Credit have been met. Overall execution of the program is broadly satisfactory. The macroeconomic framework is consistent with the objectives of the program. Implementation of the public expenditure management reform and cotton sector reform programs are also on track. The Government of the Republic of Mali has therefore been advised that the Third tranche, in an amount of SDR 19.6 million is now available for disbursement.

Washington DC
August 18, 2003

---

[10] Refer to previous footnote.