

PD-AAW-560
52703

MID-TERM EVALUATION OF MALI'S ECONOMIC POLICY REFORM PROGRAM
(688-0240)

July 1987

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EXECUTIVE SUMMARY

Program Summary

Mali's Economic Policy Reform Program (EPRP) supports fiscal and budgetary reform measures to create a policy environment conducive to private sector development and to reduce the burden of the public sector on the national economy. EPRP was authorized in September 1985 for \$18 million with a program completion date of December 1988. This mid-term evaluation takes place after twenty months of implementation and examines the performance and progress of the program.

EPRP's fiscal reform measures include: a) rate reductions for business payroll taxes and taxes on business profits, b) increases in administratively determined values for customs valuation of certain imported commodities, c) enactment of a new Commercial Code, d) price decontrol of selected consumer items and e) general improvements in the administrative efficiency of GRM directorates responsible for tax assessment, enforcement and collection. The budgetary reform component includes: a) computerization of the GRM's payroll, b) adoption of a new classification system for the national budget covering revenues and expenditures, c) implementation of a program to support voluntary early retirement by civil servants, d) reduction of new hiring into the civil service, e) reallocation of expenditures to increase non-personnel spending relative to personnel expenditures, and f) initiation of a plan for privatizing state enterprises. EPRP also supports computerization of administrative operations in the Ministry of Finance and Commerce (MFC) and the implementation of the Voluntary Early Departure program (VED) as part of the budgetary re-structuring component.

Considerable progress has been made during the first twenty months of EPRP toward enacting the preceding reform measures. Three of five tranches, amounting to \$10,115,000 of the \$16,700,000 available for the program, have been released on the basis of adequate, and in some instances, more than adequate compliance for disbursement. One exception where progress has not been made is in initiating a privatization plan; however, there is sufficient time remaining in EPRP for the GRM to comply with this condition. In short, the GRM is very likely to meet the conditions for disbursement attached to the two remaining tranches by the PACD.

It is too soon to assess the economic impact of the reforms made thus far. However, the progress made in implementing EPRP's reform package demonstrates the GRM's commitment to the policy reform process. Of major significance is the positive change in the GRM's perspective about the role of the private sector in Mali's future development. EPRP has also facilitated policy discussions between the GRM and A.I.D. Based on the performance and merits of the program, the evaluation recommends a follow-on to EPRP.

Evaluation Results

Current economic conditions in Mali encourage the enactment of EPRP reform measures to reduce government expenditures (hiring ceilings and the VED program) and to increase revenues (higher customs valuations, better tax and customs enforcement). In contrast, these same conditions make more difficult the enactment of reforms which reduce government revenues - i.e., tax cuts - designed to stimulate private sector development. The GRM's commitment to EPRP is evident in its willingness to enact the later category of reforms despite the economic difficulties it confronts.

Progress has been made in budget restructuring through major cuts in government hiring and through the start-up of the VED program. In purely budgetary terms, imposition of hiring ceilings obviously produces greater savings for the government than the VED program. However, reduced hiring entails major political costs which are partially offset by the VED. The rate on increased personnel spending has been slowed, though it continues to grow in absolute terms. Available data suggest that non-personnel expenditures have increased marginally, but accurate measurement of this change is not currently possible due to the inadequacies of the data. Greater emphasis on further hiring reductions is recommended. The Ministry of Finance and Commerce also needs to improve payroll and personnel data so the effects of reforms can be assessed accurately.

Progress has also been made on efforts to increase revenues through: a) raising the administratively determined values of selected imported commodities to close the gap with actual market values, b) strengthening customs enforcement, and c) improving tax collection. Results of efforts to improve tax enforcement are unclear at this time, though there is some indication of recent gains in this area. Further increases in customs evaluations and better information reporting are recommended.

Fiscal reforms to encourage private sector development have been enacted through reduction of the business payroll and profit taxes. Revenues have fallen as a result of the payroll tax rate reduction, but it is too soon to determine the effects of reducing the profits tax rate. Customs reforms were also enacted to remove the bias against domestic manufacturing operations by eliminating instances where duty rates on imported items exceeds the duty rate on the final output. Rates have been adjusted on 102 items with a three percent loss in total custom revenues. Sales tax (IAS) rates have also been adjusted to equalize duty rates imposed on locally manufactured goods with those on imported goods. Clearly, a number of changes have been made, but it is too soon to assess the effects they are having or will have on private sector development. Further tax and customs adjustments and more intensive communication of reforms to business operators is recommended. Work on developing a plan for simplifying and modifying the tax structure is also recommended.

A new Commercial Code was enacted in January 1987 which eliminated the cumbersome process for business registration (agreement). The profit margin allowed on selected consumer items was increased in September 1986. The effects these reforms will have on business activity cannot yet be determined. Special studies to obtain information on the effects of these reforms are recommended.

The VED program started in July 1987 with an initial group of 212 participants. The program is approximately one year behind schedule due to the unexpected amount of time required for the GRM to comply with the conditions for the first budgetary tranche. The effect this has for program management is to delay availability of information on the performance of VED lending activities and the progress/success of the participants. A thorough study of the first group of VED participants in April 1988 is recommended. Decisions about full implementation of the program and additional funding should take into account this data when it becomes available.

Initiation of a privatization plan has been problematic. The condition was postponed to the second budgetary tranche. It had been assumed that the GRM and the World Bank would reach agreement on a major privatization project, and EPRP would support a small part of the overall effort. No agreement on privatization has been reached and privatization remains an open issue at this time. The evaluation recommends that the condition be kept part of EPRP's package. If satisfactory progress is not made, funds linked to privatization should be re-programmed within EPRP or de-obligated.

Exchange rate changes have affected the CFA funding of EPRP. The mission has requested additional funds to compensate for the depreciation of the U.S. dollar. There is some misunderstanding between the GRM and A.I.D. concerning the content of the program agreement. GRM officials argue that the agreement stipulates levels of activity and CFA funding A.I.D. is to provide. This is incorrect - funding for EPRP is established as US\$18 million. Levels of activity and percentages of revenue shortfall A.I.D. will cover are only indicative planning targets. Additional funding for EPRP should be based on the merits of the program and its performance to date. The evaluation recommends clarifying the misunderstanding about funding, and re-assessing VED funding requirements as data from the first group become available.

The computerization component of EPRP is potentially a very important improvement for the MFC to develop its information processing capabilities. Better fiscal and budgetary data can also strengthen the position of the MFC vis-a-vis other line ministries in the GRM's decision making process. Due to contracting delays, the computerization specialist arrived on-site in August 1986 - six months later than planned. Progress to date has been very good, particularly in light of bureaucratic resistance from certain quarters of the MFC. Much remains to be done and additional staff and technical assistance are needed. A number of specific actions to advance computerization and make use of the resulting information are recommended (section 4.3). Extending the computerization assistance from the long term advisor to the end of EPRP and supporting further improvement of MFC information systems in any follow-on activity is recommended.

EPRP has been far more staff intensive than initially expected. If EPRP is representative of economic policy reform programs, then these programs are not a means of reducing management requirements for A.I.D. The mission is to be commended for responding to the management demands of EPRP and remaining on top of the implementation process. Likewise, the MFC has provided excellent support and staffing for EPRP. The program has also benefited from sound technical assistance, especially from the interim program coordinator and the current computerization specialist. A well-qualified program coordination advisor (replacing the interim advisor) has recently begun work and should help maintain the pace of implementation. It is recommended that the mission proceed as quickly as possible to hire a program manager, the MFC assign an assistant to work with the budgetary re-structuring specialist in the PCU, the contractor resolve administrative support problems, and the program coordination advisor focus more on the substantive and analytic aspects of EPRP.

Additional information is needed for monitoring implementation and evaluating the economic effects of the reform measures. Revenue data need to be reported in a less aggregated form to separate regular payments from back taxes and fines. Revenue collections disaggregated by business tax rate categories are also needed. The PCU should assist Taxes, Treasury and Customs to develop these reporting formats. The evaluation also recommends that EPRP support studies on the following topics: a) experience of the first VED group; b) private sector response to price decontrol, business tax and customs reforms; c) private sector growth under the new business registration system; d) options for administrative simplification of tax and customs rates; and e) additional tax and customs reforms to stimulate private sector development.

In summary, the evaluation report is very positive with regard to the progress EPRP has made, to program management and to the potential economic impact of the reform process that has been initiated. Future assistance should be provided to support additional fiscal reforms and simplification of the tax system designed to stimulate private sector development. Additional assistance to strengthen the MFC's information capabilities is also recommended.

1. Program Summary

1.1 Program Objectives

Mali's Economic Policy Reform Program (EPRP) is one of a number of USAID funded policy reform programs currently underway in the Africa Region. EPRP supports the efforts of the Government of the Republic of Mali (GRM) to create a policy environment conducive to private sector development and overall economic growth, and to reduce the costs of the public sector to the national economy. EPRP was authorized in September 1985 with total funding of \$18 million. The principal grant agreement of \$16.7 million is disbursed through five tranches tied to the enactment of fiscal and budgetary reforms. A complementary grant agreement provides \$1.3 million for technical assistance, commodities and funding for the Program Coordination Unit (PCU). A limited scope agreement added \$962,000 of additional funding for technical assistance with program management and computerization. The present Program Approval Completion Date (PACD) is December 1988.

The reform package supported by EPRP contains both fiscal and budgetary reforms. The principal fiscal reforms measures include: a) rate reductions for business payroll taxes and taxes on business profits, b) increases in administratively determined values for customs valuation of certain imported commodities, c) enactment of a new Commercial Code, d) price decontrol of selected consumer items, and e) general improvements in the administrative efficiency of GRM directorates responsible for tax assessment, enforcement and collections. Budgetary reforms include: a) computerization of the the GRM's payroll, b) adoption of a new classification system for the national budget, c) implementation of a program to support voluntary early retirement by civil servants, d) reduction of government hiring, e) reallocation of expenditures to increase non-personnel spending relative to personnel expenditures, and f) initiation of a plan for privatizing state enterprises.

To implement several of the reform measures and to institutionalize administrative improvements, EPRP supports two project-like activities. One of these activities is the computerization of key Ministry of Finance and Commerce (MFC) data collection and management operations (e.g., the payroll, tax records, customs assessments and collections, business registrations). Some equipment, technical assistance and training are provided.

The second activity is the Voluntary Early Retirement (VED) program. EPRP supported the design and implementation of VED and disbursements tied to enactment of budgetary reforms generate local currency used for severance payments and to capitalize VED lending activities. This includes a loan guarantee fund and a study fund for program participants.

These funds are deposited and managed by local banks. Administrative responsibilities of EPRP's Program Coordination Unit (PCU) include selection of program participants, initial review of project proposals, approval of release of funds for feasibility studies to assess and refine these proposals, monitoring bank lending activities, and tracking the subsequent progress of participants.

1.2 Implementation Progress as of the Mid-Term Evaluation - July 1987.

This mid-term evaluation of Mali's EPRP constitutes the first assessment AID has made of its economic policy reform programs during the course of their implementation (distinguishing these programs from PL-480 or CIPs which support other reform measures). Consequently, there is no fair basis of comparison for judging the rate of EPRP's implementation. But in comparison to standard project modes of assistance, EPRP's implementation has been remarkably smooth and rapid. Considerable progress has been made during the first twenty months of EPRP toward enacting the reform package. Three of five tranches, amounting to \$10,115,000 of the \$16,700,000 available for the program, have been released on the basis of adequate, and in some instances, more than adequate compliance for disbursement. There is every reason to believe that the GRM will comply with the conditions attached to the two remaining tranches by the PACD.

As of July 1987, the following reform measures have been enacted: a halving of the payroll tax rate, a five percentage point reduction in the maximum business profits tax and a reduction from one to three quarters of a percent for the minimum profits tax, an average increase of seventeen percent in the administratively determined values for customs assessment purposes for 109 items, price decontrol of selected consumer items, enactment of the new Commercial Code, complete computerization of the payroll, a substantial reduction in hiring for the civil service, targetting of probable increases in the proportion of non-personnel expenditures in total government expenditures, and planning and implementation of the VED with establishment of associated loan and feasibility study funds. One area where progress has not been made is in initiating a plan to privatize state enterprises (this issue is discussed in section 2.X). Another important area where progress has been very limited is improving administrative efficiency - either the improvements have not yet occurred or data which verify that efforts have been made to achieve these improvements are lacking.

In contrast, the project-like activities of EPRP - the computerization component and the VED program - are behind schedule and program management will have to direct additional attention and resources to these activities during the remaining eighteen months of EPRP. The technical assistance contract was not signed until August 1986, some eight months later than

planned, which delayed the arrival of the computerization specialist by almost six months. Similarly, meeting the conditions for the first budgetary tranche also took longer than the original design had anticipated, slowing the VED program by approximately one year. In all fairness, however, the delays encountered with these activities have resulted from the standard problems which affect most projects - contracting, selection of technical advisors, commodity procurement - as well as the administrative "molasses" of Agency regulations. Moreover, it was probably unrealistic to have expected implementation of these activities to have moved as fast as would have been necessary if they were to have held to the original schedule of the program.

1.3 Overall Accomplishments and Significance of EPRP

After twenty months of implementation, it is still entirely too soon to assess the direct and indirect effects of EPRP reform measures on the national economy or on private sector development. Section Two of this report discusses the potential impact the reforms might have on Mali's economy in the future and examines the short-term gains which appear to have been made in public sector finances. At this point in the program, it is very difficult to determine the importance of EPRP's fiscal and budgetary reforms to the long-term economic development of Mali, or the soundness of underlying design decisions and assumptions. For example, a comparison of the VED program versus simply reducing government hiring as alternative means for lowering government expenditures suggests that perhaps more cost effective approaches might have been possible to achieve budgetary restructuring. Similarly, different design decisions, such as the relative importance given to fiscal versus budgetary components, might have produced greater long-term economic benefits for Mali. If A.I.D. does not provide additional funding for further reform measures, particularly in the fiscal policy area, the ultimate impact of EPRP is also questionable.

Though it is premature to evaluate the economic impact of EPRP at this time, a number of significant consequences of the program should be recognized. Overall, EPRP has successfully initiated the process of policy reform in several important areas. The program has enabled the Malians to experiment with reform measures, seeing that changes can be made gradually without serious economic disruptions or adverse political reactions. Regarding fiscal reform, for example, Malian officials reported that they were aware of the need to revise business taxes; EPRP finances allowed them to do so by offsetting the short-term loss in revenues. Similarly, the VED program has considerable political importance to the GRM and has even attracted the attention of the President and Prime Minister. The ability of the GRM to provide resources for those voluntarily leaving government service gives credibility to the GRM's concern about the future of these people. VED might also contribute to small scale enterprise development in Mali.

More important, fiscal reforms to stimulate private sector development, a government program to encourage civil servants to become self-employed in business, and decreasing government hiring give a very clear signal to the general public about a fundamental change in the government's orientation toward future growth. In contrast to the past twenty years of a public sector driven approach to development, EPRP and similar structural adjustment programs represent a major re-direction away from extremely heavy dependence on the government to viewing private sector growth as the means for employment generation, export earnings and overall economic development. In relation to the number and magnitude of reforms which need to be made to promote more fully private sector growth, EPRP reforms are comparatively minor, but their greater significance is advancing the reform process.

A second major consequence of EPRP pertains to the USAID program specifically and the U.S. presence in Mali more generally. The mission fully recognizes that beyond the specific outputs and effects produced by EPRP, the program has considerable strategic value in gaining access to GRM decision makers and participating to a greater extent in the decision making process than would have been the case without EPRP. In sharp contrast to so many other donor funded activities which receive only marginal support from the host country, the high level of interest and commitment to EPRP by the GRM has established a superior working relationship between mission staff and their counterparts. Moreover, this is a high visibility program, as noted above, being monitored at the most senior levels of the GRM. The credibility of the U.S. presence in Mali undoubtedly benefits from this level of recognition.

2. Economic Review of EPRP

2.1 Economic Context

In comparison to the overall flow of assistance to Mali, EPRP is a relatively modest effort and should be assessed in the context of other donor support for economic policy reform. EPRP's support for restructuring the budget and strengthening revenue collections are related to IMF standby requirements. EPRP's promotion of the private sector reflects a major development objective of the mission and the Agency and is consistent with policy reform measures supported by A.I.D. and other donors to reduce government intervention in agricultural production and marketing. EPRP's reform package is also supportive of the World Bank's current objectives of rationalizing and reducing the size of the public enterprise sector. In the broader context of Mali's policy environment, the success or failure of each element increases or decreases the effectiveness of the others.

As of July 1987, the implementation of the IMF and World Bank programs has unfortunately either slowed or stopped. Mali has not complied with IMF requirements since late 1986. However, the Ministry of Finance has indicated that it plans to invite an IMF mission to come to Bamako this summer. Even if talks begin soon, it will be very difficult to come to an agreement quickly, given Mali's public sector deficit.

In the area of privatization of the public enterprise sector, the World Bank has not yet succeeded in obtaining GRM approval of its ambitious program. The government fears increased unemployment as a consequence of privatization, especially given the GRM's new policy of hiring fewer graduates for the civil service. Apparently, the GRM would also like certain enterprises maintained in the public sector and co-managed with selected foreign governments. Whether a compromise can be reached is unclear.

Recent growth of the economy has both improved the standard of living and created certain financial problems. The heavy rains in 1985-1986 and 1986-87 seasons produced record crops, resulting in a real GNP increase, according to the IMF, of 10% in 1986. The outlook for growth this year depends again on rainfall and on the availability of foreign exchange. The GRM's inability to curb the growing public sector deficit is a serious problem. Aside from the increasing foreign debt service, a major factor contributing to the problem is the GRM's desire to placate government employees with higher wages and fringe benefits and to give the farmers supplementary income in the face of low world and domestic prices for their output.

Externally, low world market cotton prices combined with increased payments of principal and interest to the IMF have led to a foreign exchange shortage and lower imports this year. The Central Bank of the West African States has continued to service the IMF debt but since the Malian sinking fund (Caisse Autonome d'Amortissement) lacks the CFA francs, the transfer is charged to an increase of the Bank's loan to Mali's treasury. As a result, Mali has overdrawn its borrowing facility from the Bank.

Reduced export cotton sales has increased domestic inventories that. The BCEAO reports that this has expanded credit and contributed to a loss of government revenue. The GRM's grain marketing board's policy of buying grain above the market price has had similar effects. With respect to the budget proper, in spite of a substantial revenue increase in 1986, the cash deficit widened and arrears increased. Spending on personnel (more than 60% of total expenditures) increased about 10% (perhaps more depending on the level of salary arrears). No more than half of this increase is attributable to in-step salary raises (postponed from 1985), and by limited hiring. The GRM apparently tried, at least in part, to make up for the earlier wage freeze. With the exception of scholarship assistance, all other budgetary expenditures rose by 10% or more.

Limited evidence suggests that Mali's economic problems have at least not worsened in 1987. World cotton prices have stopped falling and have even risen somewhat. Cotton stocks should decrease gradually this year. Barring another year of exceptional rainfall, surplus grain inventories should also decrease. Tight control over credit by the Central Bank is reducing import demand. These changes should reduce credit outstanding, thereby facilitating negotiations with the IMF on this issue.

In short, the economic situation as of mid-1987 favors some parts of the EPRP program, but works against other elements. Current economic conditions encourage enactment of EPRP reforms which improve budget performance - i.e., restraints on hiring, the VED program, increased customs valuations and better enforcement of tax and customs collections. The same conditions impede or make more difficult enacting reforms which reduce revenues by lowering tax rates - i.e., the payroll tax, the BIC reductions, the lowering of the IAS on certain domestic products, the loss of customs revenue involved in restructuring tariffs and the privatization program. A third set of reforms - price liberalization and the reform of the commercial code - are largely unaffected. To its credit, the GRM continued to make the tax and customs rate reductions in 1987 despite a deterioration of its financial situation. But the halt in the World Bank's proposed privatization project reflects, among other things, the GRM's concern about increasing unemployment.

Overall, EPRP's institutional reforms designed to promote private sector growth are hindered by tight credit, by the shortage of foreign exchange, and by the longer-term uncertainty about the GRM's fiscal and budgetary policy in the absence of an agreement with the IMF. An agreement with the Fund would provide immediate balance-of-payments relief and probably persuade the World Bank and possibly other donors, particularly France to provide similar assistance.

If agreement with the Fund is not reached by the beginning of 1988, EPRP reforms that involve revenue loss will become more difficult to implement. On the other hand, the failure to reduce the large public sector is not necessarily fatal for private sector growth if other conditions are favorable. Therefore, an IMF agreement is more important for private sector growth than the GRM reaching agreement with the World Bank on privatization. With an IMF agreement in place, growth in the private sector should increase, making it easier to assess some of EPRP's effects.

2.2 Budget Restructuring

EPRP's two major objectives in budget restructuring are a) to reduce the rate of increase of personnel expenditures by gradually reducing the rate of growth of the work force, and b) to use the savings thus obtained to increase spending on maintenance and materials (e.g., operating supplies, office equipment, vehicles) that have been insufficient in the past. Progress in budget restructuring was to be measured by the change in the ratio of personnel to maintenance spending. Personnel expenditures are to be reduced through the Voluntary Early Departure (VED) program for civil servants and a reduction in the rate of hiring of new employees.

A) The Voluntary Early Departure Program (VED)

The VED program is designed to encourage civil servants to leave government employment and to help them enter the private sector. An initial target of 600 participants was suggested for the program. Incentives for VED participants include: a) severance pay, b) a loan for a feasibility study to support credit requests, c) a guarantee fund to induce commercial banks to lend to participants for business ventures, and d) payment of retirement fund contributions for participants with 5-15 years of government service.

The first 212 participants selected at the beginning of July 1987 were drawn from the three civil service grades - upper, middle and lower. Since the number of applicants exceeded available funding, more junior level applicants to the program were given preference. The mission's program economist estimated that the average ratio of severance pay to base salaries is about 5 to 1 for all categories. The average number of years left to retirement is about 15.

The study and guarantee fund are not designed to be used by all participants. Those that obtain bank credits will have to repay 50% of the cost of their feasibility studies. The fund will pay the full cost for those that do not receive loans. Therefore, the feasibility fund will have at most 50% of its initial resources for the next group of VED participants in 1988. How much of the guarantee fund will be used depends on loan losses which will not be known for a number of years.

The cost benefit ratio for the first VED group (with benefits defined primarily as budgetary savings, and with benefits and costs expressed in constant price terms and discounted at 10%) was recently recalculated by the mission's program economist as between 1.12 and 1.33, depending on whether real wages are projected to grow 0% or 3% per annum. The internal rate of return is estimated to be between 12% and 20%. Given A.I.D.'s commitment to the program, it is reassuring to know that the benefit/cost ratio is positive even though smaller than originally estimated. However, a twenty year projection can only be considered indicative at best.

Incentives were clearly adequate to draw enough candidates for the first group. There were 352 who met basic selection criteria from an even larger number who applied. They were divided by civil service categories as follows: Upper - 67, Middle - 209, and Lower - 89. According to recent payroll statistics, the GRM has 40,000-50,000 employees, most of whom are potential VED participants. (The Mission believes that the lower figure of 40,000 employees is a more accurate estimate of the number of employees though reliable data are lacking at this time.)

b. Ceiling on GRM Hiring

Prior to 1983, the GRM's policy was to hire all graduates of secondary schools and universities. Beginning in 1983, the number hired was gradually decreased. Reduced hiring resulted from the IMF stand-by agreement that placed a financial ceiling on the annual recruitment budget. EPRP reinforced this limit by establishing a parallel numerical ceiling. Prior to EPRP, the recruitment budget in 1985 was one billion francs and the number hired was 1857. In 1986, the numbers were 750 million and 1138 respectively; in 1987, they are 500 million and 746. For 1988, the planning figures are 350 million and 350-500, the latter depending on the mix of civil service grades. Using 1985 as the base year, the cumulative reduction from 1986 to 1988 is about 3000, making some allowance for temporary contractual workers for whom reliable statistics are lacking. The most recent mission estimate indicates that the budgetary saving in constant price terms, and discounted at 10%, would be 7.1 billion francs compared 1.1 billion for the first 212 departures under the VED program, or over three billion francs if the target of 600 is reached. By projecting over a thirty year period and discounting at 10%, the VED program appears to generate greater budgetary savings per capita. But what happens over the next five years

with actual implementation of the program should provide more realistic or accurate estimates. Every year the hiring ceiling is kept at the 1986 level results in 1000 fewer civil servants in the GRM's permanent workforce. In comparison to a maximum of 400 VED participants annually, the hiring ceiling appears to be a more powerful restructuring instrument.

Even though the GRM is technically not bound by the IMF commitment, the government has continued to reduce its annual recruitment budget. The reductions have been larger than envisioned at the outset of EPRP and there seems to be considerable interest in using the limit as a management tool to determine what the real personnel needs of the government are. For example, neither the numerical hiring ceiling nor the recruitment budget for this past year were reached apparently because of insufficient demand from government departments.

c. Maintenance and Materiel Expenditures

Maintenance expenditures include a broad range of items - from buildings to pencils. However, reported expenditures do not necessarily reflect actual procurement. Authorized expenditure exceeded actual payments in 1985 and 1986, according to information received from the Ministry of Finance and Commerce (MFC). Other sources indicate that unauthorized procurement orders in unknown amounts have been issued and, in some cases, honored. Finally, it cannot be determined whether the annual increase in maintenance expenditures are mainly for new activities or for better across the board resource allocations.

The information on budget disbursements for the 1985-87 period is summarized in the table below. The maintenance line in parenthesis reflects expenditures approved for disbursement by the MFC controller. The difference between that and spending, other than a small lag, is the change in arrears.

(in billions of CFA francs)

| ITEM | (*)b 1985 | (%) CHANGE | (*) 1986 | (%) CHANGE | ** 1987 |
|-------------------|--------------|---------------|-------------|---------------|-------------|
| Personnel | 39.0 | (10) | 42.8 | (4) | 44.7 |
| of which salaries | <u>35.9</u> | (7) | <u>38.5</u> | (4) | <u>40.2</u> |
| scholarship | 3.3 | | 3.4 | | 3.4 |
| maintenance | 10.0 | (14) | 11.4 | (18) | 13.4 |
| (") | (11.6) | (3) | 12.0 | | n.a. |
| Other | 3.7 | | 3.8 | | 5.1 |
| Equipment | 2.2 | | 2.5 | | 3.7 |
| Total | 58.3 | (10) | 63.9 | (10) | 70.3 |

* actual ** forecast

Source: Direction du Tresor-Execution du budget-1986 for columns 1 and 2 and Execution du budget-1987 for column 3

These are spending figures; therefore, they only approximate actual activity in each category. The difference between total spending on personnel and salaries is allowances, travel money and other benefits. To the extent that arrears accumulate, the data underestimate spending, whereas if arrears are drawn down, the data overestimate spending. In the case of maintenance spending, payment orders approved by the Contoller (which are then sent on to the Treasury for payment) were greater than actual payments, which indicates that payment arrears for procurement, authorized in the budget, increased in 1985 and 1986. In addition, the IMF reports "extra-budgetary payments" of almost six billion francs in 1986, some of which were apparently used to pay bills from unauthorized maintenance procurement.

Progress has been made toward slowing the rate of growth of the work force, but in absolute terms, personnel expenditures continue to increase. Data indicate that the hiring rate in 1987 is only slightly higher than the normal rate of retirement and separations, i.e., about 600-700 per year. Adding the 212 participants of the VED program should, in principle, reduce the number of paid personnel. It must be emphasized that neither the personnel register of the Civil Service Bureau nor the records of the Central Pay Bureau are sufficiently reliable to confirm this. Personnel spending grew 10% in 1986, almost twice as fast as in-step increases and personnel hiring would suggest. Moreover, spending is an unreliable measure of actual salaries owed because payments are usually in arrears.

The maintenance goal cannot be assessed because there is no baseline measure of the situation at the outset of the program and because estimating the trend since 1985 varies according to which data are used. For example, the preceding budget table indicates a rise of either 14% or 3% between 1985 and 1986.

Given the uncertainty of the data, trying to compare personnel to non-personnel expenditure is not a very productive exercise and may in fact divert attention from what should be examined, i.e., what is really happening to the work force and how that relates to the salary expenditures. A priority should be to establish accurately how many people are being paid and determine the distribution of civil service versus contractual personnel. There are indications that contractual hiring may be increasing. Next, salary and fringe benefit policies need to be examined. Reliable measures of total salary arrears and changes in salary arrears are also needed. By eliminating unauthorized procurement and measuring salary arrears, the maintenance issue could be better understood.

Conclusions

Of the two instruments used to attack the personnel problem, the control over hiring has by far been the most effective. The reduction from the 1985 level was much greater than initially projected and the savings should be correspondingly larger for the period 1986-88. Even if the Malian government were to reverse policy and return to 1985 hiring practices, the rise would take place from a lower level.

The VED involves far fewer personnel, and even if the proposed target of 600 is reached, its effect on personnel strength is only 20% of that of the hiring ceiling and for the same reason, much more easily reversed. As a means to restructure the budget it has, therefore, far less to commend it.

A cost in terms of aid transfers has been attached to VED but not to the hiring ceiling. Obviously they are related in two ways: a) the hiring ceiling is necessary as a safeguard against bringing in replacements for VED departures and b) the VED program serves in part as an incentive to comply with the hiring ceiling. Therefore, some of the VED cost should be attributed to the hiring ceiling. The difficulty is how to do this, particularly in light of other factors which encourage the GRM to restrict hiring, such as its IMF repayment obligations and the GRM's own objective of encouraging graduates to enter the private sector.

Finally, there is no necessary linkage between a deceleration of personnel growth and an improvement in maintenance expenditures even if both could be measured accurately. The GRM could choose to use personnel savings to increase compensation for its employees, spending more in other budget categories, or to increase spending on maintenance faster than on personnel by the undesirable policy of running a deficit. Even the existence of an IMF program is no guarantee against this happening. EPRP objectives would be more effective, therefore, if the issues of personnel and maintenance expenditures were treated as two separate issues, each with its own policy objectives and information requirements.

Recommendations

1. During the remaining eighteen months of EPRP, more attention should be given to a further lowering of the hiring ceiling
2. The request to increase VED funding needs to be justified, among other things, on its value as an incentive to further reduce hiring.

3. To assess the effects of both VED and the hiring ceiling on the work force, a more concerted effort is needed to improve personnel and pay roll data (See Section 5.4).

4. Improving the maintenance and supplies component of government operations in general, as distinct from particular ministries or their sub-units, is not feasible for EPRP at this time. Therefore, the ratio of maintenance to personnel spending as an indicator of progress should be de-emphasized until the PCU, working with the MFC, can improve basic budgetary data.

d. New Budget Nomenclature

The introduction of a new budget nomenclature was a UNDP idea. EPRP's support has given it greater standing with the authorities. Its application has been resisted for the same reason its proponents want to put it into effect - i.e., it provides a much finer breakdown of each functional category (personnel, maintenance, etc.) and details expenditures within each ministry. The information it provides becomes a threat to those that divert funds or simply prefer the flexibility of the old system.

At the beginning of 1987, under pressure from the Minister of Finance, ministry departments were told that they would not be able to spend their appropriations unless they conformed to the new nomenclature categories. The system is now being applied to maintenance spending. Personnel spending will not be fully covered until the next budget year.

Conclusions

Like personnel registers and proper pay records, the complete introduction of the new system will take a long time; however, it is essential to improving financial management.

Recommendations

The CPU, the program coordination advisor and budgetary restructuring experts should follow closely the implementation of the nomenclature system and support the efforts of the MFC to have it fully implemented.

2.3 Revenue Increases

Revenue increases are to be achieved by raising Customs' administratively assessed values on imports (thereby decreasing the difference between assessed values and actual market prices), and by better enforcement and collections of both customs duties and taxes.

2.3.1 Increasing assessed values.

The Malian Customs Service uses administratively determined values (as opposed to market values) for about 80% of imported products. In many cases, the assessments are well below current market prices.

This system was developed apparently to reduce the impact of foreign price rises on ad valorem customs duties and taxes. Instead of reducing rates, assessed values were manipulated. The gap that developed between assessed and real values made this an easy way to raise revenue to offset losses resulting from other policy reform measures.

In 1985 and through August 1986, in three separate orders, the Customs raised average assessed values on the items affected by a cumulative 17%. Customs estimates that these measures produced 776 million francs of additional revenue in 1986 or about 7% of import duties. Another increase is planned for 1987 which is to expect to generate an additional 600-700 millions francs. In principle, these increases will continue until assessed values are brought up to market levels. At the end of 1986, many of the items whose value had been raised were still being priced 40-60% below their actual market values.

So far Customs seems to have avoided raising assessed values on products where it has lowered tariffs in the restructuring exercise. (See section 2.4)

2.3.2 Improving Customs Collections

In a recent report to PCU, Customs cites a number of actions designed to improve collections, such as the establishment of a container depot on the railroad from Dakar, increased verifications, a reexamination of special regimes which permit freedom from normal controls, etc..

Customs carries out two kinds of enforcement activities. One is a post facto examination of rates and values of goods that have already passed through inspection. As a result, in 1986, it sent out billings of a billion francs more than in 1985, collecting about half, the equivalent of 5% of duty income. The other is the seizure of smuggled goods and their sale. Receipts from this activity rose about 20%, equal to less than 1% of duties collected.

2.3.3 Improving Tax Collections

The measures taken by the Tax Bureau and presumably the Treasury section of the Ministry of Finance (which is responsible for the collection of direct taxes) seem mostly of a formal, organizational nature. The references in their report are to tax notices (emissions), not to collections which are lumped into the data covering the regular collection of each tax. The line in the budget receipts table - "fines (penalties) on direct and indirect taxes" - falls from 422 million francs in 1985 to 239 million in 1986, while revenue from direct and indirect taxes rose 16%.

Conclusions:

The adjustment of administratively assessed customs values appears to have been successful in producing increased revenues. However, the 1987 proposal seems to be running into resistance. There are indications that customs enforcement improved in 1986 but levelled off early this year. With respect to internal revenue, there is no indication that exceptional enforcement activity took place last year. But tax collection data for the first quarter of 1987 and anecdotal evidence suggest somewhat better performance.

Recommendations

1. EPRP should continue to support the upward movement of administratively determined customs assessments toward market prices, recognizing that the speed of adjustment is limited by the depressed state of the private sector.
2. EPRP should work on the development of an information system which allows enforcement action to be traced through the Direction des Impots and the Direction du Tresor prior to the release of the last fiscal component tranche.
3. Further computerization of Impots and Tresor, to the extent it is not connected to the transfer of the payroll to the Treasury computer, should be linked to the recommendations of the Journee Report.

2.4 Measures to Promote the Private Sector

EPRP reforms support private sector development by: a) reducing the tax burden, particularly at the margin, b) making the application of both taxes and customs more neutral in their effects on economic activity, and c) reducing government intervention in private business decision making.

2.4.1 Fiscal Measures

A) Reduced Internal Tax Rates

In accordance with EPRP conditions, the 15% rate of the payroll tax (contribution forfaitaire) was reduced to 7.5%, effective 1/1/86. In 1987, the three tax rates on business profits (B.I.C) were reduced from 50 to 45% on corporations, 30 to 25% on unincorporated enterprises and 1% to 0.75% on companies whose turnover fell below certain levels. Since the BIC is based on prior year results, it will apply first to 1986 returns. Given the lags in returns and collections, reliable data to assess the effects of these changes are not yet available. However, a nominal decline in receipts is projected.

With respect to the payroll tax, taking into account the lag between assessments at the new rates and payments in 1986, and the estimated rise in nominal GNP in 1986 and 1987, it would appear that collections are running at about half the expected level in 1987 that they would have been had the 15% rate remained in effect. There seems to have been no discernable effect on payrolls reported or paid. Having receipts fall in proportion to the rate reduction is corroborated by the opposite experience of five years ago when the rate was raised from 5% to 15% and revenues tripled shortly thereafter. Interviews with private employers, indicate that the change in the payroll tax, in and of itself, has not motivated them to increase employment. A survey carried out by the Tax Bureau also found that in most enterprises, the proportion of labor costs to turnover is relatively small. If this information is accurate, the tax cut obviously would have very little effect on employment. But these findings seem so at variance to what one would expect that they would have to be substantiated by additional studies to be accepted.

B) Customs Restructuring

Customs reform measures were designed to address the problem of total duties collected on imported components exceeding the duties paid by finished products made from them, i.e., negative protection. In 1986, duties on 53 products were reduced. In 1987, the Customs bureau drew up a draft decree covering an additional 56 products of which 49 were to be reduced and 7 increased. The seven increases were necessary because duties could not be reduced further due to treaty obligations with other West African Union States. Specific proposals were based on information supplied by the businesses concerned and from consultation with the Industrial Affairs Bureau. Customs estimates that it lost 147 million francs (CFA) in 1986 and that the loss will reach 287 millions in 1987, equal to about 3% of customs duties. Another round of changes is expected in 1988 for which planning is now beginning.

C) Harmonization of the IAS on imports and domestic products.

The IAS is levied on goods and services produced locally and on imports when they pass through customs.

The IMF tax report noted that in some cases domestic products were paying higher tax rates than competing imports. The rate of 20% was accordingly reduced to 10% for a number of local products effective 1/1/87. It cannot be determined whether this one reduction eliminated the problem. The measure is expected to reduce revenue by about 200 million francs in 1987, or 3% of total customs revenue.

The table below brings together the revenue losses associated with each measure and the gains from enforcement and valuation changes in section.

(in millions of CFA francs)

| | 1986 | 1987 | 1988 |
|--------------------------|------|-------|-------|
| 1. Payroll tax | -550 | -1300 | -1200 |
| 2. BIC | - | -350 | -750 |
| 3 IAS Harmonization | - | -200 | -300 |
| 4. Customs Restructuring | -150 | -300 | -450 |
| TOTAL | -700 | -2150 | -2700 |

Revenue Gains

| | | | |
|------------------------------|------|------|------|
| 1. Increased customs assess. | 775 | 1500 | 1800 |
| 2. Customs enforcement | 500 | 500 | 500 |
| 3. Tax enforcement | - | 100 | 200 |
| TOTAL | 1275 | 2100 | 2500 |
| NET | 575 | -50 | -200 |

The estimates are a mixture of MFC data and the evaluation team projections. The MFC tends to apply an elaborate rationale to explain away the fact that actual collections respond rather slowly to rate changes. In the case of the payroll tax, there seems to be so little knowledge of the underlying tax base that the actual loss for 1986 was used to estimate the 1987 figure, assuming that the tax base rose parallel to GNP in current prices. For 1988, the mission's assumption that the tax base will rise faster because of the tax cut, thereby offsetting some of the revenue loss, seems plausible. BIC estimates by the MFC for 1987 were reduced because of the lag of returns and of payments, and because actual revenue collections in any one year include payments for back taxes from years before (according to the Tax Bureau). The 1987 MFC estimate is assumed to be accurate for 1988. The same reasoning was applied to IAS harmonization.

The next two lines accept Customs estimates for which adequate documentation was available. The Customs enforcement line for 1986 is based on a Customs estimate given to the evaluators and on the assumption, not shared by Customs, that enforcement efforts would not improve in the following two years. The 1986 entry for tax enforcement, as noted above, is based on the absence of evidence for any other conclusion and a bit of optimism for the next two years.

The estimates indicate that the overall effect on all taxpayers is negligible through 1987, and then begins to become positive thereafter in increasing amounts as revenue savings received by the private sector exceed additional tax collected. What cannot be estimated at this time are the tax gains or losses of individual sectors which may be better or worse off than the overall picture. That will require a follow-up study.

Conclusions

What is impressive about EPRP's tax reform component is the number of changes that have been made. All the major reform measures have been enacted despite the revenue losses that they produce. This shows a strong commitment to the program by the GRM because these losses will continue to occur after EPRP funding - which partially offsets revenue shortfalls - has terminated. Of course, the authorities always retain the option of raising rates again.

With regard to making fiscal charges more neutral through better enforcement, progress has clearly been made in both the customs and tax areas but without a comprehensive study, it is not possible to measure the results.

It would be premature to expect any change in the investment outlook for the time being. The only real changes businessmen have experienced are the reduction in the payroll tax, basically for the second half of 1986 (even though it was retroactive to the beginning of the year), and the customs restructuring shortly thereafter. The urban economy is depressed by crop surpluses, tight credit, and the lack of foreign exchange for imports. Whatever impact does occur will be delayed until the other tax and customs changes really affect their account books and they think the government is committed to the reforms and will not reverse them. Second, apart from current operating problems, the medium term outlook is more uncertain than usual. After several years of reform efforts, a pause in donor activities - most notably the IMF and World Bank - seems to have occurred toward the end of 1986. Until new agreements are reached with the IMF and the World Bank, the foreign exchange situation will continue to be too uncertain to undertake major new commitments.

Recommendations

The EPRP should encourage the MFC to follow through on further customs restructuring. The PCU should work with the MFC to publicize EPRP's objectives of encouraging investment and the instruments being employed (e.g., tax rate changes) to achieve this. The PCU and the MFC should periodically seek businessmen's reactions to enacted reforms and their views on needed additional reforms.

See section 4.4 for recommendations on additional information and section 4.5 for study recommendations.

2.4.2 Structural Change

There are two types of structural issues. The first is the simplification of the tax customs system to improve administrative efficiency and transparency. Changes in tax rates and tax bases supported by EPRP will affect administrative systems and procedures much less than major organizational changes that concentrate manpower in a smaller number of areas, reduce record keeping for some taxes and increase it for others. According to the 1985 IMF report, for example, there are nineteen different taxes on imports and five on exports, most of which could be consolidated. Similarly, there are a number of minor internal taxes that could be consolidated or eliminated. In other words, administrative reform of the existing system noted above can be advanced by simplifying the basic tax structure.

A second more ambitious goal is to reexamine the effect of the very high rate of marginal taxation on business activity, particularly on capital intensive businesses like industry. Reducing these high rates was the underlying objective of the payroll tax and BIC reforms. As desirable as the steps already taken are, the overall impact is still small. To maintain the momentum, it would be useful to study what further cuts could be made to reduce the burden of taxation as incomes increase - i.e., reduce marginal rates and the interaction between them and inflation. Given the GRM's need for increased budget revenue for the foreseeable future, whatever losses are proposed will have to be matched by gains elsewhere. That could lead to a re-examination of the present very generous exemptions for new investment for a specified period after which the tax bill of the firms rise dramatically. As an investment incentive, it might make more sense to impose higher taxes from new companies at the outset and lower rates thereafter than is the case under the present system.

Study findings used for the design of specific EPRP measures pointed out that Mali has high customs rates. The restructuring effort has started to attack the problem of not penalizing existing manufacturing by charging imported inputs more heavily than finished products. How customs duties might be restructured to encourage industrialization by reducing duties on selected foreign imports has not been considered. With effective customs rates rising as assessed values approach more realistic levels, the disincentive effects of the customs structure will bear more heavily on some sectors of the economy than others. Therefore, it would be appropriate to examine the overall structure of the customs systems at this time.

Presently, the only structural change being considered is a study of the application of a tax on value added (TVA) in place of the present IAS for industrial production. This is a useful activity because the TVA has a more neutral effect on industrial activity - particularly for export industries - than does the IAS. This would also be consistent with a more general application of the TVA in the West African Union States. The economic effect would be limited because the IAS would be continued on other activities.

The other recommendation of the IMF mission for the future was the creation of a single individual income tax instead of the present schedular system which taxes different sources of income separately and at different rates. The single income tax could reduce the marginal rate of taxation by providing credits on taxes paid on one kind for liabilities owed on others. But it may be a too sophisticated an instrument for Mali at this time because it requires a level of record keeping that may exceed current capabilities. But there are no plans at present to apply the TVA immediately.

Conclusions

Simplification of the tax and customs systems to facilitate administrative efficiency and transparency should be encouraged. The TVA project is an appropriate next step. Finally, work should begin now on developing a package of fiscal reform measures that could provide additional incentives for private sector growth as a follow-on to EPRP.

Recommendations

In connection with the release of the final fiscal component that the GRM be encouraged to do the following:

1. Establish a working group, assisted by fiscal policy experts, to study the consolidation and simplification of the tax and custom system. The working group should make specific recommendations for changes which are revenue neutral, including associated legislative action.

2. Produce a progress Report on the TVA indicating what has to be done and a schedule for implementation.

3. Sponsor a study building on the IMF and Salin reports that examines: a) the operation of the present tax and customs system, b) how the marginal rate of taxation might be further reduced, c) the advantages and disadvantages of tax and customs holidays concerning the promotion of private sector growth and revenue change, and d) the effect of import duties and export taxes on the promotion of industry and on industrial exports in Mali. The objectives would be to understand how restructuring could improve incentives without revenue loss and what the trade-offs would be between revenue losses and growth gains.

2.4.3 Regulatory Reform

An EPRP reform objective was to reduce government intervention in the establishment of new business and the control of prices.

A) Reform of the Commercial Code.

A new commercial code was enacted in March 1986 with the new provisions entering into effect at the beginning of 1987. The new Code contains two important improvements: a) the formal synthesis of all the relevant texts in one document, and b) the substantive result of abolishing permission (agreement) to establish new business. Business licensing had been a time wasting and expensive process. Registration at the commercial courts in each of the seven regions is now the only requirement.

It is difficult to compare the number of permissions in the past with what has happened since the Code was enacted because the number of permits issued varies erratically from year to year and a number of businesses were apparently operating illegally. Since the new system went into effect, only anecdotal evidence suggests that the new Code has been useful to businesses in the area of foreign trade, and the unequivocal statement by the president of the Chamber of Commerce that the new Code is the best part of the whole EPRP program!

B) The liberalization of price control

The liberalization of price control was approved in September 1986 and implemented in March, 1987. Goods and services are divided into two categories: articles of mass consumption, and others. The second group was subject to mark-up (marge) control as in the past. The legally permitted mark-ups have been increased. Businesses affected by the controls only have to post their prices and be prepared to show an occasional inspector that they have not violated the mark-up ceiling.

The first category covers basic food stuffs, cigarettes, thread and textiles, plastics, spare parts, fertilizer, soap, cement, petroleum products, pharmaceuticals and miscellaneous hardware. In other words, the daily purchases of most people remain under price control. According to the Director of Economic Affairs (which enforces these controls), the sellers of these products must have a) documentation to justify their costs as defined by the regulations and b) remain within the mark-up provided by the law. In most cases, the seller proposes a price change and the authorities have one month to contest it. If they do not, the increase is valid. Control is generally exercised post facto.

Conclusions

The end of business liscensing is potentially one of the most significant reforms EPRP supports. It makes an important business decision cheaper and faster and has probably led to the legal establishment of many firms that had been operating illegally. At this time, statistical data and interview information about new firms registering under the new Code are lacking. This information will be necessary for a final evaluation.

Price control is difficult to exercise tightly even under the best of circumstances (which certainly do not exist in Mali). At issue is whether existing legislation gives the government the opportunity to collect regular and perhaps irregular fines when it wishes. In 1986, for example, infractions of "economic" regulations brought in the equivalent of 1% of budget revenue. In principle, producers and sellers of goods that are not mass consumption items should be free of harassment. However, it remains to be seen whether regulation of prices for products that are considered necessities, and which constitute the bulk of the business transactions, has in fact been reduced.

Recommendations

Follow up studies in both areas are needed. (See recommendations in Section 4.4).

3. Additional Economic Issues

3.1 Integration of VED Participants into the Private Sector

Findings

\$7.45 million of EPRP funding are programmed for budgetary restructuring which includes the implementation of the VED. The program was originally conceived as an experimental effort to reduce the number of civil servants and thereby lower personnel expenditures. Combined with decreasing civil service hiring, VED contributes to the budget restructuring objectives of EPRP. If successful, it is hoped that other donors will provide additional funding for VED, continuing if not expanding the scope of the program.

As Section 2.2 points out, in purely budgetary terms, the VED program is less effective as an instrument for budget restructuring than the annual hiring ceilings. However, the VED has considerable political importance to the GRM as a demonstration of its concern about the welfare of civil servants who volunteer for early retirement. As a consequence of the political importance of VED, there was considerable pressure within the GRM to implement the reform measures necessary for disbursement of EPRP funds. VED also provides an additional incentive to reduce hiring levels. Therefore, part of the economic costs of VED should be seen as partially offsetting the political costs of imposing unpopular hiring ceilings.

Though not explicitly justified as such, the VED program also represents an effort to expand small scale enterprise in Mali. VED participants will enter into business on leaving government as their source of employment. If successful, the majority of these businesses should be relatively small enterprises concentrated primarily in commerce and agriculture.

As of July 1987, the first 212 participants have been selected, separated from government service and are now initiating their employment projects. A total of three hundred and fifty-two applications were made to the program. Criteria were established which targeted selection on those whose departure would result in greater savings for the GRM. Of those selected, forty-five were from the Upper category, one hundred from the Middle category, and sixty-seven from the Lower category (GRM civil service ranking classifications). Many of those selected had started a small business while government employees. In effect, they had one foot in the public sector and one in the private sector. But others lack practical experience with business operations and few have previously borrowed from a bank. Statistics collected on the participants further indicate that a majority will go into agriculture/livestock (59%); the remainder plan to enter into commerce (14%),

services/transportation (10%), and industry (9%). Those in the Bamako area have formed a union and at a recent meeting, approximately half of the sixty participants in attendance reported they planned to enter into joint ventures. Unfortunately, more information on this group is not available largely because the PCU has not used the data collected on those selected for a review or summary description of the participants.

The VED program offers participants who want to borrow money for their employment projects a special loan facility. Approximately two-thirds of the participants reported that they intend to borrow for their projects. EPRP funds generate local currency to capitalize a loan guarantee fund to increase the willingness of local banks to lend to participants, and a feasibility study fund to assess their proposed project prior to applying for a bank loan. At this time, no participant has gone through the entire process of developing a preliminary proposal, having it reviewed by the PCU, receiving approval for a feasibility study loan, applying for a bank loan, and then either receiving a loan or not. Those who plan to apply for a loan will have contacted a bank by late July or early August. Therefore, over the next few months, it should become clear whether the lending process of the program works adequately.

At this point in EPRP, the VED program is approximately one year behind schedule. Meeting the conditions for the first budgetary disbursement required more time than was anticipated. This delayed the disbursement which capitalized the VED - i.e., funding for severance payments, the loan guarantee fund and the feasibility study fund. The delay caused concern among those who applied early to the program - no action in 1985 when it was first announced, and no action throughout 1986. The credibility of the GRM was questioned (i.e., with people asking what happened to the money?) until just recently when the program started. The slow start of the program also postpones having data on how well the program works, on assumptions about funding requirements, and on the success or failure of the program participants.

An issue currently receiving considerable attention by the GRM and A.I.D. is the change in the exchange rate that has occurred since September 1985 and its effect on the proposed number of participants for the VED program. The mission has argued that the depreciation of the dollar requires \$4.45 million in additional funding - increasing total funding for VED to \$12 million - so that the initial estimate of six hundred participants can be reached. These funding requirements involve a number of assumptions about the mix of grades of participants, the percentage who will receive loans, (at least one third), the average size of the loans made (\$33,000), and repayment rates (85% of the guarantee fund will remain). Data to verify these assumptions will not be available until mid-1988.

Conclusions

As of July 1987, the viability of the VED program remains an open question. Benefit/cost analyses suggested that the rate of return was very favorable, but recent re-analysis indicates more conservative though positive results (benefits being defined as budgetary savings). Assuming that the benefit/cost ratio is acceptable, there is still no evidence at this time that the program will actually produce positive results - i.e., that most participants (e.g., 50% or more) will achieve at least minimal success. One can speculate endlessly at this point the probable outcomes of the program - e.g., that a number of these people are already operating a small business, that the joint venture approach will increase their chances of succeeding, that these are educated people in contrast to many small business operators, represent a self-selected group who are more likely to succeed than those who will follow, etc. Conversely, it can be argued that many of these people are relatively young and inexperienced in business operations, that the economic climate is not particularly conducive to establishing a new business at this time, etc. Finally, the GRM's willingness and ability to help participants to avoid a political reaction may turn out to be important in their success or failure.

Data are needed on the experience of VED participants, but that information will not be available until six months or more after the participants initiate their projects. Assuming most start by the end of October, a follow-up study to assess their progress should be started in April and completed in May 1988. By that time, a number of the initial assumptions about the funding requirements of the VED (e.g., average size of loan, the number receiving a loan) can be re-assessed. This information will help determine what the actual funding requirements of VED are, whether the program should continue, and whether additional funding is necessary or warranted.

The GRM is understandably very interested in seeing VED move ahead as quickly as possible and at the originally proposed level. Their concern is to not appear as though they are reversing their 1985 announcement that the VED program would select six hundred participants. There is no reason that the VED cannot move ahead in 1988 with a second group of participants with EPRP's present funding assuming that the experience from the first group warrants continuation. \$3.45 million will be disbursed through the second tranche of the budgetary component sometime in early 1988. The local currency equivalent would permit selection of approximately two hundred more participants.

Despite the optimism of VED participants and some GRM officials, the risk of sponsoring an ineffective program is increased by moving ahead too quickly before ascertaining that participants are able to make the transition from the public to the private sector. PCU staff and some GRM officials consider the possibility of an unacceptably high rate of failure as posing no threat to the government - those who fail have only themselves to blame, or so they say. A.I.D., on the other hand, should not support a program which performs poorly simply to please Malian political interests.

In principle, given the lack of information on how well the VED program works, it might seem premature at this time to request additional funding. VED was planned as a experimental activity; increasing funding from \$7.5 million to \$12 million should be contingent on the actual operation of the program as well as on any change in the exchange rate - the latter alone is not sufficient justification for increased funding for VED.

On the other hand, very real practical considerations of obtaining additional funds override delaying a request for supplemental funding. Due to events in other countries in the Africa Region, it is possible that end of year funding might be available to Mali and EPRP. Given the austerity of A.I.D.'s future budget, supplemental funding might not be available in the coming years. More important, as this evaluation has reiterated, EPRP has made considerable progress toward achieving its policy reform objectives and has initiated the reform process in areas which could produce significant economic benefits, especially in stimulating private sector development. In light of recent studies of other economic policy reform programs, EPRP is a far better investment choice than many of these alternative programs. In this regard, VED is only one area where additional funding could be programmed.

Recommendations

1. The PCU should produce immediately a brief report describing and summarizing the characteristics and plans of the first group of participants, develop a complete list of participants' addresses - including those who are not applying for loans and those who do not receive loans who do apply, and monitor closely the loan application and bank determinations closely so that changes to the process can be made as necessary. As this information becomes available, the PCU staff working on the budget component, including the contract technical advisor, should prepare quarterly summary reports on these matters.

2. The Mission should proceed with its request for additional funding for EPRP. However, the mission should broaden its argument for additional funding to include activities other than VED. In particular, additional funding should be linked to

further progress by the GRM on the hiring ceiling, the establishment of adequate personnel registers, an analysis of staffing requirements and corresponding job descriptions, and computerized pay records to enable the GRM to document whether the number of personnel is really increasing more slowly or even stabilizing.

3. A firm commitment to additional funding for VED per se beyond the original program budget should not be made until adequate information from the follow-up study is available on the performance of the VED. The decision to proceed with the second group of VED participants should also be guided by the study results.

4. Conduct a thorough follow-up study of the first group of participants approximately six months after most have initiated their project - e.g., April and May 1988. (This study is discussed further in section 4.5 - Special Studies). Re-assess carefully the assumptions concerning funding requirements to determine whether the credit guarantee fund is over capitalized. Require a report from the GRM on government personnel that shows in detail trends in civil service hiring and present staff levels.

4. If the results of the follow-up study indicate that VED is a reasonably sound investment, and that the GRM's personnel management shows progress, proceed with a second group of VED participants based on total current funding and re-estimated funding requirements as indicated by experience from the first group. If the study shows mixed or mediocre results, consider reducing the number of participants selected for the second group and the associated funding (i.e., less than the proposed number of six hundred). Re-program remaining funds for further reforms which analysis indicates will produce additional economic benefits. The mission should begin to develop possible alternative uses of these funds within EPRP.

5. If VED performs poorly, re-program the additional funding for further reforms which analysis indicates will produce additional economic benefits. An amendment adding conditions for disbursement of these supplemental and extension of the PACD might be necessary at that point.

3.2 Privatization of State Enterprises

Findings

In the initial design of EPRP, initiating a plan to privatize state enterprises was added as a program condition. At the time (1985), this reform measure appeared reasonable and likely to be implemented by the GRM. The Minister of State Enterprises had expressed interest in privatizing a few small enterprises and funding attached to this condition - \$880,000 - was to be used to establish a program comparable to VED for civil servants who would lose their jobs as a consequence. Equally important, since 1983, the World Bank had been developing a major privatization project - the Public Sector

Enterprises Reform Program - with funding in the neighborhood of \$50 million. It appeared that The Bank and the GRM would reach agreement on this project some time in 1986 or 1987 at the latest. EPRP's privatization component would support the Bank's efforts and provide some limited funding to initiate or advance part of the much larger privatization effort. In short, it appeared that there was a "window of opportunity" for A.I.D. to forward the privatization issue with minimum cost and effort.

Since the start of EPRP, that "window of opportunity" has gradually closed as the situation changed. First, the GRM's support for privatization has weakened. Second, the Bank's effort to reach agreement with the Malians on their privatization program has run aground for various reasons, not the least of which include union resistance and fundamental organizational problems in the design of the project.

Recently, the Ministry of Planning produced a survey of earlier proposals for privatization of state enterprises as a means of restarting discussions at the ministerial level in anticipation of a visit by World Bank officials scheduled for late July 1987. At this time, it is unclear whether significant progress toward reaching agreement and initiating the program will be made in 1987. As a result of these events, EPRP was forced to postpone the condition for privatization from the first to the second tranche of the budgetary reform component now scheduled for the first half of 1988. The justification for this was a) the importance of initiating and testing the VED program, and b) helping the GRM re-gain its credibility in the public eye about its commitment to fund the program which had fallen behind schedule due to program implementation delays.

Conclusions

The privatization objective is an important policy reform measure in light of the GRM's serious budgetary problems. However, given the breakdown of discussions between the GRM and the World Bank on privatization, non-compliance by the GRM with this condition could interfere with the timely release of EPRP's second budgetary tranche. It is important that the GRM not operate on the mistaken impression that A.I.D. can release the second tranche without compliance with the privatization condition as stipulated in the program agreement. A.I.D. should reinforce the message, and the GRM needs to understand fully, that privatization is a high priority reform not only for the mission but for the Agency as well. This also makes clear A.I.D.'s support for the Bank's efforts over the coming months to re-start negotiations on its privatization program.

In short, it is very likely that this condition will continue to be problematic for EPRP's implementation. The GRM needs to take action soon so as to not interfere with disbursement of the second budgetary tranche. A starting point might be more discussion between the GRM and the mission on how to resolve this problem.

Recommendations

1. The privatization condition should remain part of EPRP reform package. The mission should periodically re-assess the GRM's position on privatization.
2. The GRM and the mission should maintain an on-going dialogue on how the condition can be fulfilled.
3. In early 1988, the mission should determine whether the funds tied to the privatization condition should be de-obligated or re-programmed for other uses within EPRP, such as additional technical assistance and equipment for computerization, non-computer related materials requested by the GRM associated with tax and customs reforms, special studies and/or supplemental funding for the revenue shortfall resulting from further tax reform measures.

3.3 The Effect of Exchange Rate Changes on EPRP Resource Requirements

Findings

The decline of the U.S. dollar/CFA franc exchange rate has reduced the local currency equivalent of EPRP's cash transfers.

At the time of EPRP's design (mid 1985), the exchange rate was projected to be \$US1.00 = 450 CFA (the actual exchange rate at the time was \$US1.00 = 540 CFA). The dollar has fallen in value to approximately 300 CFA. It is unlikely that the dollar will appreciate significantly during the remaining eighteen months of EPRP. Consequently, the mission has estimated that an additional \$2.2 million are needed to make up for projected revenue shortfalls for 1987 and 1988, and \$4.45 million for the VED to reach the proposed level of six hundred participants. With some additional funding for technical assistance and a six month extension of the computerization specialists contract (this evaluation recommends a twelve month extension), the mission recently requested an additional \$7 million for the program.

The mission's request has been based largely on the effects of exchange rate changes and indicative levels of support cited in the program agreement for the fiscal and budgetary reform component. Regarding fiscal reforms, the agreement stipulates that EPRP tranches will cover "...an annually-declining proportion of the estimated gross revenue loss resulting from reduced tax rates implemented as part of the Program." 65% of estimated shortfalls were to be covered for 1987, and 35% of the 1988 estimated shortfall. Estimates are derived from the preceding year's budgetary data. The program agreement states that approximately six hundred participants will be included in the VED program. For both components, these indicative levels translate into CFA requirements which cannot be met with EPRP's present funding due to the depreciation of the U.S. dollar. During the course of the evaluation, discussions with PCU and GRM staff suggested that some think that this additional funding is justified on the basis of the program agreement.

Conclusions

Justifying additional funding for EPRP solely on the basis of changes in the exchange rate implies that the indicative planning levels established at the outset of the program must be reached. This is certainly not the basis of the program agreement and only adds to the misunderstanding which apparently exists between the GRM and the mission on this matter. If additional funding is not available, the scale of the program will simply have to be scaled back accordingly, or funding will have to be provided by another donor.

The program agreement should have specified more clearly a funding ceiling for both components. For example, the agreement should have stated that EPRP tranches would cover 65% of estimated shortfalls for 1987 up to a maximum U.S. dollar amount (though this is implicit but not obvious in the actual agreement). Similarly, the 600 participants should be viewed purely as an indicative planning target and not a commitment established by the program agreement. The number of VED participants should have been determined by the amount attached to budgetary reforms and the current value of the dollar at the time of disbursement.

In short, the argument for additional funding should rest on the merits and performance of EPRP to date. Additional funding should be viewed as an incentive to continue fiscal reforms and maintain government hiring ceilings. This evaluation has noted that the GRM has performed well in these areas and is likely to respond positively to more support. Additional funding for VED should also depend on the actual performance of the program and the progress of the first group. The argument that the exchange rate change results in inadequate VED funding is dependent on underlying assumptions about the costs of the program. The validity of these assumptions should be checked against actual experience before additional funding requirements can be accurately ascertained.

Recommendations

1. The request for additional funding should be judged on the basis of EPRP's performance as well as possible short-falls due to depreciation of the U.S. dollar.
2. The mission should clarify to the GRM the funding arrangement as stipulated in EPRP's program agreement. The fact that A.I.D. is not committed to open-ended funding to accommodate exchange rate changes should be emphasized.
3. The mission and the PCU should determine:
 - a) how much of the first group's feasibility fund will be available given experience with the actual rate of re-payment;
 - b) whether the assumed rate of default affecting the guaranty fund was too pessimistic and whether more funds will be available than projected;
 - c) the extent to which the GRM is willing to severance payments could be reduced by changing the selection criteria or mix of civil service grades;
 - d) whether severance payments were overly generous and could be reduced for subsequent groups; and
 - e) the feasibility of lowering the maximum guarantee amount so that more loans could be made to a greater number of VED participants.

4. EPRP Assistance for Administrative Improvements.

4.1 Improving the Functioning of the Ministry of Finance and Commerce

Findings

In addition to the enactment of fiscal and budgetary reforms, EPRP also supports associated administrative improvements to assure that the reform measures are sustainable. The computerization work carried out through EPRP, the implementation of the new budgetary classification system, improved accuracy of tax-payer rolls, and better enforcement and collection of duties and taxes should increase administrative efficiency if fully implemented.

At present, the accuracy and level of disaggregation of budgetary data are inadequate. Beyond very gross trends, the weakness of these data make it extremely difficult to determine accurately GRM revenues and expenditures. Needless to say, this makes analyses and projections a highly speculative exercise in many instances.

The problem is particularly important in light of the continuing budgetary problems Mali will confront for some time to come. Virtually all planning of development assistance uses GRM budgetary data to some extent. Assistance directed towards or made conditional upon specified changes in budgetary practices, such as EPRP, are especially subject to the problems of poor quality and aggregated reporting of fiscal data. Obviously, the situation affects other donors as well as A.I.D.

In addition to computerization, an important step toward improving the MFC's ability to use fiscal data for policy development is the establishment of the PCU. Originally conceived as an intermediary management unit, the PCU has been instrumental in forwarding EPRP's reform agenda. At this point in the program, it is apparent that the PCU also serves as a center within the MFC which keeps attention focused on the importance of continuing to improve fiscal policies. This function did not exist prior to EPRP. However, there is presently no plan concerning the future of the PCU after EPRP ends. It is possible, therefore, that the MFC will lose the capability for policy analysis provided by the PCU.

Strengthening the information resources of the MFC also improves its position in the GRM's decision making process vis-a-vis other line Ministries. The more empirical evidence and sound analysis that can be brought to bear on the allocation of very scarce financial resources, the better.

Conclusions

EPRP is doing yeoman service in trying to establish functioning information systems. This intervention is consistent with the mission's argument that policy reform has top priority within its program. Though EPRP has made a good start in dealing with this problem, the scale and complexity of what needs to be done to improve the quality of fiscal and budgetary data to a reasonable level will require a more prolonged effort than what EPRP can provide. Additional assistance will be needed to achieve major improvements. It is also unlikely that the MFC will decide to maintain the PCU without continued assistance.

Recommendations

1. As recommended in other sections of this report, a follow-on program is needed to implement and institutionalize more fully the policy reform process and associated administrative improvements EPRP has initiated.
2. Any follow-on to EPRP dealing with fiscal and budgetary reform should include assistance for improving MFC information systems and PCU operations.

4.2 Computerization - General Issues

Findings

The computerization work supported by EPRP is fundamental to improving the utility and timeliness of GRM fiscal and budgetary data. Ordinarily, one would expect that computerization would be complemented by an effort to improve data collection processes. But to do this for the GRM's tax and customs systems would require a level of effort comparable to a separate project. A major impediment EPRP can address is strengthening the MFC's capability to manage and manipulate existing fiscal and budgetary data. If successful, this effort should make possible subsequent improvements in data quality.

EPRP has budgeted for one long-term computerization specialist currently scheduled to complete his contract in June 1988. Short-term technical assistance is also available and has been used for systems analysis and design. Due to contracting delays, the computerization specialist did not arrive until late August 1986, some six months later than planned. However, the computerization advisor has done an exceptional job in advancing this component of EPRP. The major accomplishments to date have been establishment of a microcomputer training center for MFC and Treasury staff, training of eleven ministry staff in the use

of microcomputer, systems analysis and design necessary for transferring the payroll to a larger capacity computer in Treasury, beginning work on an integrated information system for the MFC, and initiating an on-going program of staff training in microcomputer applications of MFC Directorate tasks. Considerable effort has been directed toward the transfer of the payroll and associated hardware and software requirements (this has been a top priority for the GRM). Work on other elements of the computerization agenda - e.g., taxes and customs - is just now beginning.

For the computerization effort to move ahead rapidly, Directorates within the MFC and Treasury must "buy-in" to the new system for recording, processing and reporting fiscal and budgetary data. As is true in any large organization, cooperation among of this sort often difficult to obtain. Unsurprisingly, EPRP's computerization effort has encountered some resistance. Computerization will clarify the official flows of revenues and expenditures, hence increasing the accountability of those involved with the system. For example, the introduction of a new nomenclature system requires disaggregating categories of data which previously have been combined. Computerization of the payroll will also lead to better control over payments. Obviously, these types of changes may run contrary to established patterns of behavior and informal or unofficial management of revenues. Consequently, some may prefer to keep accounting systems as murky as they have been.

In addition to bureaucratic problems, the computerization component is considerably broader and more complicated than its description in the EPRP documents implies. A recent report produced for the transfer of the payroll points out that an integrated approach which encompasses the entire system of the MFC's fiscal and budgetary data is the most cost effective and efficient solution for EPRP's computerization component. Linking the payroll to other budgetary data, for example, requires such an approach. Computerization is also bound up with other administrative improvements, such as the introduction of the new budget classification system and the computerization assistance provided by the French to the Treasury. This adds yet another dimension to EPRP's work and expands the scope of the computerization effort.

The task is further complicated by the intricacies of the systems to be computerized. Before computerization can proceed in the areas of taxes, for example, the tax system itself and how taxes are assessed and processed must first be more clearly understood. That is no small task in Mali where the tax system is so byzantine that only specialists in the field can fully comprehend how it is supposed to work, and then how it actually works (or does not work). (In fact, an EPRP recently sponsored a report on precisely this topic.) Though taxes represent the worse case, similar problems are involved with computerization of other aspects of the fiscal and budgetary system.

As noted above, current staffing for the computerization component consists of one long-term advisor assisted by short-term computer technicians. There are no MFC counterparts assigned to work with the advisor nor does he have any assistance with less complicated activities, such as training MFC staff in the use of standard software packages. One advisor with short-term assistance was sufficient to get the work underway on establishing the microcomputer center and transferring the payroll to a larger computer. But the computer specialist's time now appears to be largely absorbed by the payroll transfer, commodity procurement and training activities. Work on computerization in Taxes, Customs and Economic Affairs moves more slowly as a consequence. Moreover, the computerization specialist has been forced to become embroiled in time consuming administrative issues pertaining to computerization, such as pressuring a certain Directorate to establish a maintenance contract before EPRP assistance is provided. That is not good use of the advisor's time, but no one else seems willing to manage such matters.

Conclusions

The importance of the computerization component of EPRP combined with uncertainty about future funding to support such work makes this a high priority activity in the remaining eighteen months. Progress made in computerizing the data management activities of key MFC Directorates can have significant effects on the fiscal and budgetary matters, including policy development. Given that there are only five months remaining in the computerization advisor's current contract, under present staffing conditions, it is questionable whether significant progress in areas other than payroll can be accomplished.

A major problem impeding EPRP's computerization effort at this point is staffing and the inefficient use of the computerization advisor's time. Additional staff to handle less technical tasks, such as training and management of the microcomputer center, would allow the advisor to concentrate on problems which require a high level of technical expertise. Nor should the advisor spend an unwarranted amount of time on administrative matters which should be handled by the PCU and the program coordination advisor. For computerization to move ahead more rapidly in the areas of taxes and customs, specialized expertise in these specific systems is needed to clarify how they work and how computerization can be best introduced. One such specialist has already examined the tax collection system and more assistance of this type will be needed during the remainder of EPRP especially when organizational and legal issues are involved.

Recommendations

1. Extend the computerization specialist's contract to EPRP's PACD - December 1988 and try to retain the current advisor.
2. Hire a local staff person (preferably Malian) with basic microcomputer skills to work with the computerization specialist to handle training in standard software packages, management of the microcomputer center and other activities as determined by the computerization advisor.
3. The MFC should assign at least one staff person to work with the advisor and the local hire computerization support person, preferably someone who has familiarity with computer applications, to begin to develop some capability within the MFC to support its use of computerized information systems. Short-term training should be considered to advance this person's skills. To assure that suitable individuals are assigned, EPRP should pay a salary supplement at a level appropriate to the person's skills and responsibilities.
4. The PCU including the contract program coordinator must take a more direct role in resolving administrative matters pertaining to computerization. This will require working closely with the computerization advisor so that the PCU understands what has to be done for computerization to proceed.
5. More attention needs to be given to computerization in the Directorates of Internal Revenue (Taxes), Customs, Treasury and Economic Affairs. Short-term specialists in the subject matter and in the operation of these systems should work with the computerization specialist and the PCU, especially when changes in procedural systems and legal matters are involved.

4.3 Computerization in the MFC

Findings

EPRP's computerization plan originally proposed support to six Directorates within the MFC - Budget, Customs, Internal Revenue, Treasury, Economic Affairs and Payroll - and the National Commission for Administrative Reform involving the installation of microcomputers. A microcomputer training center has been established and EPRP will upgrade a DPS-6 minicomputer provided by the French to Treasury. Work to date has concentrated on formulating the overall strategy which will guide the computerization effort (e.g., systems design, equipment procurement, etc.), establishing the microcomputer training center in the Treasury's computer facility (recently completed

with French assistance and housing the DPS-6), and on transferring the payroll to the DPS-6 after the up-grade is completed sometime in the Fall of 1987. Preliminary work on acquiring the most recent version of a program developed specifically for customs operations in West Africa - Sydonia 2 - has led to the decision to obtain this package for Customs. A descriptive report on the direct and indirect tax system has recently been produced which will help guide computerization within Internal Revenue (collects indirect taxes) and Treasury (collects direct taxes).

Conclusions

The amount of work involved with computerization simply within the MFC is considerable. Priorities need to be set which concentrate EPRP's computerization efforts in key areas, particularly those which could produce information pertaining to enactment of EPRP reform measures, and which limit the range of activities which will be undertaken.

Recommendations

1. Payroll - A thorough plan has been developed for upgrading the DPS-6 and transferring the payroll after the upgrade by the Deloitte Haskins and Sells (DH&S) contract staff (including the long-term computerization specialist). The PCU, including the program coordination advisor, should monitor this process closely and help resolve organizational problems which might arise during the course of this work. The DH&S might also consider whether a back-up system for the payroll based on several large capacity microcomputers is feasible in anticipation of delays in upgrading the DPS-6 and as an alternative means of processing the payroll should the DPS-6 experience serious maintenance problems.
2. Short-term technical assistance should be obtained to develop a plan for using the payroll system after the transfer is completed to eliminate inappropriate payments - e.g., to people who have retired, bogus entries, multiple payments to the same person, etc.
3. Customs - The PCU, including the program coordination advisor should assure that administrative issues affecting the provision of equipment and/or installation of Sydonia 2 are resolved and do not impede further work.

4. Taxes - Based on the Journee Report (1987), a computerization plan should be developed immediately and implemented as soon as possible. A basic element of this plan should be establishing a tax assessment data base which integrates all of the taxes a business is subject to and specifies the tax rate, the tax base and the tax assessment. The result should be a single statement available to each tax payer (business) stating precisely which taxes are assessed and the corresponding amounts collected and outstanding.

5. Budget - EPRP should provide computerization support, if necessary, as part of the introduction of the the new nomenclature system.

6. Treasury

EPRP will purchase the hardware needed to upgrade the Treasury's DSP-6 and provide training in the use of a new software package - Rapport. Treasury is receiving technical assistance from a French advisor concerning the use of the DPS-6 and computer applications. EPRP will also have to work with Treasury concerning the computerization of the direct tax system. On the other hand, EPRP should not duplicate the French assistance to Treasury. Rather the computerization advisor and the PCU, including the program coordination advisor, should coordinate their work with the French assistance program.

7. PCU

With the enactment of the new Commercial Code, business registration was simplified with the expectation that more businesses would now register with the government. This registration system could provide an additional source of data on patterns of growth - level and content - in the private sector (see Section Five - Special Studies). At present, registration data are recorded at seven regional centers and then (reportedly) forwarded to the Ministry of Plan. These data have additional utility for the MFC and in particular, Internal Revenue as a means of cross checking tax rolls against new business registration to assure that tax records are accurate. The PCU, assisted by EPRP's computerization specialist, should assist the Directorate of Taxes (DNI) establish a system for entering the business registrations into a data base for use by the MFC. These data would also serve as the sampling frame for a study of private sector development (discussed in Section 5.4 - Special Studies).

5. Program Management

5.1 A.I.D. Management

USAID/Bamako's experience with the management of EPRP provides useful insight into the staffing and time requirements for implementing economic policy reform programs. In general, the program has been far more staff intensive than the mission anticipated. During the course of EPRP, the Program Office has had at least one person working almost full time on implementation - e.g, contract management, commodity procurement, review and negotiation of reform measures, administrative record keeping, Agency reporting requirements, etc. At present, the program economist largely functions as a full time project manager. The head of the Program Office and an agricultural economist have also given a significant amount of time to EPRP implementation. The time requirements of the program are certainly not due to unfamiliarity with the program. To the contrary, EPRP is somewhat unusual in this respect - the program economist, program officer, and agricultural economist worked on the design of the program and have been at post throughout its implementation to date. The mission is currently in the process of recruiting a contract program manager to handle much of the routine administrative aspects of implementation to free up the time of the program economist for analytic work.

The mission's management of the program has been very sound and effective, and in a number of ways provides a model for other USAID missions. From the outset, the mission has remained well informed about the implementation of reform measures. This has involved careful review of proposed actions and follow-up on their enactment. When necessary, the mission has been willing to inform the GRM that their proposed reforms are not adequate to satisfy disbursement conditions and that funds will not be released until more effective measures are taken and/or better documentation on implementation is provided. On the other hand, the mission has also recognized when flexibility in implementation has been required. The case in point is the privatization condition which the GRM could not meet within the time frame of the first budgetary tranche. Rather than delay implementation of the VED program further, it was agreed that the condition be postponed to the second tranche of the budgetary component.

Conclusions

EPRP has been every bit as staff intensive, and in some ways, even more so than a standard development project of equal size. A major difference between EPRP and other development projects is the skills required for program management. Individual capable of keeping in mind the broader economic context and who

have an analytic approach to assessing the potential importance and impact of reform measures are essential for sound management on A.I.D.'s part. In fact, it might be the case that with economic policy reform programs, A.I.D. staff are more directly involved in the implementation process than in other types of assistance, in effect functioning as actual program managers rather than supervisors of others (usually contractors) who work on the day to day requirements of implementation.

USAID/Bamako's experience illustrate the need for the Agency to recognize that economic policy reform programs are not less staff intensive than standard development projects. A.I.D.'s increasing involvement with policy reform programs had been as a possible solution to the personnel reductions the Agency has made in recent years. Instead of standard development projects, which are considered relatively staff intensive, policy reform programs appeared to be a means of moving large blocks of money with comparatively less demand on A.I.D. personnel. One needs only examine USAID/Bamako's experience to see how far off the mark that reasoning has been. To a significantly greater extent, EPRP has required on-going analyses, and re-analyses, of the economic effects of reform measures in addition to administrative requirements comparable to standard development projects. Similarly, the information requirements for monitoring and assessing program implementation are comparable to if not greater than standard projects. Because the outputs of the program are far less tangible, at least in the short-term, than other types of assistance, information on the effects and response to reform measures is especially important.

The mission's response to these demands is laudable, but the important lesson to draw from this experience is that more attention needs to be given to management demands in the design of policy reform programs. Contracting for administrative or management support services is of course necessary. Technical analyses and other supporting information can be developed by contract personnel, but the nature of policy reform programs places limits on the extent to which contractors can be used. On-going discussions about policy reform should be the responsibility of direct hire personnel in that what is negotiated constitutes an official commitment between A.I.D. and the host country. This obviously requires in-house staffing capability on the part of the mission.

Recommendations

1. The mission should proceed expeditiously to hire a program manager so that the program economist can spend time on policy related analyses and on the planning and supervision of evaluative studies for EPRP.
2. The Africa Bureau should give greater attention to the management demands of future economic policy reform programs to assure that missions have the necessary direct hire and contract staff capability required for implementation.

5.2 MFC Management

Findings

The MFC has provided exceptionally strong support for EPRP that has facilitated the pace of program implementation. The program has received attention from the highest levels of the Malian government, including the President and Prime Minister. Their interest in the program, combined with the leadership of the current Minister of Finance and Commerce, has provided the incentive for MFC Directorates to enact the measures required for EPRP disbursement. This has also given additional leverage to the PCU in its dealing with individual Directorates. When action has not been forthcoming, the PCU has been able to follow-up with official communication to the heads of the Directorates copied to the Minister of the MFC and to the Prime Minister, which makes it very difficult for the Directorate not to respond.

The MFC's support for EPRP is also apparent in the calibre of staff it has assigned to work in the PCU. The MFC fiscal reform and budgetary restructuring experts are highly qualified, competent individuals interested in their work and in the success of the program. Their work on EPRP and their involvement in the implementation of reforms has been instrumental in the progress made to date. Their cooperation with the contract technical advisors and with their USAID counterparts has assisted A.I.D. to remain informed about the status of program implementation.

Over the past few months, the PCU budgetary restructuring expert has become increasingly involved with the implementation of the VED program to the point that this is now virtually a full time job. A considerable amount of time and effort has gone into initiating the program largely because this was the first group and all of the various procedures and funding arrangements had to be established. Time is now required to explain program procedures to participants and monitor the loan application process. Though the selection and processing of the next group should be somewhat easier, more time consuming administrative tasks are foreseeable.

Conclusions

The cash transfer mechanism and the limited scope of reforms being promoted by EPRP as first steps in fiscal and budgetary policy development have resulted in a strong commitment by the GRM to enact reform measures. The real test of this commitment, however, will be whether the GRM maintains the reforms made through EPRP and continues its support for the policy development process.

It is likely that the management requirements of the VED program will continue to consume a significant amount of PCU staff time over the coming months. Some of these tasks could be handled by an assistant, allowing the PCU budget restructuring expert to work on implementation of further reform measures.

Recommendations

1. To encourage additional assistance in this form from A.I.D. and other donors, the GRM and MFC should continue to give strong support to EPRP and assure that the reforms made through the program are not reversed.

2. The MFC should assign a staff person to work with the PCU budgetary restructuring expert on VED administrative matters. A salary supplement should be paid according to the individuals qualifications.

5.3 Contractor Performance

Findings

EPRP funds technical assistance for program coordination, computerization, and special studies. In August 1986, an 8A contract was awarded to Metametrics with Deloitte Haskins and Sells (DHS) as the sub-contractor for computerization to obtain support services and to procure computer equipment. In late August 1986, the computerization specialist fielded by DHS arrived on site. It was not until mid-April 1987 that the program coordination advisor was fielded. The delay resulted from Metametrics difficulty in recruiting candidates with the necessary skills, experience and language requirements and from the GRM's protracted review of candidates. To date, the long-term and short-term technical assistance provided by DHS has been of high professional quality. As noted in Section 3.1, the computerization advisor has been effective in moving this component of the program forward.

Between the signing of the program agreement in September 1985 and June 1986, an interim program coordination advisor, recruited locally by the mission, worked with Malian counterparts on organizing the PCU and initiating the program. EPRP benefited substantially from the efforts that the interim advisor. He had considerable previous work experience in Mali and was knowledgeable about the organization and decision making processes of the GRM. This enabled him to focus on the actions (and actors) which had to be taken by the MFC Directorates to move the program forward. He interacted well with his Malian counterparts and is reported to have been very helpful in clarifying the functions of the PCU. He developed financial and procedural manuals for the PCU (which clarified the accounting requirements of A.I.D. for the MFC) and a description of the functions and organization of the PCU. Perhaps most important, the interim advisor assisted the MFC to understand more clearly what constituted adequate compliance with the conditions and the types of information needed to substantiate actions taken and their short-term effects through recapitulative notes to proposed reform measures.

The past several months have been a transitional period during which the interim advisor was replaced by the current program coordinator. As of July 1987, the new advisor has become familiar with the key individuals in the MFC whose cooperation is important for continued implementation and has developed a clear understanding of the objectives and requirements of EPRP.

Support for field staff by Metametrics and DHS has been problematic. One outstanding problem is the payment for travel and per diem expenses incurred by the computerization specialist. These expenses have been paid out of pocket and reimbursement is considerably behind schedule.

Conclusions

The contracting delays normally encountered in A.I.D. projects are particularly problematic for programs of relatively short duration. EPRP appears to have escaped the consequences and perhaps even benefited from the fortuitous availability of a highly qualified individual to serve as the interim coordinator. Now that the transition period is over, the current program coordination advisor needs to become as involved in the substantive as well as the procedural aspects of EPRP to maintain the pace of implementation established by his predecessor.

The computerization specialist has contributed significantly to getting this component of the program back on track. EPRP would benefit if this person could be retained through the duration of the program - i.e., December 1988. Current administrative problems only serve as a disincentive for this person to remain.

Recommendations

1. Metametrics and DHS should resolve the problem of back payment for travel and per diem expenses immediately and establish a travel advance procedure in the field to cover the expenses of their staff incurred from performing their job assignments.

2. The program coordination advisor should become more involved in the substantive and analytic aspects of EPRP. This includes conducting a summary analysis of VED participants selected for the first stage, developing a systematic approach to following-up procedures for the first VED group, working with Taxes and Treasury on improving their reporting of tax data, obtaining more detailed data from Customs pertaining to EPRP reforms, developing more detailed scopes of work for special evaluative studies and assembling relevant information for such studies, assuring that the types of data provided for preceding tranches are at the very minimum available for the two remaining tranches, conducting analyses which estimate the effects of reforms made to date, etc.

5.4 Additional Information Requirements for Monitoring EPRP Performance

Findings

The lack of data pertaining to the short-term effects of reforms measures has complicated the management of EPRP. Data which reflected implementation of administrative improvements, such as greater enforcement efforts of customs duties and tax collections, have also been weak or lacking. In at least one instance, inadequate data contributed to delaying disbursement. In response to GRM proposed fiscal reforms, the PCU and the mission cited the need for the following data: a) the number of employers subject to the payroll tax, b) the number of employees working in firms subject to the payroll tax, c) the number of firms subject to turnover tax, d) staffing expenditures pertaining to customs enforcement, e) the number of duties issued and collected, and f) number of additional verifications indicative of more accurate customs declarations. An additional problem is the infrequency with which data are released and the level of aggregation in reporting. For example, fiscal data are not ordinarily available before April or May for the preceding year. The GRM responded to these problems by providing additional data for EPRP assessments based on a sample of businesses, but it is not clear how representative the data are. It should also be noted that monthly or quarterly fiscal data are available, but their breakdown is not always appropriate for EPRP purposes.

In response to requests for additional data, MFC Directorates have argued that further computerization is needed before such information can be generated. As Section Three recommends, EPRP should increase its computerization efforts particularly in areas germane to EPRP information requirements. The PCU has also made a concerted effort to pull together available data for performance reviews pertaining to the release of program funds.

Conclusions

At this point in EPRP, some modest improvements in the GRM's generation and reporting of data could be made which would facilitate assessing the effects of reform measures. At the very least, the same types of data reported for 1986 and the release of fiscal and budgetary tranches in 1987 should be reported by the MFC in 1987. The dearth of relevant data that the mid-term evaluation confronts in trying to estimate even roughly what the potential effects of the reform measures might be warrants a special effort on the part of the PCU, including the program coordination advisor, to improve the availability of necessary evaluative data. Two areas which should have high priority are a) changing the reporting format of tax data to make analysis easier, and b) calculating tax revenue collections for the year prior to EPRP reforms (the basic records are available, the PCU will simply have to be persistence in putting them into the proper form).

Recommendations

1. The bookkeeping practices of Internal Revenue (Taxes) and Treasury need to be modified so that enforcement efforts can be linked to collected revenue. At present, back taxes, fines and regular payments are combined in one aggregate figure. Customs already distinguishes among the different categories of receipts. The PCU needs to obtain these data from Customs and encourage Taxes and Treasury to make the needed recording changes. The PCU might have to provide additional assistance to accomplish this. The PCU should also calculate revenues for at least the year preceding EPRP to serve as a baseline. This effort should begin as soon as possible.

2. Data on the effects of changes in the business profit tax rate are needed. In particular, revenue collections disaggregated by rate category should be obtained. The PCU should encourage necessary reporting changes and provide technical assistance if necessary. The PCU should also continue the analysis of the effects of changes in the payroll tax.

5.5 Special Studies

Even with the additional data proposed in the preceding section, information on a) the progress of the first VED participants, b) the effects of fiscal reforms on the private sector, c) the extent to which conditions conducive to private sector growth have been improved by EPRP, and d) what additional fiscal reforms might be made to improve the policy environment will be needed for the final evaluation and for the design of a follow-on activity. Therefore, the following studies should be conducted prior to the final evaluation:

1. VED Follow-up

As discussed in Section 2.5, information on the progress of the first VED group in establishing viable businesses and other sources of self-employment should be an important criterion for decisions concerning supplemental funding as well as future implementation of the VED. A follow-up study based on a sample of program participants will be needed to assess the viability and likely success of the participants' employment projects. The study should be scheduled for April and May of 1988 at the earliest to allow as much time as possible between the start of the participants' projects and the assessment of their progress to date.

Given the relatively small size of the first group (212), a high level of coverage is possible for this study, such as a thirty to forty percent sample selecting seventy to eighty participants. A random sample stratified by the amount of severance (departure bonuses) and retirement payments should be drawn. Other criteria might be used for stratification; severance pay is suggested because it differentiates among participants according to the investment capital they received for their projects. A questionnaire should cover at the very minimum: their employment situation at the time of their separation from government service, experience with the study and loan procedures, information on basic operational aspects of their business or occupation (e.g., volume of transactions, number of employees, amount of debt outstanding, etc.), problems they have confronted thus far (including government regulations, taxes and customs if appropriate), and services or assistance that might increase their chances of success.

The PCU should develop a complete list of all participants' addresses (those who apply for loans as well as those who do not) and periodically re-confirm this list in case individuals change residences. Short-term technical assistance from an economist with expertise in small scale enterprise development should be contracted to design the study methodology and the

questionnaire, supervise the interviewing process, and analyze and interpret the findings. Criteria used for assessing progress and, hence, providing the basis of the recommendations should be thoroughly discussed in the report, noting both strengths and weaknesses of these criteria. Important issues to be addressed include: assessing the relative level of success or progress achieved by the participants, the likelihood of their continued success and factors affecting success, and whether the VED program should continue with a second group of participants. A specialist with applied research experience in West Africa (if not Mali) and fluent in French will require approximately eight weeks to complete this study. Two local interviewers will be required and the PCU should provide all necessary support services (e.g., helping to locate individuals, transportation, data processing and analysis).

2. Response to Price Decontrol, Business Tax and Customs Reforms

A major objective of the EPRP reform package is to contribute to a policy environment conducive to private sector development. The principal measures enacted through EPRP are price decontrol of regulated consumer items, a lowering of the payroll and business profits taxes, increases in administratively determined valuations for selected imports and tariff rate reductions for a limited group of others, and the elimination of licensing for new businesses. Information on the significance of these reform measures from the owners of businesses directly affected by these measures is needed to evaluate EPRP's broader economic impact and obtain information for future program planning.

A non-random sample of one hundred industries, wholesale businesses and retail establishments located in the Bamako area should be drawn from MFC tax records. The sample should be stratified by size - e.g, volume of turnover - to assure adequate coverage of the range of businesses. Restricting the sample to establishments in the Bamako area will simplify data collection for the study, making the assumption that the Bamako operations are generally representative of experience in other parts of the country. A total sample of fifty to sixty establishments would be sufficient.

Initial work in this area has recently been completed by Jeremy Oppenheim under contract to USAID/Bamako. In his June 1987 report - "Policy Reform and Private Sector Development - The Case of Mali", Oppenheim describes a simple methodology for annual follow-up work based on the set of industries and the questionnaire used for his research. He recommends obtaining the data available from the GRM pertaining to private sector activity (e.g., wages, employment levels, tax payments, customs duties) and re-interviewing the set of industries he selected.

At the very least, this would be a useful first step in developing the methodology for a larger study, including a questionnaire, and obtaining information on local industries. Oppenheim's sample should be reviewed and modified if appropriate to assure representativeness, and additional firms covering wholesale and retail businesses should be selected.

Basic information on the scale of business activity, changes in operations in response to EPRP reforms, major constraints to current operations and future expansion, and needed additional reform measures should be collected by the study. The major output of the study should be a prioritized list of future policy reforms which the GRM should undertake to stimulate private sector development. An economist with applied research experience concerning private sector development in West Africa will be needed for a minimum of eight to ten weeks to design the study, interview business owners, and analyze the data. The PCU should provide necessary support services. The study should be conducted within the next few months and possibly again prior to the final evaluation if funding permits. The second round should be considerably easier - the same methodology, questionnaires and sample can be used - making it possible for the PCU to conduct this follow-up study.

3. Examination of Private Sector Growth - Business Registrations Under the New Commercial Code

The simplification of business registrations, and in particular, the removal of fees formerly required for registration by the enactment of the new Commercial Code was obviously designed to encourage businesses to register with the government. The new code has only recently been enacted, but by early 1988, the registration system will have been in place long enough to serve as a sampling frame for a study of new businesses established during the course of EPRP to gain insight into the level, composition and trends of recent private sector growth.

Section 3.3 recommended that the registration data from the Commercial Code be computerized to produce a relatively simple data base containing the basic information reported on the registration form. This will also provide a listing from which a sample of new businesses can be drawn. The sample could also be restricted to the Bamako area to simplify the data collection process. The population of businesses in the registration system should be reviewed to develop an appropriate sample design - a relatively small sample should be sufficient. The questionnaire for the preceding study on business response to EPRP should serve as a guide for this study. Additional information should be collected on the factors contributing to establishing a business at this time, constraints to business

establishment, major problems encountered and needed regulatory reform to encourage more new businesses. If possible, a comparison between the "installation de jeunes" with other new businesses could provide useful information on this special program.

Two additional studies might be undertaken for the design of a follow-on to EPRP in the event that the mission can fund further reform activities.

4. Administrative Simplification and Consolidation of Tax and Customs Rates

A major problem confronted by business owners is the confusing and ill-defined range of taxes they are assessed. At present, they receive no unified statement of their annual tax bill, but rather a series of individual bills with no accompanying explanation of how the assessment was determined. On the one hand, the current system, is difficult for the GRM to administer effectively and, on the other hand, seemingly unfair and extortionary to the tax payer. The result is a system prone to abuse both in its administration and in compliance. A future reform objective, therefore, might be to simplify and consolidate business tax and customs rate structures. A study examining possible options for these reforms, specifying the sequence of steps to implement the a new system, would be a useful planning document.

5. Study of Tax and Customs Rate Changes to Stimulate Private Sector Development

Assuming the preceding studies are conducted on private sector response to EPRP reform, a synthesis of results from these and other related studies would for designing and implementing another fiscal reform package to stimulate private sector development. The fiscal reform report, building on the synthesis, would re-examine the issues of the high rate of marginal taxation and the neutrality of tax customs treatment of private sector activities that were the foundation of the EPRP measures. An output of the study should be a prioritized set of recommended reforms for each major category of business - e.g., industries, retail and wholesale establishments, agricultural input supply, etc.

6. Future Funding Priorities

Discussion

Several major points have been made in the evaluation which pertain directly to policy measures which should be supported by A.I.D. in the coming years. The evaluation of EPRP is very positive in regard to the implementation progress, to program management and to the potential economic significance of the reform process that has been initiated - especially in the areas of fiscal reform and private sector development. The latter policy development - encouragement of private sector growth - is particularly striking in a country which for more than twenty years has viewed the private sector with suspicion and has over-regulated it to the point of impeding growth. The message being communicated through EPRP and other policy initiatives is in direct contrast to past experience. In short, EPRP might well be one of A.I.D.'s more promising economic policy reform programs. What is particularly disconcerting is the prospect that further funding to solidify and advance this process might not be forthcoming. If A.I.D. "cuts and runs" at this point, it is very likely that the progress EPRP has made and its overall impact will be seriously undermined.

The evaluation indicates several areas of policy and institutional development which should be the core of future EPRP support. It is quite clear that as an instrument of budgetary restructuring, the VED program, although popular with the GRM, is more costly and has less direct impact in real terms than other measures, e.g., hiring fewer people, wage restraints, etc. The argument that VED is a necessary element of the budgetary restructuring component is of questionable validity. Granted incentives might be required, BUT there are certainly alternative uses of funds which are equally appealing to the GRM but which have a more direct effect of budget re-structuring, such as a cash transfer for direct budgetary support linked to increased non-personnel expenditures.

The evaluation also substantiates the importance of the fiscal reform objectives EPRP supports. In the short-term, the tax and customs reform measures enacted thus far may have little economic significance in and of themselves. But if nothing else, they demonstrate to the GRM that such reforms can be made without seriously undercutting revenues if they are accompanied by more effective enforcement and collection of taxes and duties. As a means for stimulating private sector development, further fiscal reforms and improvement of the organization and administration of the tax system certainly should have high priority.

The sustainability of reform measures is likely only if the institutional capability to administer them is developed as well. EPRP's computerization efforts are a significant step in this direction. An expanded capability to manage the volume of fiscal and budgetary data the MFC is responsible for is important for better administration and control of revenue and expenditure systems. Improving the quality of these data and their reporting to make them more useful for policy development purposes is an obvious follow-on to computerization. What is needed is further strengthening of the MFC's information systems and analytic capabilities. How much more is needed is debatable, but what will exist by the end of EPRP will not be good enough. On the other hand, EPRP should not jump into the "bottomless pit" of institution building; careful planning will be needed to avoid that mistake.

Recommendations

1. AID/Washington should provide additional funding for continuing the policy development process initiated by EPRP.
2. Further reform of the tax and customs systems, particularly those which have the greatest effect on private sector development, should have highest priority in a follow-on or extension of EPRP.
3. Continued support for improving the information systems of the MFC should be included in a follow-on or extension of EPRP. The PCU should be considered as a possible vehicle for supporting such improvements.
4. Studies to understand better how private sector development can be stimulated by further policy reforms should be part of a follow-on or extension of EPRP.
5. Carry out the recommended monitoring and evaluation of the VED program, and if the results indicate that the program performs poorly, re-program remaining funds in the budget re-structuring tranche of EPRP.