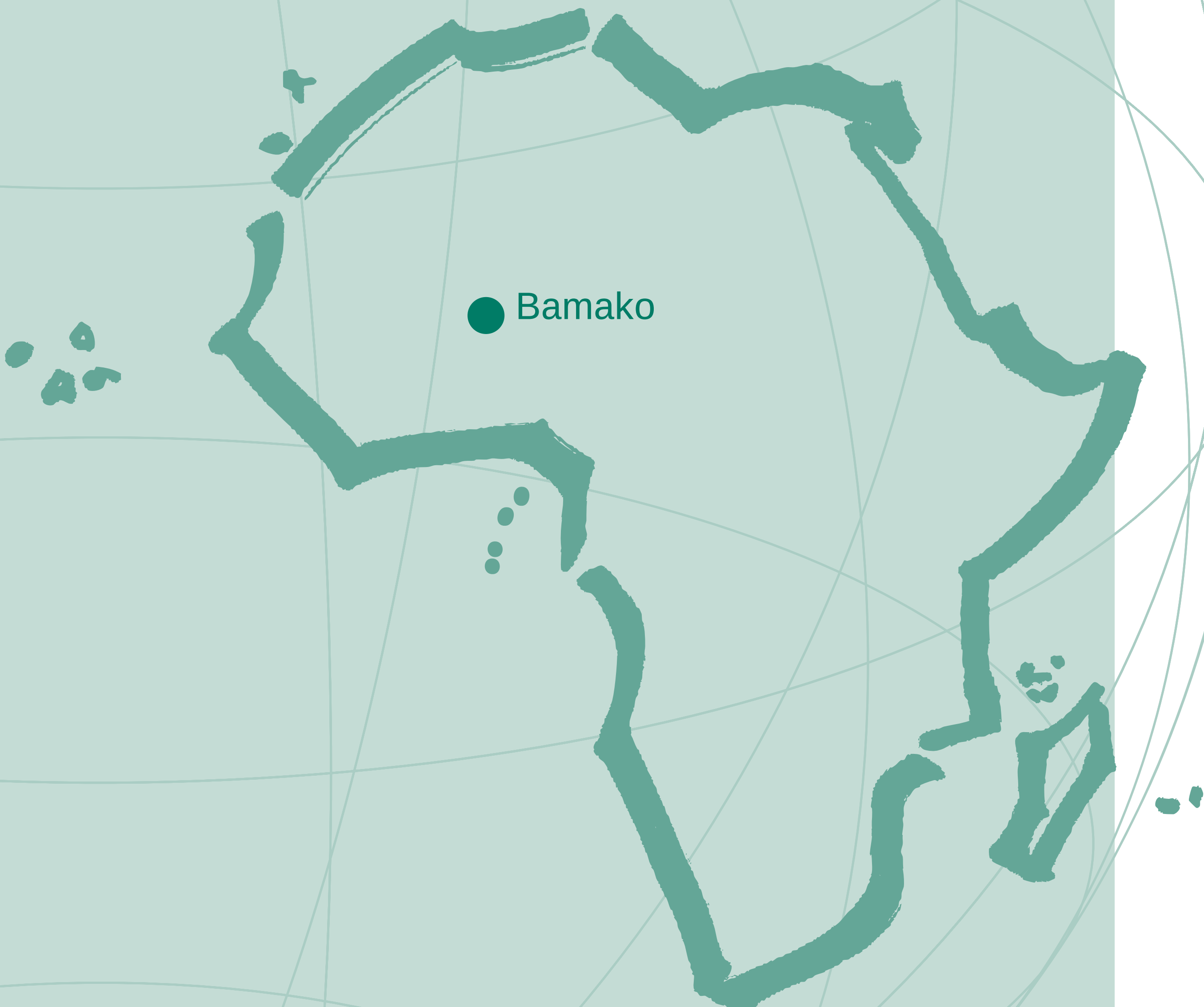
Mali



key figures

• Land area, thousands of km²	1 240
• Population, thousands (2004)	13 409
• GDP per capita, $ (2003)	324
• Life expectancy (2000-2005)	48.6
• Illiteracy rate (2004)	71.3

African Economic Outlook 2004/2005
www.oecd.org/dev/aeo

Mali

THERE ARE CONSIDERABLE CONSTRAINTS holding back economic development and the reduction of poverty in Mali. The crisis in Côte d'Ivoire highlighted the problems caused by the country's hemmed-in position, while current tensions between the government and the private concessionaire responsible for electricity production underline the more general difficulty the cost of factors represents for the domestic economy. High factor cost, in a context of strong international competition, renders difficult the development of conversion activities such as textiles. The financial system is under-developed and does not allow the financing and thus the emergence and development of a tissue of dynamic, employment-generating, small and medium-sized companies (SMEs). These economic constraints are compounded by social factors such as the lack of qualified labour, illiteracy and poor health. The population is therefore very exposed, and this vulnerability renders difficult the implementation of important structural reform. The decision taken in 2004 to postpone until 2008 deregulation of the cotton sector is an instructive example of the constraints weighing on government decisions in this area.

Limited diversification led to penalisation from the fall in cotton prices.

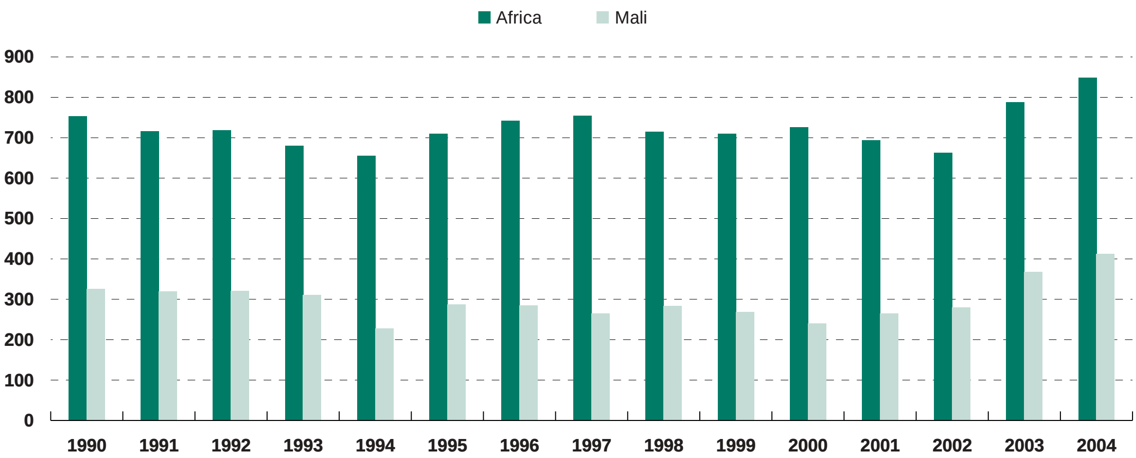
Owing to these unfavourable conditions, Mali's economy remains under-diversified, it creates little added value, and the country is still over-dependent on cotton, agriculture in general, and gold. It is therefore very exposed to exogenous factors such as the price of raw materials, the euro and dollar exchange rate, the price of oil, the climate, and plant disease and pests. The unfavourable combination of these different factors (with the exception of the price of gold) in 2004 resulted in estimated growth of 2.2 per cent, much less than in 2003 when growth was 7.4 per cent. In 2005, it is likely that the sharp fall in the price of cotton will weigh heavily on the performance of the cotton sector and oblige the government to provide massive subsidies for the public sector cotton company. Growth should nevertheless recover to reach 5.7 per cent in 2005 and 5.9 per cent in 2006.

Despite these problems, the country has a number of assets. As well as having extensive underground reserves of gold, limestone, clay and perhaps oil, and substantial resources in such domains as livestock and agriculture (market gardening), Mali has a peaceful

Figure 1 - Real GDP Growth

Source: *Direction nationale de la statistique et de l'informatique* data; estimates (e) and projections (p) based on authors' calculations.

Figure 2 - GDP Per Capita in Mali and in Africa (current $)



Source: IMF.

and consensual political and social climate and its public policies are well-orientated and producing improvements in budgetary performance, poverty, transport and the business environment. Mali has good relations with its development partners, as was demonstrated by the donor meeting in Geneva in March 2004 which was devoted to the strategic framework of the fight against poverty. However, the progress made – and the country's advantages – are probably not yet equal to the challenges facing Mali in terms of employment, diversification and poverty reduction. This means that the government must pursue its efforts to make its policies more rigorous and efficient, whether this be in budgetary programming, or the application and management of its policies to combat poverty. Finally, the desire to preserve social cohesion and political consensus must not lead to the postponement of difficult but vital decisions, some of which have already been long-delayed, as is the case, for example, in the cotton sector.

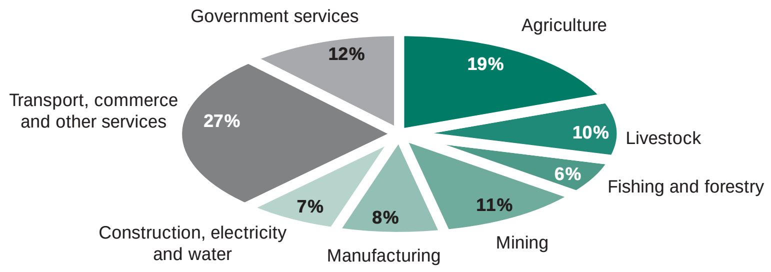
Recent Economic Developments

The Malian economy depends mainly on the primary sector, which employs about 70 per cent of the working population and produced 35 per cent of GDP in 2003. The sector's performance therefore determines the dynamism of the economy as a whole. In this respect, 2004 was not a very successful year because the sector registered an estimated 4.7 per cent contraction, principally due to a fall in cereal production and, to a lesser extent, to a slight reduction in the cotton harvest.

The cotton sector plays a driving role in Mali. It contributes about 8 per cent of the country's GDP and about 3.3 million people live directly from its cultivation. Cotton also plays an essential role in the development of rural infrastructures, social and health services, and encourages the cultivation of cereals that use a share of the inputs required for cotton cultivation. Cottonseed production remained high in 2004/05 at 617 000 tonnes, as against 625 000 tonnes in 2003/04. Given the fall in world prices since the middle of 2004, this production will probably be sold on the world market at a price well below the 210 CFA francs/kg price negotiated between the state purchasing, ginning and marketing monopoly, the national textile company (CMDT), and producers for the 2004/05 harvest. As a result, CMDT could register a loss of 70 billion CFA francs ($132.2 million) on the sale of the 2004/05 crop.

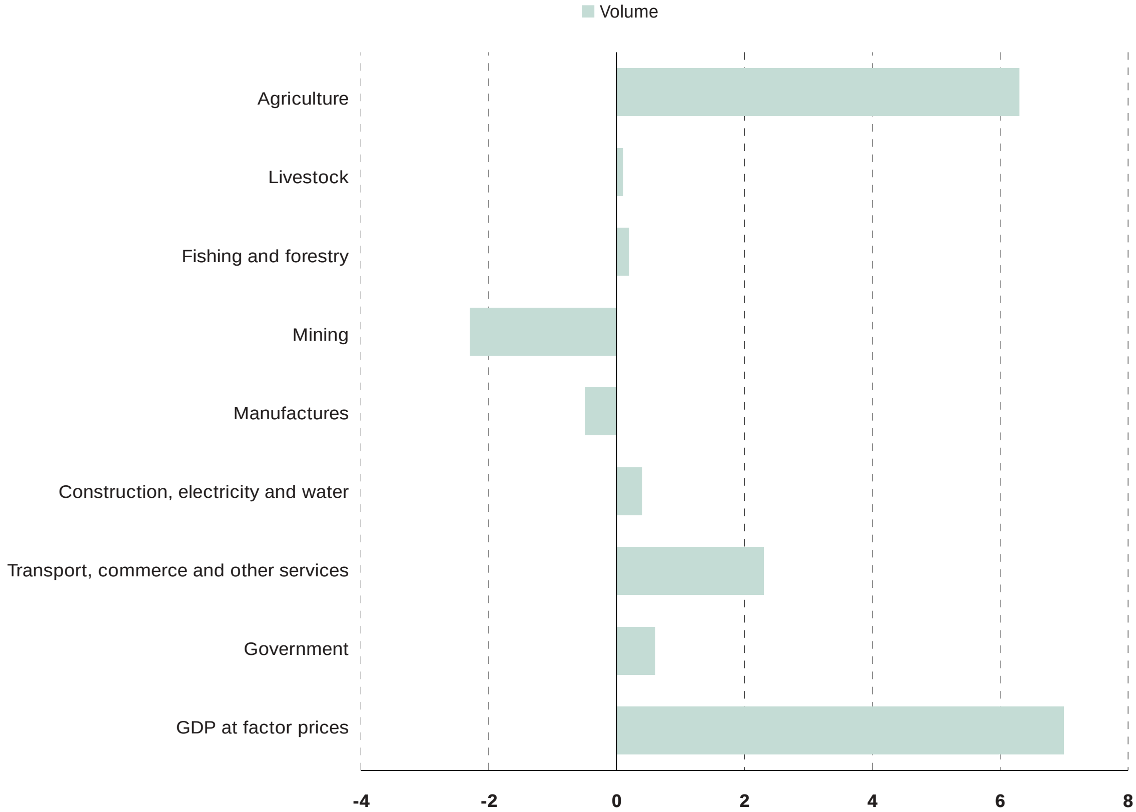
This situation raises once again the difficulty of establishing a purchase price mechanism that guarantees producers a minimum price that will cover their production costs while reflecting – at least partially – movements in international prices. The price mechanism was reformed in 2002 – following the 2000/01 crisis – in an attempt to reconcile two objectives that are at loggerheads when movements in world prices are

Figure 3 - GDP by Sector in 2003 (in percentage)



Source: Authors' estimates based on *Direction Nationale de la Statistique et de l'Informatique* data.

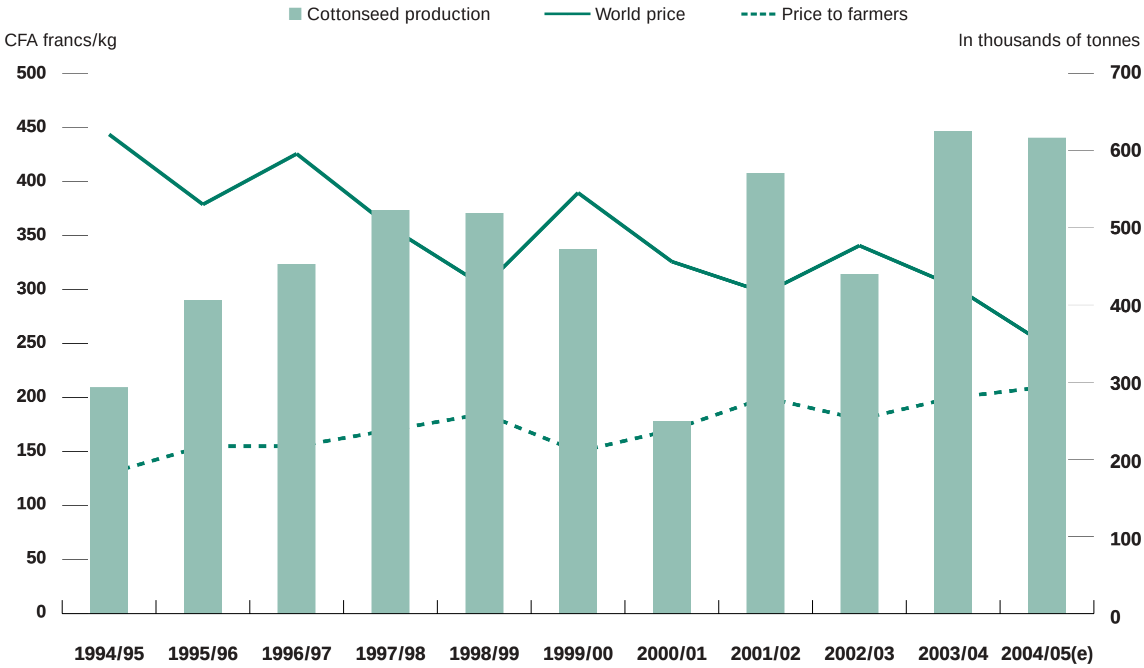
Figure 4 - Sectoral Contribution to GDP Growth in 2003 (in percentage)



Source: Authors' estimates based on *Direction Nationale de la Statistique et de l'Informatique* data.

unfavourable. The two pillars of this system, a rebate mechanism indexed on the commercial results of the previous season and a stabilisation fund (which has remained without funds) did not function, however. Producer prices are still fixed through negotiations – which are often bitter and largely disconnected from movements in international prices – between the CMDT and producers. The government, while refusing to reconsider the 2004/05 producer price of 210 CFA francs/kg, has committed itself to setting up a new price mechanism that will take account of movements in international prices for the 2005/06 season. The price proposed in April 2005 is expected to be between 160 and 175 CFA francs/kg, but it could be lowered

Figure 5 - Cotton Production and Prices in Mali



Note: Production and prices to growers refer to cottonseed on a crop period basis. The international price is for cotton fibre, so it has been converted into the equivalent of cottonseed at a conversion rate of 42 per cent and calculated as a calendar year average (year n+1 for a crop in n/n+1).

Source: *Direction nationale de la statistique et de l'informatique* and World Bank.

in August 2005 to take account of movements in the international price. The authorities, aware of the unpopularity of this measure and anxious to avoid a production strike like the one in 2000/01, have committed themselves to carrying out a vast information campaign on the ground. A sharp drop in production in 2005/06 cannot be ruled out, however.

Cereal production in 2004/05 has been estimated at 3.2 million tonnes (with consumption needs estimated at 2.6 million tonnes), compared to 3.6 million tonnes in 2003/04. This drop in production of about 10.7 per cent is primarily due to insufficient rainfall and, to a lesser extent, to locust infestation. The impact of the latter should not be overestimated, however: Kayes, Gao, Tombouctou and Mopti were ravaged by the swarm, but the principal cereal production zones - Sikasso and the region covered by the Upper Niger Valley Authority (OHVN) - were spared. Rice production was also limited by insufficient rainfall - production is estimated to be down about 13 per cent on 2003 levels.

Cotton's high price volatility on international markets underlines the need for Mali to diversify its agricultural activities in order to break out of its dependence on this crop. The country's climate, soil and rainfall are suitable for extending rice and sugar cane production, and also market gardening, particularly in the region managed by the OHVN. Mali already grows tomatoes (it is one of the region's main producers), mangoes, potatoes and French beans, but major efforts need to be made to develop the cultivation and exportation of these crops. The country's potential is vastly underexploited: in the OHVN region, which covers 1 million hectares, only 70 000 hectares of land are irrigated. The development of irrigation is one of the government's priorities. The master plan for the development of the OHVN zone sets as its objective the irrigation of 15 000 additional hectares between 2002 and 2007, reaching 200 000 hectares by 2015. There are also several support projects for the development of export crops, which aim to improve the packaging, conservation and traceability of Malian horticultural products, which are at present notoriously deficient.

Livestock, which represented 10 per cent of GDP in 2003, is the country's third-ranking export sector after gold and cotton. In 2003 the sector was adversely affected by the crisis in Cote d'Ivoire, and growth in that year was at just 1 per cent; production picked up the following year, with growth estimated at 5.5 per cent. The country has a strong agro-pastoral tradition, but the Malian livestock sector remains traditional, nomadic and there is little specialisation. It also suffers from a lack of professionalisation (60 per cent of breeders do not belong to a co-operative) and from the almost complete absence of stock health care. Infrastructures, whether in the form of transport vehicles or abattoirs with refrigeration units, are insufficient. Given these conditions, processing activities have not developed and the country exports mainly live animals, an activity which is much less profitable than the export of meat. The creation of a Ministry of Livestock and Fishing in May 2004 is a sign of the government's determination to modernise this sector.

Gold mining is a relatively recent – but nonetheless key – sector of the Malian economy. It constituted about 57 per cent of exports and 11 per cent of GDP in 2003. It is an important provider of fiscal and non-fiscal revenue for the state. In 2004, production suffered from technical difficulties, particularly at the Morila site, and, as a result, totalled no more than 41.6 million tonnes. Prospecting remains dynamic in Mali, where more than 100 exploration permits are currently in use, and the prospects for investment are good. The exploitation of sites at Kalana, Tabakoto and Loulo should start in 2005 and the authorities' production forecasts for 2005 and 2006 are 47.7 and 58.8 tonnes respectively.

Prospects for the mining of other metals such as iron, bauxite and uranium remain in the very early stages, but oil is quite a different story: Baraka Mali Ventures is going to invest 30 billion CFA francs ($56.7 million) over the next four years in the exploration of five promising sedimentary basins close to the Mauritanian frontier.

The secondary sector (excluding mining industries) - at 15 per cent of GDP in 2003 - holds little sway in the Malian economy: food processing is predominant, accounting for 45 per cent of industrial production. The domestic bias in favour of commerce rather than productive investment; the price of factors; the fact that the country is land-locked; the insufficiency of transport infrastructures; import smuggling; and the lack of qualified labour, are among the reasons why Mali's local industrial fabric is so weak, even when it comes to the processing of local primary products. Less than 1 per cent of cotton is processed locally, the country imports 70 per cent of its construction materials, including cement, despite having plentiful supplies of limestone and clay. There were nevertheless some positive developments in 2004: in textiles, with the opening of Fitina mill and the reopening of the Itema plant; in sugar, with the confirmation that the Markala project will go ahead; and in cement, with the opening of a new production unit under the name of LCM. Most of these projects involve foreign investment but their position is nonetheless rather precarious. The Fitina project is benefiting from a cotton price subsidised by the state via the CMDT, and the end of the multi-fibre agreements on 1 January 2005 will increase the pressure of competition in textiles and reduce the benefits reaped from the African Growth and Opportunity Act[1]. In 2004, the added value created by manufacturing industry progressed 20.9 per cent, compared with 8 per cent in construction and 15 per cent in energy.

The service sector, which made up 39 per cent of GDP in 2003, performed well in 2004, showing growth of about 7.5 per cent, thus softening the fall in growth in the primary sector.

Because of the fall in production in the key sectors of gold and cereals, growth was weaker in 2004 – around 2.2 per cent, compared with 7.4 per cent in 2003. At the same time, demand remained dynamic thanks mainly to public sector consumption and, above all, to private and public sector investment in the form of the industrial projects mentioned earlier. Given the

1. On 11 December 2003, Mali was declared eligible to benefit from the opportunities offered by the AGOA in the fields of textiles and clothing.

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Gross capital formation	**18.8**	**24.5**	**18.4**	**24.5**	**27.0**	**27.7**	**28.5**
Public	6.9	7.6	7.6	7.2	7.9	8.1	8.2
Private	11.9	16.9	10.9	17.3	19.0	19.7	20.3
Consumption	**96.8**	**83.6**	**82.5**	**83.3**	**81.7**	**83.3**	**83.5**
Public	19.1	15.7	16.2	15.7	17.5	18.0	17.9
Private	77.7	67.9	66.3	67.6	64.2	65.2	65.6
External Sector	**-15.6**	**-8.1**	**-0.9**	**-7.8**	**-8.6**	**-11.0**	**-12.0**
Exports	18.6	26.3	29.0	23.5	24.5	22.5	21.0
Imports	-34.2	-34.3	-29.9	-31.3	-33.1	-33.5	-33.0

Source: *Direction Nationale de la Statistique et de l'Informatique* data; estimates (e) and projections (p) based on authors' calculations.

decrease in cereal production, the high cotton revenues generated in 2003/04 did not succeed in stimulating private sector consumption, which remained stable (with an estimated rise of 0.8 per cent). The contribution of the current balance to growth remained negative in 2004: exports are estimated to have progressed 2.5 per cent, compared to 5 per cent for imports.

Growth prospects for 2005 are uncertain. There could be a recovery in cereals and gold production, while the secondary sector should improve its results thanks to manufacturing industry and ginning of the abundant 2004/05 cotton crop. However, the strength of the euro and a further rise in oil prices could have a negative effect on household consumption. A fall in producer prices could lead to a significant fall in cotton production in 2005/06. Such a development would also have an unfavourable impact on household consumption. The scale of state subsidies which will have to be paid to the CMDT help cope with losses incurred on the sale of the 2004/05 harvest could force a reduction in public spending and, in particular, in public investment, and would lead to a slump in the economy. Growth in 2005 is likely to be at around 5.7 per cent, but is subject to major uncertainties.

Macroeconomic Policies

Fiscal and Monetary Policy

In 2003, Mali respected all the principal requirements set down in the West African Economic and Monetary Union's (WAEMU) convergence, stability, growth and solidarity pact. However, two secondary criteria – the current external deficit excluding grants and the level of fiscal pressure – were not respected, underlining some of the structural problems of the Malian economy, notably the weakness of its export sector and the narrowness of its fiscal base. In 2003 public debt was just one decimal point behind its average level (70 per cent); by the end of 2004 it had risen up to 74 per cent of GDP. The level of fiscal pressure was not more than 15 per cent, as against 14.2 per cent in 2003). Most importantly, the basic budgetary balance over GDP - a "key criteria" - could become negative as the slow-down in growth hits public revenues.

Mali maintains good relations with the International Monetary Fund (IMF), with which it has been engaged since June 2004 in a three-year 9.33 million SDR (IMF international reserve asset) programme of the Poverty Reduction and Growth Facility-type. The first review of the PRGF is planned for early 2005. The programme is going well, although differences with the World Bank over the reform of the cotton sector could prevent it from being executed correctly.

The implementation of the 2004 budget took place in a difficult context. The budget project was based on a projected 4.7 per cent growth: as it turned out, growth did not exceed 2.2 per cent. The objectives set out in the budget had little chance of being achieved, partly due to the slowdown in growth and also because of technical problems encountered in the gold sector. This sector, which brought in 46

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Total revenue and grants[a]	**21.2**	**17.9**	**20.1**	**21.8**	**21.6**	**21.6**	**21.5**
Tax revenue	12.1	12.4	13.4	14.2	15.0	15.3	15.3
Grants	6.8	3.8	3.8	4.6	3.7	3.4	3.3
Total expenditure and net lending[a]	**22.1**	**21.1**	**23.8**	**22.5**	**24.5**	**25.0**	**25.0**
Current expenditure	11.5	13.9	15.0	14.4	15.6	16.0	15.8
Excluding interest	*10.4*	*13.3*	*14.2*	*13.7*	*14.9*	*15.3*	*15.1*
Wages and salaries	3.6	3.9	4.1	4.3	4.5	4.5	4.5
Interest	1.0	0.7	0.8	0.8	0.7	0.7	0.7
Capital expenditure	11.4	7.7	8.9	8.2	9.0	9.2	9.3
Primary balance	**0.2**	**-2.6**	**-2.9**	**0.1**	**-2.1**	**-2.6**	**-2.8**
Overall balance	**-0.8**	**-3.2**	**-3.7**	**-0.7**	**-2.9**	**-3.3**	**-3.5**

a. Only major items are reported.
Source: Ministry of Economy and Finance and IMF data; estimates (e) and projections (p) based on authors' calculations.

billion CFA francs ($86.9 million) in 2003 in the form of diverse tax revenues and dividends, represents manna for the Malian state (in the form of both tax and dividends). However, because gold production in 2004 was lower than anticipated (at around 41.6 tonnes instead of the expected 48 tonnes), the state could find itself with a revenue shortfall of 15 billion CFA francs ($28.3 million). These problems are compounded by the complexity of relations between the state and the big mining companies that exploit Malian gold. The latter tend to delay paying the advances on dividends due to the state. In November 2004, out of 25 billion CFA francs in mining dividends budgeted, only 4.6 billion CFA francs had been paid. The mining companies tend to wait until the exemptions that they are entitled to *in principle* have been applied before paying their dividends to the state shareholder.

The 2004 budget project provided for a 20 per cent increase in expenditure, of which 16 per cent was earmarked for current expenditure and 28.6 per cent for capital expenditure. The actual increase was probably closer to 7 per cent and represented nearly 9 per cent of GDP in 2004, compared to 8.2 per cent in 2003. On the basis of orders to pay, the execution of capital expenditure, at 67.3 in September 2004, was relatively satisfactory.

The difficulties encountered by the authorities in the revenue sector caused problems in the management of public funds. The government had to resort to issuing Treasury bonds worth 21 billion CFA francs ($39.7 million) in July 2004. This situation got worse subsequently. The government's financing needs were in principle 201 billion CFA francs ($379.8 million) (on the basis of payment orders excluding grants) and, with net internal financing negative, were to be financed up to 64 per cent by grants and 57 per cent by external loans. However, by the end of September, no more than 50 per cent of grants and 55 per cent of other expected external financing had been received, notably because of delays in the payment of budgetary aid by donors. These included the variable 2004 tranche of the European Union's ninth European Development Fund (EDF) and the adjournment of the $25 million structural adjustment loan IV from the World Bank, which was linked to disagreements over reform of the cotton sector. Solutions began to emerge at the end of 2004 with the realisation of budget support by a number of bilateral donors, payment of the EDF tranche, provision of emergency aid by the European Union via the Flex mechanism, as well as the issue of Treasury bonds which will be refinanced in the first quarter of 2005 by the release of structural adjustment loan IV by the World Bank. Nevertheless, to limit budgetary overspend, the IMF called for a 13 billion CFA franc ($24.6 million) reduction in expenditure, using, for example, the funds earmarked to finance the restructuring of public sector companies. The overall budget deficit in 2004 is estimated to have finished close to 3 per cent of GDP.

In counting on 5.7 per cent GDP growth, the 2005 budget implies a financing requirement excluding grants of 6.7 per cent of GDP. Taking into account grants expected to amount 3.4 per cent of GDP, this figure could come down to around 3.3 per cent. But major uncertainties surround implementation of the 2005 budget, starting with identification of financing sources. The CMDT's deficit, which will doubtless be covered by a state subsidy, could have an adverse effect on budgetary balances. The government has also stated that it does not intend to pass on the full burden of any future new increases in the price of oil to the price of petrol at the pump, and this despite the opposition of the IMF, which wants to see the state's financing requirement reduced. An agreement was nevertheless reached between the fund and the government on a minimum objective for revenues from domestic tax on oil products (TIPP) in 2005. In addition, no new subsidy will be granted to the electricity company, *Energie du Mali*, if there is a decrease in the price of oil.

These difficulties, which have come about because of the deterioration in the global economic environment, nonetheless underline the vulnerability of Malian public finances. This weakness comes largely from the narrowness of the fiscal base and so from the fragility of state revenues in a context of strong social demand for public spending on infrastructures and the fight against poverty. It should be pointed out that the authorities are determined to enlarge the fiscal base and build on progress already accomplished. The level of fiscal pressure rose from 13.4 per cent in 2002 to an estimated 15 per cent in 2004, which is a remarkable result at a period during which when import duties were stagnant. Reforms launched over the last five years such as the improvement of recovery capacity and its centralisation by the tax department (DGI), computerisation, the creation of a major companies section within the DGI, introduction of a fiscal identification number (NIF), and consolidated tax, all demonstrate the government's determination on this issue and have succeeded in increasing the level of fiscal pressure.

The major challenge facing the authorities remains taxation of the informal sector, including the agricultural sector, which today largely passes through the net. For budgetary year 2005, the DGI proposed taxing agriculture indirectly by cancelling exemptions granted to the *Banque nationale de développement agricole* (BNDA), and directly by applying VAT to those agricultural inputs and equipment which are currently exempted. These measures would produce additional fiscal revenues totalling 1.7 and 7.4 billion CFA francs respectively ($3.2 million and $14 million). The government's hesitations show how politically and socially sensitive the subject is, particularly as the authorities are probably still smarting from the controversy which has been growing since last year over the reform of the down payment on diverse taxes and duties (ADIT), the aim of which was to tax the informal sector through its imports[2]. This controversy, which reflects the imperfections of the existing system (which also hooks operators from the formal sector), illustrates the difficulty of taxing the informal sector, as well as the porosity between the formal and informal sectors in a country like Mali.

The Central Bank of West African States (BCEAO) fixes Mali's monetary policy which, taking account of the CFA franc's linkage with the euro, mostly follows that of the European Central Bank. In March 2004, the BCEAO lowered its discount rate from 5 to 4.5 per cent and its repurchase rate from 4.5 to 4 per cent –in real interest rate terms these reductions fall far short of counterbalancing price movements in Mali in 2004, which after falling an average 1.3 per cent in 2003, dropped a further 3.1 per cent. This trend is largely due to the movement of the euro and the good 2003/04

2. Before 2002, the ADIT was a deduction made at the customs barrier that was paid in addition to customs duties at a single rate of 5 per cent, reimbursable by the state in the form of a tax credit. The system was modified in 2002: regular economic operators belonging to the real taxation system pay a refundable rate of 3 per cent while others, including a large number of informal operators, occasional importers, economic operators without a fiscal identification number and/or without an imported goods pre-despatch verification certificate pay 15 per cent which is non refundable by the state.

cereals harvest. There was, nevertheless, an increase in cereals prices at the end of 2004 following the poor 2004/05 harvest, as well as an increase in the petrol price in line with the international oil price. Between September and November of that year the cost of high-grade petrol rose 6.4 per cent. This could point the way to the scale of inflation to come in 2005, perhaps as much as 3 per cent. Price trends in 2005 will depend notably on the oil product taxation policy followed by the government. The existence of large cereal stocks, together with the strength of the euro, should nevertheless serve as ramparts against a major resurgence of inflation.

External position

The Malian economy is heavily influenced by external factors, notably the price of cotton, gold and oil; the dollar-euro exchange rates; rainfall and its effects on the cotton harvest; and the economic situation of neighbouring countries (notably, that of Côte d'Ivoire, which figured among Mali's major trading partners before the latest crisis). Since the prices of cotton and gold – Mali's two major export products – are quoted in dollars, the fall in the value of the American currency in 2004 could have harmed the country's trade balance. This potential damage was limited, however, by increases in the prices of the two commodities in question, particularly that of gold. It is important to note that the high price of gold owed a great deal to the weakness of the dollar. Cotton was sold at the very high international price pertaining at the start of 2004. The impact of the weakness of the dollar was also softened by the increase in the volume of exports such as fibre, cloth, thread and oil by the cotton sector. The BCEAO expects cotton sector exports to increase from 144.9 billion CFA francs ($273.7 million) in 2003 to 204.1 billion CFA francs ($385.6 million) in 2004.

Trade statistics showed a major deficit for the first nine months of 2004: exports totalled only 240.6 billion CFA francs ($454.6 million), compared with imports worth 505.3 billion CFA francs ($954.6 million), 106.4 billion CFA francs of which were hydrocarbons imports[3]. The reasons for the poor trade balance are the fall in gold exports and the increase in the value of oil imports. The fall in demand for Malian products from Côte d'Ivoire, which imported Malian products worth 2.4 billion CFA francs ($4.5 million) during the first nine months of 2004, compared to about 36 billion CFA francs ($68 million) per year from 1999 to 2001, also played an important role. Exports to Senegal, on the other hand, rose from 16.7 billion CFA francs ($30.2 million) in 2003 to 41.2 billion CFA francs ($77.8 million) from January to September 2004, according to BCEAO figures.

BCEAO figures also show that Mali registered a services deficit over the period 1999/2003 (the figure was at 7 per cent of GDP in 2003) - this is largely due to the country's land-locked position. The deficit in its transport services sector over the past few years has been several times higher than its trade deficit. In 2003,

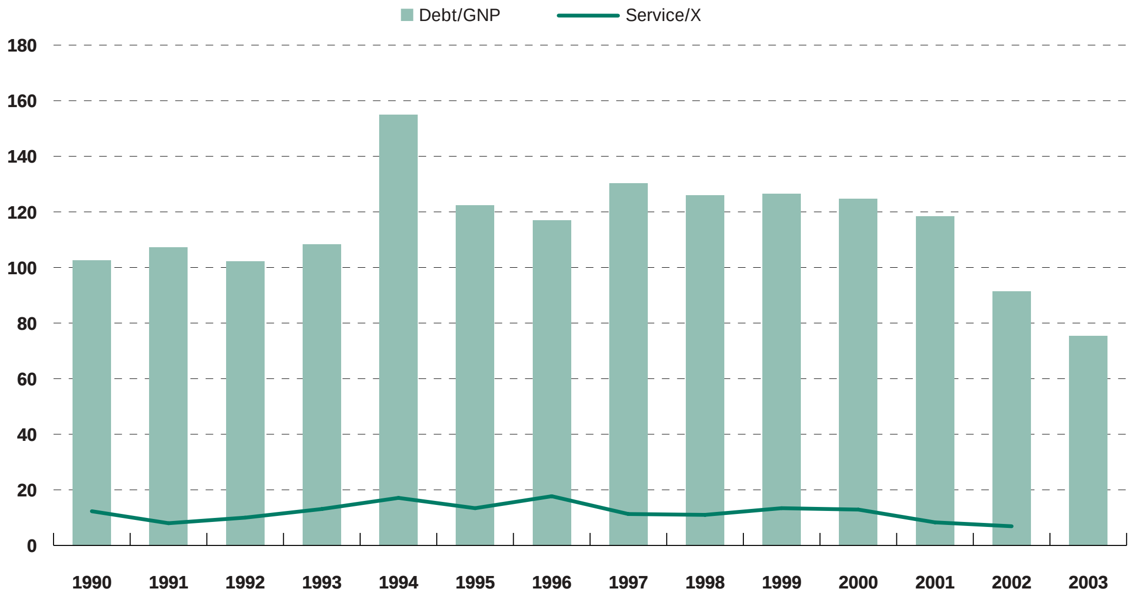
Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	-4.3	-0.3	5.8	2.4	1.8	-0.6	-1.6
Exports of goods (f.o.b.)	15.5	24.1	27.5	22.9	24.0	22.0	20.5
Imports of goods (f.o.b.)	-19.8	-24.4	-21.7	-20.5	-22.2	-22.6	-22.1
Services	-10.5	-9.0	-6.0	-7.0			
Factor income	-1.5	-5.5	-7.4	-4.0			
Current transfers	6.9	4.5	4.5	4.4			
Current account balance	**-9.4**	**-10.3**	**-3.0**	**-4.2**			

Source: BCEAO and IMF data; estimates (e) and projections (p) based on authors' calculations.

3. These statistics come from the customs and do not necessarily match BCEAO projections for the full 2004 year.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports)



Source: World Bank.

Mali's transport and insurance deficit totalled 170 billion CFA francs or $321.1 million compared to a trade deficit of 58 billion CFA francs or $109.5 million. Transfers from Malians living abroad fell sharply from 71 billion CFA francs ($134.1 million) in 2002 to 45 billion CFA francs ($85 million) in 2003. The troubles in Côte d'Ivoire and the resulting return to the country of 50 000 Malians is doubtless a major factor in this decline.

Mali's current balance shows a deep structural deficit, which represented 4.2 per cent of GDP in 2003. The external financing requirement that results from it is essentially financed by external aid. According to OECD Development Assistance Committee statistics, Mali received $528 million in development aid in 2003, which comes to about $45 per inhabitant. This figure is a lot higher than the figure for sub-Saharan Africa as a whole, which stands at $34 per inhabitant. About 85 per cent of this total was made up of grants.

Mali reached the completion point for the HIPC initiative in March 2003 and benefited from debt relief totaling $539 million in net updated 1998 value. At the end of 2004, outstanding external debt amounted to 1 863 billion CFA francs ($3.5 billion) or about 74 per cent of GDP. HIPC debt relief should reach 29.6 billion CFA francs in 2004 (17.8 billion CFA francs had been accorded in July) or $55.9 million. Although Mali is finding it difficult to reduce its debt-export ratio through an increase in exports, its post-HIPC position is fairly comfortable. It has a moderate debt service level – estimated at 6.2 per cent of exports of goods and services following the 2004 debt relief – and a favorable trend profile, since its debt-export ratio – estimated at 129 per cent in 2004 at current net value – should remain below 150 per cent over the next 15 years, according to the IMF's central projection. The scenario forecasts a progressive fall in gold production and persistent constraints on growth in the agricultural sector but, at the same time, dynamic performances by other economic sectors. Risk scenarios, based on rapid exhaustion of gold reserves, poor prospecting results and repeated droughts, underline the necessity of diversifying the economy and reinforcing the ability of debt stock to be concessioned. With this in mind, the government's objective is to progressively increase the grant element from 45 per cent in 2002 to 60 per cent.

Structural Issues

Structural factors - particularly those linked to its land-locked situation - severely limit Mali's economic development. The absence of a coastline makes improving access to ports in the region and reducing the cost of transporting imports and exports a priority. This importance of making these changes has become particularly acute as a result of the Ivorian crisis, which has disrupted access to the port of Abidjan (it takes half as long to reach Abidjan from Bamako as it does to reach Dakar). The country's land-locked situation and its high energy and telecommunications costs are all obstacles to the development of the private sector and, in particular, the formal sector. The absence of real industrial zones is also a problem. The government has become aware of these constraints on investment and taken measures to counter them. It has, for example, revised legislation governing taxation, the employment market and bankruptcy. Several government agencies like the *Centre National de Promotion des Investissements* and the *Direction Générale de la Géologie et des Mines* have set up specialised services for company creation.

There have also been a number of new initiatives in the transport sector. Mali's road network is of very much higher quality than it was 10 years ago even though it remains inadequate. The improvement is the result of work undertaken under the 1995-2004 sectoral transport project (PST), financed by several different donors. A PST-II should come into existence very soon. With regard to links with Senegal, the 712 km northern route via Kayes will be completely surfaced by December 2006. The Bamako-Didiéni and Sandaré-Kayes stretches have already been finished and the Kayes-Kidira stretch is scheduled for completion by November 2005. On the 490 km southern route via Kati, Kita and Saraya, which is a priority route in the NEPAD transport programme, the Kati-Kita stretch will be started in the second quarter of 2005. Work on the Naréna-Kourémalé stretch began in July 2004 and the route to Nouakchott will be completely surfaced by October 2006. Completion of the Bamako-Kourémalé road is scheduled for June 2005. Routes towards Côte d'Ivoire, Burkina Faso, Togo and Ghana are in the process of being improved. Work on another priority road mentioned in the NEPAD programme, the North East Gao-Ansongo-Labbezanga road to Niger, began in 2004. These projects will help to reduce the country's isolation and its dependence on the port of Abidjan. The government has adopted indicators for road maintenance so as to be able to follow implementation of the strategic framework for the fight against poverty (CSLP - see below). In 2003, 2 950 km of road had been surfaced, compared to an initial CSLP target of 3 024 km, and 1 475 km was in good or very good condition. The unsurfaced road network covers 5 550 km (as against the 2003 CSLP target of 5 976 km), only 687 km of which were in good or very good condition. In rail transport, the granting of a concession for the Dakar-Bamako railway in 2003 seems to have borne fruit, judging by the first good results achieved in 2004 by the concessionaire, Transrail SA, 51 per cent of the capital of which is held by the Franco-Canadian company, Canac-Getma. In 2004 freight transport tripled in relation to what it was before the granting of the concession, and a 35 billion CFA francs ($66.1 million) investment plan has been launched. The quality of passenger service has deteriorated, however, with a drastic reduction in the number of stations served, resulting in a highly unfavourable trend in terms of territorial development for a country as vast as Mali. Company investment, moreover, is heavily dependent on the support of international donors – the World Bank, the West African Development Bank, the French Development Agency (AFD) and the Canadian International Development Agency.

The low level of energy supply and its cost is another structural factor that is holding back Mali's development. The level of access to electricity is low – 13 per cent in 2003, slightly up from 2002's 12 per cent – and, at less than 1 per cent in rural areas, unevenly distributed. In Bamako, the level of electrification is 47 per cent. The number of subscribers rose from 118 806 in 2002 to 131 029 in 2003, while production capacity increased from 186 MW in 2002 to 223.6 MW in 2003. To increase supply, the national energy department is currently working on three hydroelectric power generation projects – a 34 MW plant at Kénié on the River Niger, a 59 MW plant at Félou, and another of

55 to 130 MW at Gouina on the Senegal River. The cost of electricity is currently at the centre of a dispute between the government and Saur International, a subsidiary of the French group, *Bouygues*, which is principal shareholder in *Energie du Mali*, the former state operator that was privatized in 2000.

Telecommunications infrastructures show a coverage level that remains low despite relatively strong progress in recent years. The level of coverage was at 4 per cent in 2004 (444 795) lines, which nevertheless represents a 44.3 per cent increase in relation on 2003 levels. A significant part of this increase is due to the portable telephone sub-sector, which opened 377 571 lines in 2004 compared to just 67 224 fixed telephone lines. In 2001, one year after the creation of Malitel, the portable telephone subsidiary of the public sector operator, Sotelma, there were just 23 997 portable telephone lines. In 2002, the state acquired the 44 per cent shareholding held in Malitel by Sogetel. A year later, Ikatel, a private sector competitor to Malitel owned by *France Télécom*, the Senegalese company Sonatel and former shareholders of Sogetel, all moved into the market. Virtually all of the recent growth in the market has been created by Ikatel, which operates 83 per cent of Mali's portable telephone lines and 70 per cent of all telephone lines in the country; the company uses 312 071 lines in all.

No major privatisation took place in 2004. The year was nevertheless marked by developments in the privatisation programmes of key companies such as *Société de télécommunications du Mali* (Sotelma) and the all-important CMDT. The terms of Sotelma's privatisation were set in December 2004: 51 per cent of the company's capital will be sold to a strategic investor, while 20 per cent will remain in the state's hands.

As for the CMDT, 2004 saw a lot of internal heart-searching, as well as difficult discussions with the World Bank. The reform and deregulation of the cotton sector is a priority for the Bretton-Woods institutions - particularly since the 2000/01 crisis - and a subject of discord between the Malian government and the World Bank. According to the latter, the CMDT is inefficient and lacks the resources to invest in the modernisation of its machinery, the result being that the prices paid to producers are too low. It should, therefore, be privatised, according to the World Bank. Taking account of the importance of the cotton sector in the local economy and its role in driving rural development, the subject is clearly extremely for the authorities. When the policy text on the development of the cotton sector (LPDSC) was updated in November 2003, the government opted for deregulation of the sector and the privatisation of the CMDT by the so-called "zoning" method rather than by vertical compartmentalisation of the different cotton activities and their piece by piece sale to the private sector. In this way, the CMDT's different collection zones would be hived off and privatised through sales to three or four private sector cotton companies, each of which would for a certain length of time have exclusive purchase rights for cottonseed in its zone. Strategic functions such as the supply of inputs and cotton grading would be managed at national level by an inter-professional organisation. The CMDT would concentrative its activity on ginning and marketing. Initially these changes were to be put into place in 2006, but a failed attempt at a partial sale to the American company Dunavant in 2003 persuaded the government to postpone the operation to 2008 (though the assets of the CMDT in the OHVN/Kita zone will, in principle, be sold-off before this date). The government is stressing the need to improve producer organisation prior to privatisation, and to better define the transfer of the public service missions currently carried out by the CMDT. It wants, therefore, to propose a new timetable for the operation, which has provoked discontentment on the part of the World Bank, particularly in a context of relations already strained by differences over the mechanism for fixing producer prices. After having decided to suspend structural adjustment loan IV, the bank has requested an assessment of the effects of postponement of privatisation on public finances, and an assurance that postponement would in no way be funded using money earmarked for poverty reduction programmes. Privatisation of the cotton oil processing company, Huicoma, has also been delayed. Negotiations with the bidder selected in November 2003 - the agricultural food processing company, Somdiaa, which had been due to take up 67 per cent of the company's capital - were broken off in March 2004. The state and Somdiaa were unable, notably, to reach agreement on the sanctions which would be applicable if the company failed to respect its investment obligations.

The Malian banking sector is relatively solid even though none of the banks respects risk diversification criteria. Given the structure of the Malian economy, the banking sector is over-exposed to the ups and downs of the cotton sector. 11 banks and financial institutions out of 12 at the end of 2003 respected the prudent ratio of 8 per cent of shareholders' equity, but the quality of the banks' portfolios has since deteriorated. Net and gross percentages of non-performing debt rose from 8.4 and 17.8 per cent respectively in December 2003 to 10.1 and 20.1 per cent in September 2004, which is relatively high. Moreover, the credit provided for the economy by the banking sector represents only 18 per cent of GDP. This low penetration of the Malian financial system clearly makes it difficult to finance risky activities such as those of SMEs.

Although the authorities are taking an increasing interest in the development and financing of SMEs, there does is no up-to-date inventory or even a single definition of what constitutes a small or medium-sized company, even in the formal sector. SMEs in Mali have the same problems as their counterparts elsewhere in the region: access to traditional bank financing is difficult, costly and principally short term. These difficulties can be attributed partly to the characteristics of the banking sector. Its extensive resources are essentially short term given the rather strict 75 per cent cover ratio imposed by the BCEAO for loans of more than two years (which have to be covered by resources with the same maturity, thus limiting financial intermediation). The deficiencies of the business environment, such as the inadequate level of training for business law magistrates, notably in relation to the standards set out by the African business law harmonisation organization (OHADA), and the potential difficulties in the use of bank guarantees, also plays a role. But the principal problem is the poor quality of the projects presented to the banks by entrepreneurs and/or the inadequacy of initial funding. In these conditions, the financing of SMEs does not represent a sufficiently attractive activity for the banks in terms of profitability adjusted for risk.

Numerous initiatives have been taken to overcome the problems facing SMEs, for example the commercial

The *Banque Malienne de Solidarité* (BMS), between Classical Bank and Micro-lending

The *Banque Malienne de Solidarité* (BMS), which has been in operation since mid-2002, is jointly owned by the state (which has a 20 per cent shareholding), and the savings and loan banks. It has relatively limited resources at its disposal and, overall, its shareholders do not impose very strict profitability criteria on it. This means that it is able to offer the financial leeway required by SMEs. The BMS demands little in the way of an initial down payment and has a system by which margin deposits are built up over time, starting from receipt of the first profits of the business. It offers reduced lending rates of around 7 per cent, compared with the usual level, which stands at around 16-18 per cent. Its ample reserves enable it to offer - albeit on a limited scale - medium-term financing and loans ranging from 10 to 50 million CFA francs (between $20 000 and $100 000). It is the absence of accessible loans on this scale in the mainstream banking system that penalises SMEs. The BMS also refinances micro-financing institutions. At the end of 2003, after 15 months of existence, it had collected deposits totalling 7 253 billion CFA francs ($13.7 million) and had granted loans totalling 9 188 billion CFA francs ($17.4 million) to 22 SMEs and 16 micro-financing institutions. These sums, which constituted less than 2 per cent of total bank lending to companies in Mali at the end of 2003, remain modest for the moment, but are encouraging for an institution which is still in its early days. At the same time, to satisfy demand in optimal conditions and on a bigger scale, the BMS needs additional stable, low-cost resources.

sector of the judicial system has received support, particularly in the form of magistrate training. The development of non-financial services to help companies prior to their submission of loan applications is also on the agenda. For example, approved management centres for retail distributors have been established, which are co-financed by the authorities and their development partners and which offer accounting assistance. Initiatives for the financing of SMEs are less numerous. The most significant one to date is probably the *Banque malienne de solidarité* (see box). The creation of institutions specialising in the financing of SMEs - using investment and/or guarantee funds - is currently under consideration. The European Union is considering relaunching its credit initiative mechanism, which was created within the framework of the seventh EDF to finance SMEs that had had their financing suspended because of poor management. Its conversion into a guarantee fund for the financing of SMEs is under consideration. As for micro-financing, this is a highly dynamic sector in Mali: there are 850 micro-financing establishments in the country which together make loans totaling 38 billion CFA francs ($71.8 million), or 6 per cent of all bank lending. Between the end of 2002 and the end of 2003, the sector's growth - measured by the total of micro-loans granted - was 54 per cent. Since 1998, the sector has been the object of a national micro-financing development strategy. For the time being the sector is still very fragile, but the professionalisation and consolidation which the government is seeking to introduce as a priority could enable it to "grow with its clients" and form the missing link between short term micro-lending and the medium and long-term bank lending which is inaccessible to SMEs.

Political and Social Context

Mali enjoys political and democratic stability, which inevitably boosts its economic environment. The current president, Amadou Toumani Touré, succeeded Alpha Oumar Konaré – who is currently president of the African Union – in democratic elections in May 2002; Konaré himself was also democratically elected. The political scene in Mali has a number of particularities. The President has no political party and there is virtually no organised political opposition. A new Prime Minister – Ousmane Issoufi Maïga – who, like President Touré, is not tied to any political party, was appointed in May 2004. The President's style of government is based on consensus, and the local elections in 2004 did not alter the political landscape in this respect. Although most commentators praise the stability achieved by this style of government, and underline the positive aspects of the Malian tradition of collective decision-making, some argue that unanimity is not very propitious to fundamental political debate on the major and difficult issues thrown up by the evolution of Malian society. For the moment, all the parties assure that they want to continue supporting the President, even though the alliance that was formed last year between the two principal parliamentary parties - the *Rassemblement pour le Mali* (RPM) and the *Alliance pour la Démocratie au Mali* (Adema) - was interpreted by the other political formations as representing the beginnings of a political alternative with a view to the 2007 legislative and presidential elections. In any case, it seems quite possible that the presidential and legislative elections – scheduled respectively for April and July 2007 – will bring an end to the existing political consensus.

The process of decentralisation has hardly started in Mali, but it is a priority for the donors. The European Union's 2003/07 Indicative Programme is heavily orientated towards the reinforcement of public sector capacity – largely through decentralisation, to which 70 million has been devoted. USAID is sponsoring a programme of shared governance (PGP), designed to strengthen local capacities, notably those of non-governmental organisations.

In 2002 Mali occupied 174th place (out of the 177) in the United Nations Development Programme's (UNDP) human development index classification (HDI) – only Burkina Faso, Niger and Sierra Leone were lower ranking. As the HDI is a weighted average of GDP per inhabitant and social indicators as life expectancy, the level of children in full-time education and the illiteracy rate, this low ranking indicates that poverty in Mali is not just a question of low revenue per capita: it is a multi-dimensional phenomenon. On the basis of GDP per capita, Mali is classed 163rd, which brings to light the fact that in social, health and educational terms Mali is much worse off than other countries with the same level of income per inhabitant.

The impact of economic growth on poverty in Mali remains limited. The growth of revenue per inhabitant in Mali in the 1990s was quite strong in comparison with neighbouring countries, yet poverty did not diminish during this period. The major policies for dealing with poverty are set out in the strategic framework for the fight against poverty (CSLP), which was adopted by the government in May 2002 and approved by the IMF and the World Bank at the start of 2003. The CSLP serves as a reference point in all discussion on economic and social policy in Mali today. It defines three main areas for action: institutional development and the improvement of governance and participation through, among other things, decentralisation and the devolution of public services; sustainable human development and the widening of access to basic social services; and the development of basic infrastructures such as roads, airports, railways and telecommunications.

The CSLP's first annual report was published in April 2004, this brought to a close the second phase of a process, the initial stage of which had been the drafting of the initial document and its approval by the multilateral partners. This second phase involved producing a pared down and operational list of indicators that will enable the progress of the implementation of the CSLP to be monitored. The Malian government finally adopted about 40 indicators, covering growth, public finances, education, health and infrastructures, though its partners would have preferred a shorter list. At a round table meeting on the CSLP in Geneva in March 2004, which was attended by both the authorities and donors, the latter broadly approved implementation of the CSLP and promised aid totalling about $2.4 billion during the 2004/06 period. Both the development partners and the government acknowledged the existence of deficiencies in the document - starting with the very high economic growth target of 6.7 per cent per year for the 2002/06 period. This ambitious target was set because – as mentioned above – poverty levels in Mali do not react to slight increases in economic growth but, given Mali's recent growth record, it is unfortunately not very realistic. The development partners insist that a thorough analysis of the factors determining growth and the links between growth and poverty is indispensable. The Malian government has proposed setting up a single reception point to facilitate the absorption of aid and pleaded for a more rapid redirection aid towards direct budget support.

To support the implementation and evaluation of the CSLP, the government has at its disposal data produced by a new survey of households, the Malian survey for the evaluation of poverty (EMEP), which was carried out in 2001/02, and a less elaborate survey which brought this data up to date in 2003. This data, which has not yet been fully analysed, makes it possible to define the objectives of public policies for the fight against poverty and also to describe the state of poverty and its different dimensions in Mali.[4]

The literacy rate in 2002 was 35 per cent, well below the 45 per cent target set in the CSLP. According to an EDF-funded report on the system of evaluation of the CSLP, the literacy-indicator on which official statistics are based is in fact an indicator not of literacy levels as such but rather of pass rates in assessments carried out by centres of education, and so probably overestimates actual literacy levels (Unesco suggests a rate of only 28.7 per cent in 2004). The gross rate of children in full-time education at primary level in 2002/03 was 67 per cent for all children of school age, and 56 per cent for girls. School attendance rates for both primary and secondary education was 26 per cent, according to the UNDP. In 2002/03 the number of pupils per teacher at primary level was 61.1:1, a figure that beats the ratio aimed for in the initial CSLP of 70 pupils per teacher.

Infant mortality in 2004 was 114.7 per 1 000 births, according to United Nations figures. In 2003,

4. Most indicators are not updated beyond 2002. These provisional statistics should be treated with caution.

46 per cent of the population lived within five kilometres of a functioning healthcare centre. However, donors queried the ambiguity of the notion of "functioning". The definition of this word in the CSLP is based on a method of weighting of different criteria such as the quality of the establishment; its relations with the community; the quantity and quality of its personnel; and the diversity of its medical activities. But the analysis carried out under the auspices of the EDF stresses that the people questioned tended to equate functionality with proximity. In 2003, 79 per cent of children less than one year old had been given the DTCP 3 vaccine (which protects against diphtheria, tetanus and whooping cough). The level of infection by HIV/AIDS is relatively low in relation to the situation elsewhere in Africa: 2.5 per cent of the population between the ages of 15 and 49 was contaminated at the end of 2003. The death rate from malaria and tuberculosis, which stood at 58.3 and 26.8 per 1 000 respectively in 2001, are more worrying because they have been on the increase over the past decade.

