

PD-ABD-820

ISN 75879

MetaMetrics Inc.

MALIAN ECONOMIC POLICY REFORM PROGRAM

Implementation Report

by

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November 20, 1989

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Program Support Agreements were signed on September 17, 1985 by the Republic of Mali and the United States of America for an Economic Policy Reform Program (EPRP). The EPRP has two objectives: to develop an environment that fosters greater growth by creating jobs in the private sector, and to reduce the burden of the public sector on the economy while improving its effectiveness.

1.1 COMPONENTS

The Economic Policy Reform Program has three related and complementary components that require ongoing support. These are Tax Reform, Budget Restructuring, and Data Processing Support.

1.1.1 Tax Reform

The Tax Reform component is designed to establish conditions that foster private sector development. New economic laws, considered to be essential for success, address the adoption of a new trade code, foreign trade regulations, and most importantly, the elimination of price-fixing procedures. Tax reforms should result in a less burdensome and more properly distributed tax system that is also better suited to the development of private sector growth and the creation of new jobs. Finally, measures to reduce governmental controls should assist private economic operators in their businesses.

1.1.2 Budget Restructuring

The second component, Budget Restructuring, encourages better management of government finances by recommending the adoption of a new appropriate budget classification system and by computerizing the payroll, which accounts for the largest share (60%) of budget expenditures. The establishment of a diminishing ceiling for new recruitment of government employees, as part of an attempt to reduce the growth rate of the wage bill, should make it possible to better allocate the proportion of public expenditures on personnel versus recurring equipment expenses. A voluntary early departure program for civil servants is being suggested not only as a way to gradually reduce personnel costs in the Civil Service, but also as a way to return the participants to the private sector, thereby forming a new generation of entrepreneurs who can develop the private sector in an economy with less government intervention.

1.1.3 Data Processing Support

A third component, Data Processing Support, is intended to strengthen both the Tax Reform and Budget Restructuring components. It is designed to make it possible for the various divisions of the Ministry of Finance and Trade to obtain appropriate data processing equipment and to have access to a better and more modern computerized management system.

1.2 FUNDING

The EPRP is a specific and selective financial support program provided by the United States of America to assist in the Government of the Republic of Mali (GRM) economic reform efforts. As part of the implementation of its economic reform policy, the Government of the Republic of Mali initially received financial assistance in the amount of \$18 million from the Government of the United States of America.

Both signatories agreed to extend the EPRP from December 31, 1988 to December 31, 1990. Amendment No. 1 to the Program Support Agreements, signed August 15, 1988, increased total support to \$24.5 million, an additional \$6.5 million over the original contract. Amendment No. 2 to the Program Support Agreements, signed August 30, 1989, added an additional \$1 million, raising the total amount of support to \$25.5 million.

The distribution of EPRP funding according to category of expenditure (expressed in thousands of dollars) is shown in Table 1.1 below.

1.3 PREREQUISITES

Disbursements will be contingent on meeting the requirements of the Tax Reform, Budget Restructuring, and Data Processing Support components. The requirements of these three components are discussed below.

1.3.1 Tax Reform Requirements

Prior to the initial disbursement, the GRM should demonstrate that the Council of Ministers has approved the revised laws on price regulation, the Trade Code, and the control of foreign trade. The Council of Ministers should also have approved the three-year action plan for the implementation of tax reform in Mali and a detailed action plan for the first year, with estimates of capital gains and capital losses of revenue.

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Table 1.1

EPRP Funding by Category
(thousands of dollars)

	Initial Amount	Amendment No. 1	Amendment No. 2	Total
Tax Reform	\$8,315	\$2,199	\$0	\$10,514
Budget Restructuring	8,365	3,202	650	12,217
Expenditures other than Wages (\$7,485)				
Privatization of Govt. Enterprises (\$880)				
Purchase of Machinery and Equipment	490	0	0	490
Technical Assistance	770	724	350	1,844
Training	60	0	0	60
Studies	0	375	0	375
Total	<u>\$18,000</u>	<u>\$6,500</u>	<u>\$1,000</u>	<u>\$25,500</u>

Prior to the second disbursement, the GRM should demonstrate that the legislature has adopted revised laws that address price regulation, the Trade Code, and the control of foreign trade.

Prior to the second and third disbursements, USAID and the GRM should jointly review the results of tax reform from the previous year and adjust the funding scheduled for the next year.

1.3.2 Budget Restructuring Requirements

Prior to the first disbursement, the GRM should have implemented the new budget classification system, computerized the payroll, set a ceiling for new recruitment, made all administrative provisions governing the voluntary early departure program, and set satisfactory objectives regarding the ratios between personnel expenditures and recurring non-wage expenditures.

Prior to the second disbursement, USAID and the GRM will jointly evaluate the implementation and impact of the measures for the period already covered.

A third disbursement will be made after evidence has been provided that a privatization program for government enterprises has begun.

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1.3.3 Additional Disbursements

Amendment No. 1 to the Program Support Agreements provided additional funding of \$6.5 million. A disbursement of \$2.2 million for Tax Reform and \$3.485 million for Budget Restructuring will be made as long as the reform measures and budget restructuring programs scheduled for 1988 have been satisfactorily implemented.

Finally, Amendment No. 2 to the Program Support Agreements provided for an additional \$1 million in funding for 1989, contingent on an action plan satisfactory to AID, both in terms of form and substance, for non-wage recurring expenditures. This plan should demonstrate that the budget allocations for 1990 for the operations of the Ministry of Finance were set at a level 20% higher than that of 1988 and provided for a supplementary budget sufficient for the equipment supplied by USAID for the different divisions.

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SECTION 2

IMPLEMENTATION

In accordance with the commitments made under the Program Support Agreements to meet the economic recovery objectives, the Government of Mali has implemented both structural reforms that should have a profound long-term effect on the economy, and short-term adjustment measures to meet the country's urgent needs.

2.1 CREATING AN ENVIRONMENT CONDUCIVE TO DEVELOPMENT

In a free economy, economic regulation must first be reduced to make market mechanisms fully operational. Toward this end, the EPRP has focused on changes in price controls, trade code, and marketing policy.

2.1.1 Price Controls

Law 89-90/AN-RM of September 12, 1986 initiated major changes in the system for regulating prices then in force, and provided for the implementation of a more flexible system to determine prices. The scope of the price regulation system will be periodically narrowed to eventually eliminate price controls. In the past, price fixing was the rule and free pricing was the exception. Henceforth, the new pricing law makes the determination of prices for 80% of all goods and services subject to the law of supply and demand. For commodities whose prices are still regulated, controls in most cases will be flexible and approval will be easy to obtain as the economic operators may calculate their prices themselves using the agreed-upon margin as a basis.

Subsequently, decrees No. 328/PG-RM of 1986, No. 99 of March 28, 1988, No. 190 of June 30, 1988, and No. 195 of June 15, 1989 have substantially decreased the number of products subject to regulation. There are only a dozen or so products and services that are still subject to imposed price fixing, including paddy rice and cottonseed. Pharmaceuticals and veterinary products, medical and veterinary services, urban transportation, international shipping rates, water and electricity, and hydrocarbons are subject to stringent requirements for approval. Approval is easily obtained for foodstuff shipping rates and construction materials. All other products and services fall under the system in which prices are not regulated.

2.1.2 Trade Code

In an attempt to develop private sector activities, in January 1986 the GRM adopted the new Malian trade code. The new code makes major improvements in the organization of business occupations, the regulation of businesses, and the treatment of business contracts. By substantially lowering governmental constraints and controls, the new code has created a more positive framework for the business environment. More specifically, it will now be much easier to start up private businesses due to the elimination of the general requirement of obtaining prior authorization from the government. A listing in the commercial register is the only requirement for nationals to start up a business. In 1986, there were 211 businessmen listed in the Bamako court register. In 1987, there were 450, an increase of 54.1%. Between January and September 1988, there were already 293 additional listings.

2.1.3 Marketing Policy

The GRM has significantly streamlined procedures for regulating foreign trade as prescribed by Decree No. 33/PG-RM of February 13, 1986. In 1988 the government reduced import quotas. In 1989 the GRM made the terms for the application of foreign trade regulations more flexible with decree No. 89-194 of June 15, 1989, Order No. 89.1824 BIS/MFC-CAB of June 15, 1989, and Departmental Instruction No. 004/MFC-CAB of September 16, 1989. These new laws stipulate that trade with all countries shall be free, and provide for two systems: free trade for all goods available for consumption on the national market and a prohibition that affects only a limited list of products.

In theory, the common system of imports and exports is the free system and the prohibition system that forbids entry of some goods into Mali is only a limited system. Henceforth, the licensing system that was formerly in effect will be superseded by one in which a document called the "Intention to Import" or "Intention to Export" will be issued automatically by the staff of the National Division of Economic Affairs, without restriction to amounts and values.

In summary, the economic environment in Mali is now more conducive to the re-establishment of market mechanisms and the broadening of private sector activities, fostering more satisfactory economic growth.

2.2 DEVELOPMENT OF THE PRIVATE SECTOR THROUGH TAX REFORM

The purpose of tax reform is to lower the growing number of barriers to the development of private sector activities; therefore it also aims to reduce tax pressure, rationalize the tax system, and improve the performance in tax assessment and collection. These three elements of tax reform are discussed below.

2.2.1 Reduction of Tax Pressure on Businesses

The GRM has taken a series of appropriate measures that involve not only the components of production costs but profits as well. In order to facilitate the creation of new jobs, law No. 86-50/AN-RM of March 21, 1986 has lowered the flat-rate contribution employers pay by 50%. The rate of this tax that applies to the total wage bill, including the real value of benefits in kind, has been lowered from 15% to 7.5%.

The fiscal customs import duty (droit fiscal d'importation – DFI) has been revised so that it no longer thwarts local production. It was found that some raw materials and semi-finished products used in making local products are more heavily taxed when imported than are imported finished goods. This discrepancy adds to the cost prices for finished Malian goods and inhibits the development of industry. Law No. 86-51/AN-RM of March 21, 1986 either eliminated or lowered DFI rates on 54 raw materials and semi-finished products used by Malian entrepreneurs. Decree No. 123/PG-RM of May 12, 1987 added 55 new products to this list. In 1988, Decree No. 137/PG-RM of May 20, which changed DFI rates for customs tariffs, lowered the rate on 60 raw materials and semi-finished products. In total, the DFI has been either lowered or completely eliminated on 169 products.

Reductions in the industrial and commercial tax on profits (impôt sur les bénéfices industriels et commerciaux – BIC) for income earned in 1986 came into effect in 1987. The minimum flat-rate BIC has decreased from 1% to .75% of turnover in accordance with law No. 87-30/AN-RM of February 20, 1987. Similarly, rates for the industrial and commercial profits tax on profits (BIC) have been lowered from 50% to 45% for corporations and from 30% to 25% for sole proprietorships in accordance with law No. 87-31/AN-RM of February 20, 1987.

2.2.2 Rationalization of the Tax System

The GRM has made decisions that affect the harmonization of tax rates on businesses and services (impôt sur les Affaires et les Services – IAS), the elimination of posted values used as a basis to tax imported products, and the preparation of a new system for the more ambitious value-added tax (taxe à la valeur ajoutée – VAT).

The IAS rates collected at customs stations and inside the country have been made uniform under law No. 87-30 AN-RM of February 20, 1987. Formerly, all products manufactured in Mali were taxed at the standard rate, whereas the same products that were imported were taxed at the lower rate. The standardization of IAS rates has made it possible to rectify this distortion.

The elimination of the old artificially set posted values is mainly intended to re-establish truth in real current prices for import taxes and to generate more revenue for the State. The initial agreements provided for a 10% increase in posted values twice a year. Order No. 4202/MFC-

CAB of August 1, 1985, No. 1322/MFC-CAB of March 3, 1986, and No. 6981/MFC-CAB of August 14, 1986, have gradually begun to eliminate posted values on a number of products. Order No. 1824/MFC-CAB of July 16, 1988 eliminated all import posted values on all products except for some strategic products and essentials such as hydrocarbons, milk, sugar, and cement. Order No. 1824/MFC-CAB of June 15, 1989 retained posted values on imports only for hydrocarbons and sugar. The actual results have more than exceeded the initial targets.

To rationalize the tax system in order to avoid double taxation of products and capital goods and equipment, the Program Support Agreements provided for tax deductions and opportunities for financial deductions under the Tax on Businesses and Services (IAS), which was initially a cumulative tax. The GRM felt that this approach would involve establishing a genuine value-added tax. This is a single tax on the expenditure with a determined rate to be paid on a one-time basis on the cost of goods or services. This is the case regardless of the number of times the goods or services passed from one hand to another. Economically speaking, two benefits of the new system are to be considered. First, the opportunity for taxpayers to deduct the VAT paid on their capital equipment gives them the incentive to modernize their production plant and increase their activity. Later, the competitiveness of Malian products on foreign markets will be strengthened through the general deduction system. In 1988 the Ministry of Finance proposed instituting the value-added tax. This proposal should be approved by the Council of Ministers and should be supported by the various international donors.

2.2.3 Tax Assessment and Collection

Since the tax reforms cause major short-term capital losses for the State, the Economic Policy Reform Project has made improvements in tax assessment and collection. The GRM has implemented various supplementary anti-fraud measures, the continuation of collection efforts, and the reorganization of tax agencies to decentralize them.

Anti-fraud efforts are considered to be a high priority in order to increase tax revenues. A physical audit of goods, wholesale record keeping, and improvements in the cross-checking of services and audits have been made. Other decisions include the strengthening of investigation and control units and the use of a mini-container terminal to control goods which began in 1987. The terminal is located at the central railroad station in Bamako and there is another highway container terminal for goods that come from the main Abidjan road.

Concrete efforts have been initiated regarding tax collection. In 1986 efforts involved a better understanding of what was taxable, more detailed documentation for evaluating goods, and updating of the taxpayer registration list. Moreover, the involved departments readjusted the flat-rate tax bases that in the past were adopted almost automatically without any re-evaluation of the taxpayer's new status. Finally, attempts are being made to collect the remainder of taxes owed, thus significantly increasing tax revenues

A reorganization and strengthening of the management at the level of the Tax, Customs, Treasury, and Economic Affairs Divisions have proven to be necessary. The regional divisions and tax centers in the towns have shown an interest in decentralization, and this has made it possible for the government to better control taxation. The establishment of two new border stations has contributed to increasing tax intake. A significant effort, even though still modest, should be noted: senior officials have been attempting to computerize their different departments to have access to more modern computerized management.

Generally speaking, the implementation of the tax reform program will likely result in capital losses that will be offset by financial support from the United States Government to the Government of the Republic of Mali in the amount of 100% for 1986, 65% for 1987, and 35% for 1988. However, the reduction of incentives for fraud, the enlargement of the taxable base, and the strengthening of tax agencies should contribute substantially to produce compensatory capital gains. In the long run, all tax reform policy measures should contribute – all things being equal – to offset and even increase revenues.

2.3 PUBLIC SECTOR PRODUCTIVITY THROUGH BUDGET RESTRUCTURING

Budget Restructuring mainly aims to reduce the burden of the public sector on the economy while making it more efficient through an entire series of measures. These measures should make it possible to better manage State finances, allocate public resources more appropriately, and gradually reduce the budget deficit.

2.3.1 Budget Management

In order to improve budget management, the GRM has taken steps to adopt the new budget classification system, computerize the payroll, and to transfer the payroll function from the 62/60 to the DPS, a more efficient computer system.

The new budget classification system was adopted with Law No. 86-102/AN-RM of December 29, 1986. Circular No. 2/MFC-DNB-DEO of January 31, 1987, sent to all concerned Ministers, Regional Governors, and Departments, stipulates that the use of the new State budget classification is compulsory under the 1987 Finance Law. The new classification system should provide obvious benefits. It makes a better presentation of the State budget possible in terms of administrative, operational, and economic classifications. Moreover, it helps to harmonize the presentation of the national budget, regional budgets, supplementary budgets, and special accounts. Finally, it lends itself to a coding system that is more consistent and better suited to computerized management. The adoption and application of the new classification system are a significant improvement in budget management and control.

The order given by the Minister of Finance to computerize all wages paid out of the State budget came into force on July 1, 1986. The significance of this measure is obvious when considering the fact that personnel expenditures account for about 60% of all budget expenditures. As of January 1, 1987 the Central Payroll Office of the National Budget Department had managed to have excellent control over the more than 44,000 workers paid out of the State budget due to the new computerized payroll management system.

Even though the payroll system has been computerized, many operational problems still remain. These problems will be solved by transferring the payroll system from the old 62/60 machine in the National Statistics and Data Processing Department (DNSI) under the Ministry of the Plan to more powerful DPS 6 equipment in the National Treasury and Public Accounting Office (DNTCP) under the Ministry of Finance. The transfer will be completed in late 1989 and will give the Ministry of Finance its own resources and the required autonomy to improve payroll management.

2.3.2 Public Expenditures

The composition of public expenditures also had to be restructured in order to guarantee sufficient funding for the high-priority categories. More specifically, the GRM has planned to gradually reduce the share of the wage bill in current expenditures and to increase funding for machinery and equipment. The significant improvement in the ratio between recurring non-wage expenditures (equipment) and wage expenditures (personnel) was one of the requirements laid down in the Program Support Agreements.

The GRM initially adopted a ceiling for new recruitment to limit the growth of the wage bill. Even though the EPRP set ceilings of 1,100 workers for 1987 and 800 for 1988, the figures on new recruitment show 1,513 workers for 1986, 851 workers for 1987 and 667 for 1988. The gradual and substantial reduction of new recruitment in the Civil Service was easily met.

The government has also encouraged the early departure of workers from the Civil Service. The Voluntary Early Departure Program (VEDP) provided for the departure of 600 civil servants in two waves. In 1987, 210 civil servants of all categories, versus a projection of 204, were selected from approximately 425 candidates. In 1988-1989, 434 civil servants, versus a projection of 396, were accepted from 839 candidates. In total, 644 civil servants, compared to the projection of 600, left the Civil Service to work in the private sector.

Although the initial program goal is to make a significant reduction in the size of the Civil Service and to save money on personnel and reallocate the funds to expenditures for equipment and investments of higher priority, the program nevertheless implemented a number of assistance measures, such as departure programs, study funds, guarantee funds, and training programs, which were required to support the retirees in their private sector endeavors. Therefore, besides

the budget savings to decrease the burden of the public sector, estimated to be over 73 million FCFA in 1987, 208 million FCFA in 1988, almost 433 million FCFA in 1989, and nearly 458 million FCFA in 1990, for a total of 1,171 million FCFA, the program also contributed to the initiation of a generation of entrepreneurs who will create new jobs and foster the development of activities in the private sector.

The substantial improvement in the ratio of equipment expenditures to personnel expenditures has met the prerequisites laid down in the EPRP. From 1986 to 1989 departures have outnumbered Civil Service recruitment. There were 1,513 new civil servants hired in 1986, 851 in 1987, and 667 in 1988. On the other hand, there were 697 departures in 1986, 1,156 in 1987, and 1,254 in 1988. The government has also implemented other measures to limit the growth of the wage bill. Advances prescribed by the law were frozen and there were no cost of living adjustments for inflation beginning in 1988. The result of these measures is that personnel expenditures have been decreasing constantly, while equipment expenditures have increased from 1986 to 1989. The budget ratios between equipment and personnel expenditures in the State budget – which, according to the new budget classification system, include the national budget, regional budget, investments-equipment budget, special funds, and accounts – have improved significantly over the years: 31.7% in 1986, 41.6% in 1987, and 48.5% in 1988.

2.3.3 Restructuring and Privatization Plan

As part of a better reallocation of budget resources and to foster private sector development, financial support for the EPRP was planned after presenting a restructuring and privatization plan with specific measures and a specific timetable for corporations and government enterprises that would be implemented with assistance provided by the World Bank. The implementation of the plan has given rise to the classification of 36 government enterprises in three categories, either to improve them, open up their capital, or simply liquidate them.

Initially, the GRM undertook to limit the State's interest to six enterprises considered to be strategically important. These provided public services that the private sector could not provide at this time. The enterprises in which the government continues to be the only shareholder are those in the area of water and electricity (Energie du Mali – EDM), the post office and telecommunications (Office des Postes et Télécommunications – OPT), the Railroad (Régie des Chemins de Fer du Mali – RCFM), river transportation (Compagnie Malienne de Navigation – COMANAV), production and distribution of cigarettes and matches (Société Nationale des Tabacs et Allumettes du Mali – SONATAM), and the Sélingué Dam (Office d'Exploitation des Ressources Hydrauliques du Haut-Niger – OERHN). However, the rehabilitation of these enterprises has necessitated the implementation of a set of measures to rectify the financial situation and to improve the efficiency of public resource management.

For 15 other government enterprises, the government opted to open up capital. This method of disengagement was adopted by a law passed in January 1988. In each case the privatization process of all the enterprises was to result in a partial or even total State disengagement. The two most significant cases were that of SOMIEX (Import/Export) and the BDM (Banque de Developpement du Mali). For SOMIEX, all import and export monopolies were eliminated in November 1987 and the conditions on activities open to the private sector were laid down by Departmental Instruction No. 02/MFC of February 10, 1988. The government limited its share of the BDM's capital to 20%, and in July 1989, it assigned the management of the BDM to a well-known private bank.

The remaining 15 government enterprises will be liquidated. The National Assembly passed the law on dissolving Air Mali, the airline, as of December 1, 1987. Other enterprises will be liquidated before the end of 1989.

In summary, the budget restructuring measures have met project objectives, which included not only reducing the burdens of the public sector on the economy, but also fostering the development of private sector activities to better reallocate the country's resources.

2.4 COMPUTERIZED MANAGEMENT THROUGH DATA PROCESSING SUPPORT

No in-depth study on computerization had been done when the Economic Policy Reform Program was being designed. The Program Support Agreements stipulated in very general terms that the various divisions of the Ministry of Finance and Trade (MFC) were to be computerized. Through funding prescribed by the Supplementary Agreement, a modest data processing support program was begun. The results include among other things the establishment of a training center, data processing equipment support, and technical assistance from various departments to develop some specific applications.

2.4.1 Computer Training Center

One early accomplishment of data processing support was the establishment of a computer training center at the National Department of the Treasury and Public Accounting (Direction Nationale du Trésor et de la Comptabilité Publique – DNTCP). Basic preliminary training was provided to representatives from each department. Although they were limited in numbers, the first group was nevertheless a necessary starting point for the use and development of data processing within the MFC.

A systems analysis of services was conducted under the supervision of the EPRP data processing expert. With assistance from officials, the analysts attempted to prepare an operational

description of the various applications adopted by the users to identify in detail the corresponding data processing system.

Considering the needs for some applications, data processing experts came to the site to train the Malian computer staff in understanding the software and in the use of computer equipment. Malian data processors were also sent abroad, to Bull in Paris, to be trained for some applications such as the transfer of the payroll to the DPS 6.

2.4.2 Computer Hardware

Data processing support included the supply of appropriate computer hardware to supplement or replace existing equipment that was already either obsolete or not in working condition. Data processing hardware in the first tranche included nine IBM PC/AT micro-computers with printers. A second tranche included the supply of three Compaq 386/20s. A final tranche included delivery of two Micral 60s with printers.

It was also necessary to upgrade the DPS 6 to increase its processing capacity and make it more powerful. Equipment was delivered to strengthen the micro-computer by enlarging the central memory. A fast printer was ordered to print statements as quickly as possible.

The data processing equipment was distributed according to the most urgent needs and the high-priority applications of each department. Equipment distribution is presented in Table 2.1.

Table 2.1

Distribution of Computer Equipment

	IBM-AT	Compaq 386	Micral 60	DPS 6
Budget				
Direction Nationale	2			
Bureau/Solde	2			
Impôts	1	3		
Douanes	1		2	
Affaires Economiques	2			
Contrôle Financier	1			
Trésor				Upgrade
Total	<u>9</u>	<u>3</u>	<u>2</u>	<u>Upgrade</u>

2.4.3 Technical Assistance

One of the major accomplishments made in data processing support was the technical assistance provided to the various departments. The EPRP data processing expert interviewed the various departments to analyze their needs, develop certain applications, and set up micro-computer centers in each department.

One important application transferred to the micro-computer was the Tax Register and Assessment Notices by the National Tax Office (Direction Nationale des Impôts – DNI). The DNI even asked for another program to manage the errors, an additional statement, and changes in the statements that had already been written. The new system began operating in 1989 at the Micro-Computer Center of this new department, with data processing equipment and Malian experts-analysts trained to provide data processing support under the EPRP

The most difficult application was the transfer of the payroll from the obsolete 62/60. Considering the complexity of the Rapport software, the Cobol version was ultimately adopted. This new solution involves converting all of the 54 source programs into Cobol and transferring the three basic files from the 62/60 to the DPS6. The transfer should be completed by late 1989.

The computerization process is actually much more complex and takes longer than it might seem at first glance. It is certainly not always accepted and may even be opposed by agencies involved. Despite all the difficulties and considering the limited resources, data processing support of the EPRP moved forward. The development of computerizing the various departments under the Ministry of Finance, although relatively modest, has nevertheless been accomplished. The road is now being paved to work on a more elaborate program.

SECTION 3

FUTURE PROSPECTS

The Economic Policy Reform Program (EPRP) is a joint undertaking of the Government of Mali and the Government of the United States of America. The encouraging results have been made possible by the spirit of cooperation and the mutual effort of understanding among the senior officials in the Ministry of Finance and Trade (MFC) and the officials of the U.S. Agency for International Development (USAID). Follow-up and leadership has been provided by the Program Coordination Unit (PCU). Coordination services and technical assistance has been provided by MetaMetrics Inc.

3.1 EVALUATION

Evaluation of the EPRP is a difficult and delicate task. By definition, a reform program should be judged not only by the immediate short-term results, but also by the lasting long-term effects. Besides the internal factors that are themselves difficult to assess, there are external factors of a complex nature. Finally, the combined effects of other reform and structural adjustment programs are significant.

3.1.1 Impact

An evaluation should take into account the impact of the measures to confront urgent and immediate problems such as reforms to adjust the economic structures which can only produce long-term effects. It would also be a mistake to consider as performance criteria only the results that can be quantified and to ignore the profound economic effects and externalities of reforms that are not easy to quantify. Finally, one error frequently observed is that of adopting a double standard in the evaluation. For example, a measure of reducing government intervention in the economy that is considered revolutionary in one country may be considered insufficient in another.

3.1.2 Context

Another problem in evaluating the EPRP is that of placing it in the true economic context. The program has been in the implementation phase since 1986, yet economic conditions since that time have not been stable. Mali's economic and financial prospects for 1986 and the medium-term have changed considerably since late 1985 because of the decline in world prices for cotton – Mali's major export product – which resulted in a 40% decrease in the country's foreign revenues

in 1986. A poor harvest in 1987 continued to affect the first half of 1988 and contributed later to a slowdown in economic activity.

Another important factor is that from 1982 to 1986 Mali's efforts have been supported by three successive stand-by arrangements from the International Monetary Fund. Given the problems mentioned above and the lack of adjustment measures deemed satisfactory by the IMF in 1987, the drawings that had been planned did not take place during that year and the release only came about in mid-1988. The GRM had to request a stand-by arrangement from the Fund for the period from July 1, 1988 to June 30, 1989 as well as a three-year structural adjustment facility agreement. Therefore, these are the circumstances under which the EPRP provided continuing and effective support to Mali under difficult economic crisis conditions.

3.1.3 Effect of Other Structural Adjustment Programs

It would also be worthwhile to mention that the purpose of the EPRP is to develop a positive economic environment to foster more satisfactory economic development in Mali. However, the measures recommended in this program, which should result in the creation of new jobs, the expansion of the private sector, and economic growth, are sometimes counterbalanced by adverse results of other structural adjustment programs implemented in parallel.

The World Bank has provided resources in support of an adjustment program for the government enterprise sector that has been underway in Mali since 1988 as part of a structural adjustment loan. If one considers that the public sector accounts for over 75% of economic activity, the implementation of such an ambitious program should produce an improvement in public sector efficiency in the medium- and long-term. However, initially and in the short-term, this translated into a reduction in the size of government enterprises, and subsequently, into a deterioration of economic activity and a reduction in jobs which worsened the overall job market situation.

Similarly, under the monetary stabilization programs undertaken with assistance from the International Monetary Fund, the GRM wished to observe two imposed ceilings. The first involved the budget deficit and the other involved growth in credit, which to a certain extent has contributed to thwarting the development of the private sector, for which one of the most important bottlenecks is the lack of bank financing. Hence, the effects of the EPRP should be appreciated considering all the mitigated effects that are difficult to isolate.

3.2 ACCOMPLISHMENTS

As part of international cooperation and technical assistance, the Economic Policy Reform Program has had impacts that transcend the purely economic scope.

3.2.1 EPRP Overall Performance

Of all the U.S. assistance programs to Mali, the Economic Policy Reform Program is probably the most well-known and widely appreciated one. Despite the relatively small amount of funding, the EPRP has enhanced its reputation and is considered to be just as important as other structural adjustment programs conducted by the World Bank and the International Monetary Fund in terms of the type of reforms proposed and the success of their implementation. Through this program, the United States of America has become a major partner of the Republic of Mali in its effort to ensure national economic recovery and social development.

3.2.2 Shift in Source of Economic Growth

In strict economic terms, through less government intervention in the economy and the reorganization of the public sector, from now on the private sector should be the main source of growth. All things being equal, the renewed activity in this sector will be reflected by intensified production, processing and distribution of products – especially agricultural products – and export development. In the new economic environment, growth should occur largely due to the growth of small and medium-sized businesses through an improvement in incentives and a climate more appropriate for investment. Finally, growth will be fostered through more efficient management of State finances and a better allocation of the country's resources.

3.2.3 Social Impact

The EPRP's social impact is also important. The program's realistic, practical, and human approach is commensurate with that of the country. First, the prerequisites are stringently evaluated, but the real problems are nevertheless taken into consideration. Thus, along with proposing reforms, the program supplies the means to implement them. The capital losses from tax reform are financed at the rate of 100% for the first year, 65% for the second year, and 35% for the third and final years. Budget restructuring also draws resources required for its implementation from the EPRP.

Similarly, and in practical terms, the EPRP Program provides disbursements of funds in stages that are intended for specific and strictly controlled uses. This is the case for the Voluntary Early Departure Program among others. This Program provides financial and technical assistance to the early retirees and is based on the principle of a voluntary choice made by the participants themselves.

Finally, human nature becomes apparent largely through the behavior of officials through program implementation, regular follow-up, and coordination. The officials not only have a

command of reform techniques but also have experience in developing countries as well as an understanding of human nature: aid is a goal in itself and the technique is nothing other than a way of achieving that goal.

3.2.4 Disbursements

The significant results achieved have given rise to accelerated disbursements since all prerequisites have been met. As of December 31, 1988, USAID had made seven disbursements. For 1986, the GRM received a disbursement of \$2.56 million on March 4, 1986, for the Tax Reform component. For 1987 the GRM received two disbursements for a total of \$7,555,000, including one disbursement of \$3,555,000 on May 28 for the Tax Reform component and one disbursement of \$4 million on June 27, 1987, for the Budget Restructuring component. For 1988, the GRM received four disbursements for a total amount of \$11,086,000, including one disbursement of \$880,000 on March 23, 1988, for the Budget Restructuring component, one of \$3,485,000 on June 6, 1988 for the Budget Restructuring component, one of \$2,220,00 on July 6, 1986 for the Tax Reform component, and finally, one disbursement of \$5,401,000 on December 30, 1988, \$2,199,000 of which was for the Tax Reform component, and \$3,202,000 was for the Budget Restructuring component. All disbursements scheduled as part of the program have been made.

3.3 COOPERATION

The Economic Policy Reform Program has become essential for the GRM and the GRM is requesting continuing assistance from the U.S.A.

3.3.1 American Contribution to Development

The EPRP represents what the United States of America is most qualified to offer. It fully meets the American ideal in the belief that progress is possible and that America can contribute to progress throughout the world, and particularly in the developing world. This progress can be made through a liberal economy, based on market mechanisms that foster private sector growth with the development of free enterprise and individual initiative. The neoclassic liberalism that has become the dominant doctrine in the Eighties suggests that the main impetus for development can be found only in market forces, and all international development institutions have generally agreed with this concept.

3.3.2 Development Model

The experience of the Southeast Asian countries, especially Hong Kong, Singapore, Taiwan, and South Korea which have achieved the most significant results, has confirmed the effectiveness of development models that call for less government intervention in the economy, developing the production sector, exports, and free trade. All of these countries began with economic reform measures that established an economic environment favorable for the development of the private sector, a better allocation of government resources, and the promotion of economic liberalism similar to those proposed under the EPRP.

3.3.3 Development Trends

A recent report prepared by the World Bank and the United Nations Development Program on the performance of African countries presents significant findings. According to this report, if sub-Saharan Africa were divided into several large groups of countries, the economic crisis seems less serious and the way toward recovery more obvious and more practicable. For those countries that adopted serious economic and structural adjustment programs in the period 1980-1984, the growth rate of the Gross Domestic Product is 3.8% compared with the previous rate of 1.2%. This can also be compared with the growth rate of 1.5% for those countries that did not adopt similar programs in that earlier time period. Mali, where the EPRP was initiated in 1986, is included in a group of countries that adopted no reform programs or did so only belatedly, including Benin, Burkina Faso, Ethiopia, Liberia, Sierra Leone, Somalia, Sudan, Zambia, and Zimbabwe. Economic policy can be the explanation for the difference in growth rates. The indications are that good economic reform programs will pay off in the long run.

The contribution of the Economic Policy Reform Program is therefore highly significant for several reasons. First, it provides a basis for close cooperation between the United States of America and the Republic of Mali for economic recovery in Mali through economic reforms that are deemed necessary. Moreover, the impact of this well-designed program is not demonstrated solely by the amount of funding the United States has given to Mali, but also by the positive effect it has in the Government of the Republic of Mali's negotiations with the international organizations and in the context of its bilateral economic agreements with other countries. Finally, for the United States of America, success in the implementation of the EPRP can provide a model of appropriate assistance for certain African countries in the region as a desirable approach for other nations of the Third World.