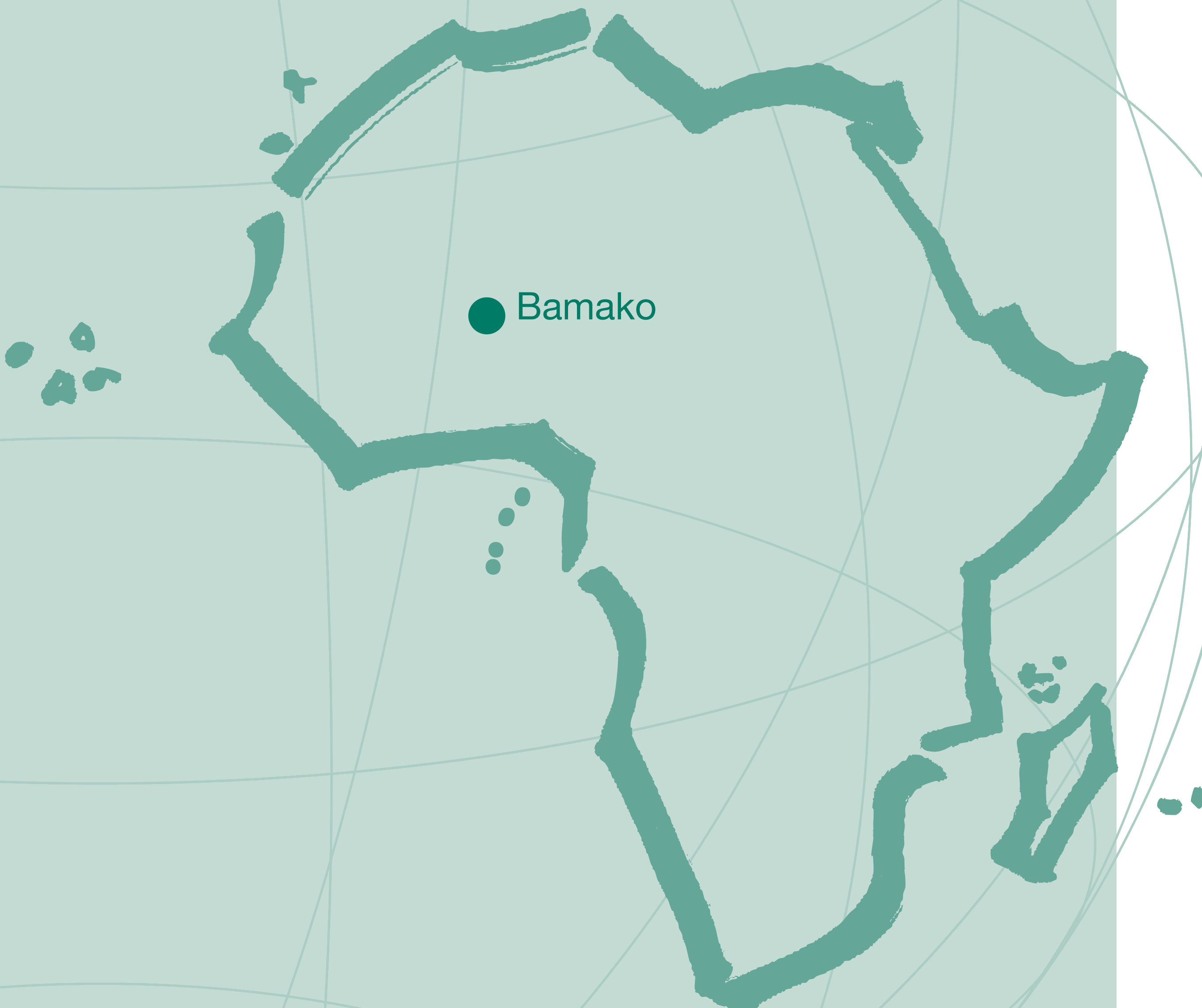
# Mali




**key figures**

- Land area, thousands of km² 1 240
- Population, thousands (2002) 12 623
- GDP per capita, $ (2002) 262
- Life expectancy (2000-2005) 48.6
- Illiteracy rate (2002) 72.8

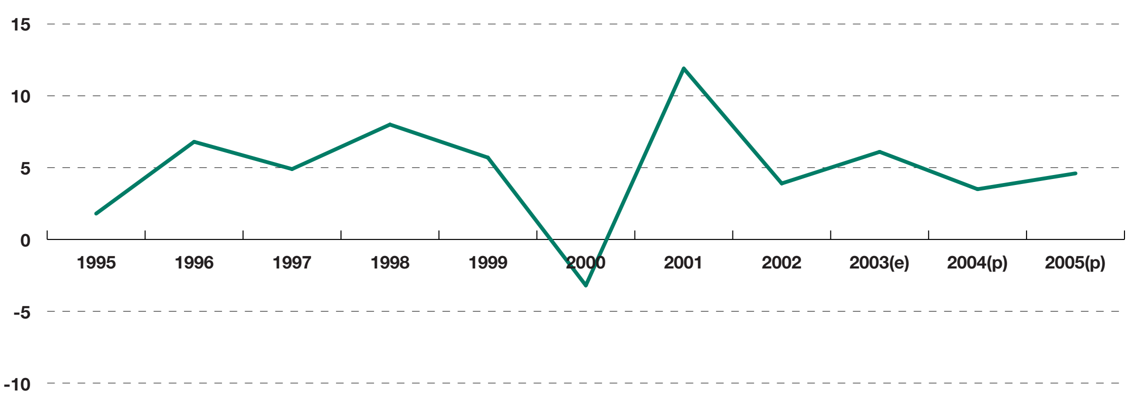
# Mali

MALI IS A HAVEN OF PEACE in a politically-troubled region and its new president, Amadou Toumani Toure, is popular at home and abroad for his conciliatory policies. His credibility and consensual management are essential for tackling the country's economic problems. Major reform of key sectors such as cotton and infrastructure (energy, transport and telecommunications) is underway as part of efforts to fight poverty. Participation and incentives for the private sector are needed if the country is to diversify and modernise production and improve living standards.

Short-term economic results are very unpredictable as the dominant primary sector is at the mercy of the weather, and economic diversification is negligible. Mali had a turning point in 2002, when it hosted the Africa Nations Cup football tournament and held the first parliamentary and presidential elections resulting in a peaceful handover of power. A record cotton and cereals harvest in 2003/04 resulted in overall growth of around 6.1 per cent, despite the weak performance of traditional exports and renewed troubles in neighbouring Côte d'Ivoire. The return to normal harvests in 2004 and 2005 should lead to slower growth of around 3.5 and 4.6 per cent, respectively.

**Mali has managed its first democratic political transition peacefully but faces major reforms in the key sectors of cotton and infrastructure.**

Figure 1 - **Real GDP Growth**



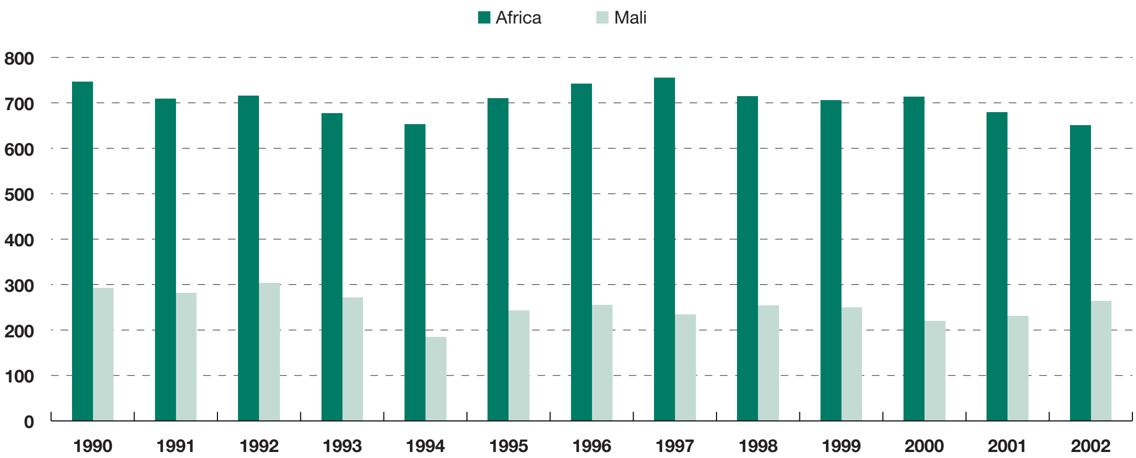

**Source:** *Direction nationale de la statistique et de l'informatique* data; projections based on authors' calculations.

## Recent Economic Developments

Agriculture, livestock, fishing and forestry contributed 35 per cent to GDP in 2002. Despite enormous progress in agriculture over the past decade – making the country self-sufficient in food and a potential cereals exporter – production is still focused on cotton and a few key grains. The state of farming also continues to have a heavy influence on other sectors, especially food-processing (such as milling), which depend mostly on agricultural inputs.

Despite problems in the cotton sector due to unstable world prices, rainfall and internal difficulties at the national textile company CMDT (which sparked a strike by growers in 2000/01 that halved annual production that year), cotton output has doubled since the early 1990s to make Mali the leading producer in sub-Saharan Africa and the world's eighth largest exporter. Quality is high as well, and because production costs are low, cotton is a very competitive export. After the record 2001/02 harvest of 571 000 tonnes, poor rainfall cut production in 2002/03 to 439 751 tonnes.

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




**Source:** IMF.

The 2003/04 harvest was much better at 612 537 tonnes, thanks to good weather.

Fertiliser supply and transport of harvested cotton are still major problems though. The CMDT is being privatised but disorganisation among producers, and especially their lack of capital, meant input suppliers were not chosen. Privatisation of cottonseed transportation was also unsatisfactory owing to high prices charged by new operators and the dilapidated state of their lorry fleets.

The crisis in Côte d'Ivoire occasionally closes the route from Bamako to Abidjan necessitating close management of convoys (matching outgoing cotton shipments with incoming inputs and setting up a special security escort). The uncertain outcome of the crisis, the reform problems and expected medium-term sluggishness in cotton prices all mean that production will not continue the expansionary trend it has followed since the early 1990s. Output will thus remain at about 550 000 tonnes.

Cereals production was 2 530 000 tonnes in 2002/03, about 279 000 tonnes short of national requirements. The government made up the deficit with imports (including 40 000 tonnes of rice exempted from VAT) and intervened directly in the local market by distributing 35 000 tonnes of grain to head off shortages and higher prices. Good rainfall produced a 2003/04 harvest a third bigger than the previous year.

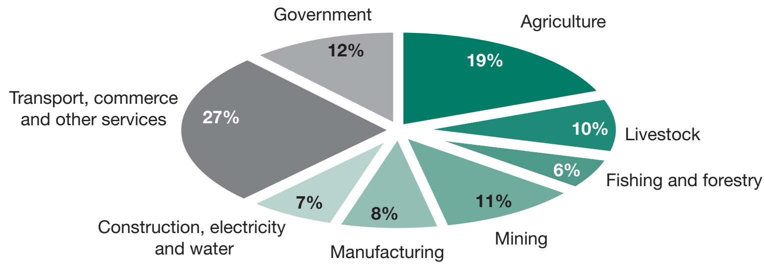
Rice output has steadily increased since 1998, with a 2001/02 harvest of 930 000 tonnes, a quarter up on the previous year, making the country self-sufficient in rice. After a mediocre 2002/03 harvest, the 2003/04 harvest improved again, reaching 967 000 tonnes and putting Mali in a position to be a net exporter. This good performance was due to more than doubling the area planted over ten years, from 200 000 ha (1990/91) to 465 000 ha (2001/02). Yields sharply improved also, exceeding 2 tonnes per hectare and up to 6 tonnes per hectare in the Niger River Authority area (which accounts for 40 per cent of total production on 100 000 ha).

The rice sector has also benefited greatly from liberalisation begun in the 1980s and the 1994 devaluation of the CFA franc, which made rice more competitive. Despite the good results, lack of infrastructure, chronic shortages in some parts of the country (which push the government to limit exports), plus regional instability all reduce the trade possibilities for rice, even though the sub-region is a net importer. Ironically, because Mali's good output cannot all be sold, prices to farmers may fall, reducing their purchasing power and so discouraging them from improving yields in future years.



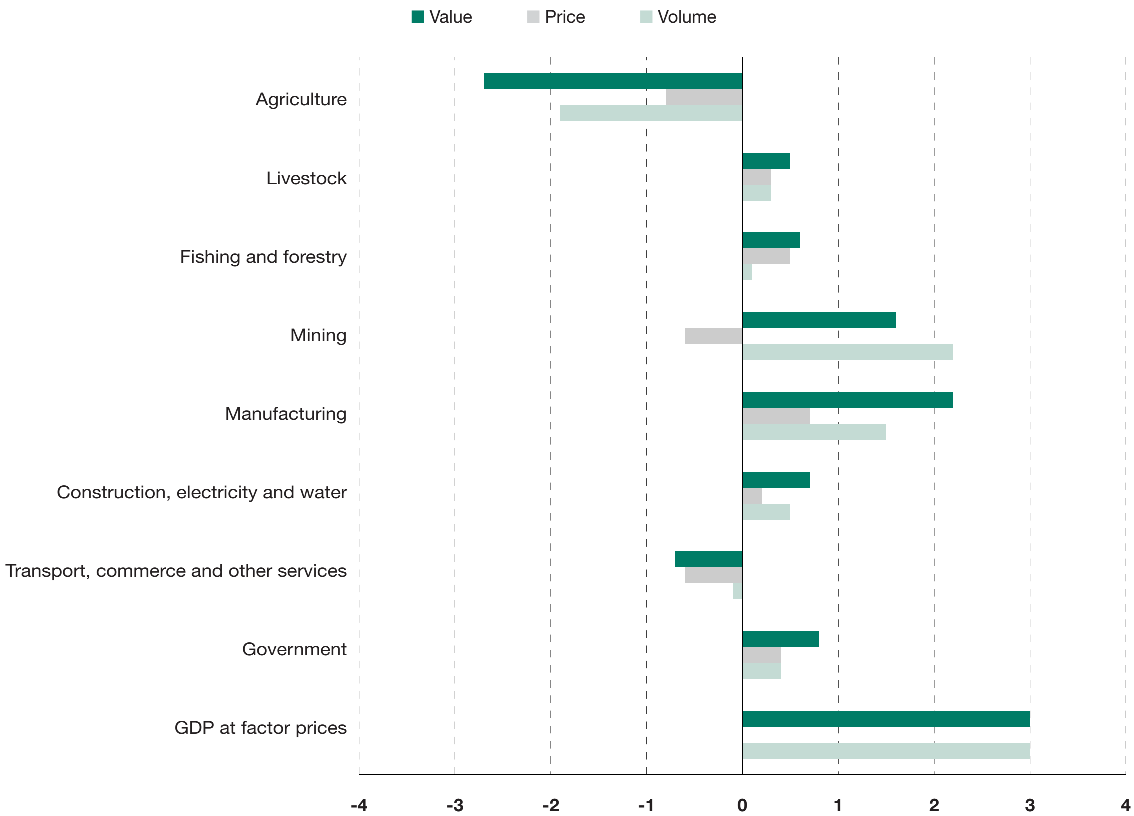
 

## Figure 3 - **GDP by Sector in 2002**




**Source:** Authors' estimates based on *Direction nationale de la statistique et de l'informatique* data.

## Figure 4 - **Sectoral Contribution to GDP Growth in 2002**



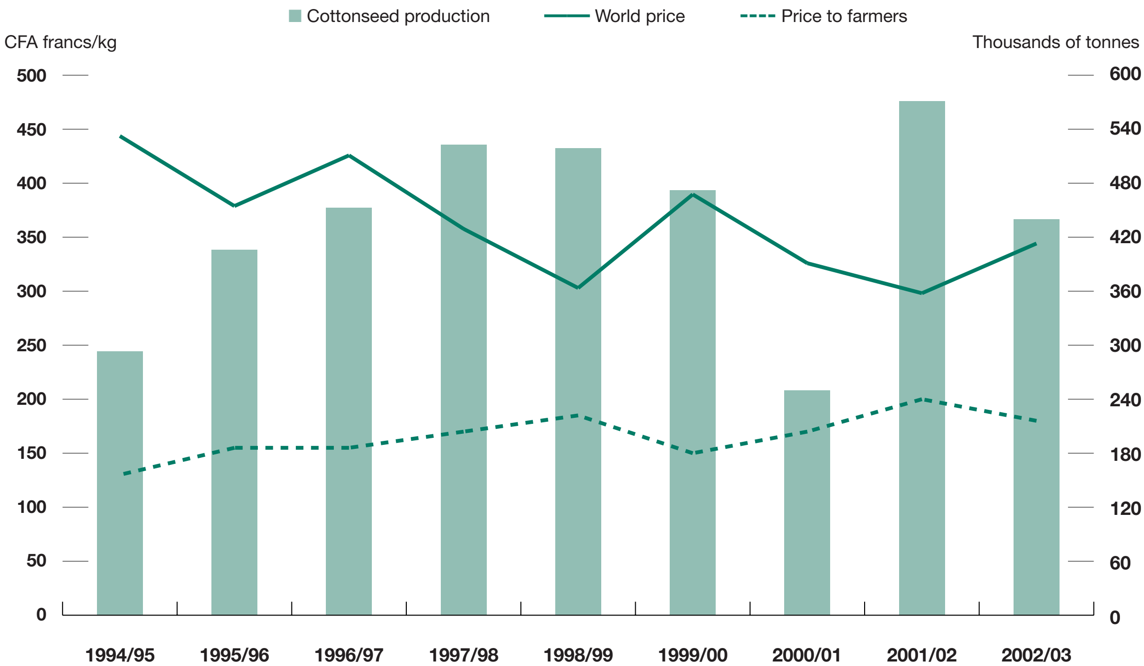

**Note:** Mali's national accounting includes the results of harvests in the following year's GDP.
**Source:** Authors' estimates based on *Direction nationale de la statistique et de l'informatique* data.

In contrast, the gold sector has expanded rapidly under the 1991 mining law, which was updated in 1999 and is now being revised again. The opening of mines at Sadiola (1997), Morila (October 2000) and Yatela (May 2001) confirmed Mali as Africa's third biggest producer, after South Africa and Ghana. No new deposits were opened up in 2002, but unexpected discovery of high-grade ore at Morila led to record national production of 63.7 tonnes. Output fell to a more normal 53 tonnes in 2003. Short-term prospects are good thanks to continuing high world prices. The Tabakoto mine is expected to start up in June 2004. The opening of mines at Kodieran and Kalana has been delayed until 2005 and Segala and Loulo will open even later than that.



## 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 authors' calculations based on price data from the World Bank and exchange rates from the OECD.

In recognition of the haphazard nature of discoveries and the sector's strong dependence on changing world prices and multinational investors, the government has moved to support local producers in two ways. For one, a mineral development programme has been set up to simplify the procedure for opening small mines, to provide easier access to funding, and to facilitate partnerships with foreign firms. Secondly, the government, supported by the World Bank, plans to encourage alluvial mining, including helping women involved in its peripheral small businesses and food supply.

The manufacturing and service sectors did very well in 2001 and 2002 thanks to Mali's hosting of the Africa Nations Cup football tournament. Normality returned

## Table 1 - **Gold Production** (tonnes)

| **Mines** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003 (e)** | **2004 (p)** | **2005 (p)** |
|---|---|---|---|---|---|---|---|---|---|
| Syama | 4.1 | 4.8 | 6.1 | 5.7 | 2.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sadiola | 12.3 | 16.3 | 17.6 | 16.8 | 20.8 | 16.2 | 14.7 | 16.6 | 16.6 |
| Morila | | | | 4.2 | 23.4 | 38.9 | 30.6 | 18.8 | 12.5 |
| Yatela | | | | | 5.0 | 8.6 | 7.7 | 5.4 | 11.8 |
| Kodieran | | | | | | | | | 3.4[a] |
| Tabakoto | | | | | | | | 1.7 | 3.4[a] |
| Segala | | | | | | | | | |
| Kalana | | | | | | | | | 0.5[a] |
| Loulo | | | | | | | | | |
| **Total** | **16.4** | **21.2** | **23.7** | **26.7** | **51.3** | **63.7** | **53.1** | **42.5** | **48.3** |

a. Tentatively, since opening depends to an extent on world prices.
**Note:** Excluding alluvial production (3 tonnes)
**Source:** Ministry of Mines, Energy and Water.

in 2003 and the mediocre 2002/03 cotton harvest slowed activity at ginning factories. Manufacturing was also depressed by the knock-on effects of the Ivorian crisis and the industrial production index fell 20 per cent in the first nine months of 2003 year-on-year. The launch of a new telecommunications company, Ikatel, had a positive impact on the transport and telecommunications sub-sector.

Table 2 - **Demand Composition** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **25.5** | **19.9** | **24.5** | **18.8** | **19.7** | **19.7** | **20.3** |
| Public | 6.4 | 6.6 | 7.6 | 7.5 | 8.1 | 8.2 | 8.4 |
| Private | 19 | 13.3 | 16.8 | 11.3 | 11.7 | 11.5 | 12.0 |
| **Consumption** | **91.7** | **90.1** | **83.6** | **82.1** | **86.6** | **85.4** | **86.0** |
| Public | 19.4 | 16.5 | 15.7 | 16.0 | 16.1 | 15.5 | 15.5 |
| Private | 72.3 | 73.6 | 67.9 | 66.1 | 70.5 | 69.9 | 70.5 |
| **External sector** | **-17.2** | **-10.0** | **-8.1** | **-0.9** | **-6.3** | **-5.1** | **-6.4** |
| Exports | 19.2 | 22.9 | 26.3 | 28.7 | 23.3 | 22.8 | 21.3 |
| Imports | -36.4 | -32.9 | -34.3 | -29.6 | -29.6 | -27.9 | -27.7 |

**Source:** *Direction nationale de la statistique et de l'informatique* data; projections based on authors' calculations.[1]

Growth in 2002 was mainly fed by gold and cotton exports. Imports fell significantly because of supply problems from Côte d'Ivoire and investment also shrank with the end of the Nations Cup. Exports flagged in 2003 because of the smaller cotton harvest and lower gold production. Consumption was very strong in 2003 due to the vitality in the manufacturing sector during 2001 and 2002, and to strong agricultural performances, which thereafter led to the growth of rural income.

## Macroeconomic Policy

### *Budgetary and Monetary Policy*

Since the UEMOA convergence, stability, growth and solidarity agreement came into effect in December 1999, macroeconomic policy has aimed to comply with its convergence criteria to prepare for economic integration in 2005. Mali complied with two primary criteria in 2002 (positive basic budget balance and no debt arrears) and two secondary ones (a wage bill less than 35 per cent of tax revenue and more than 20 per cent of capital spending internal funded). It managed to comply with all the primary criteria in 2003, despite regional problems. However, maintaining a basic budget balance cannot be taken for granted, in light of the weak fiscal base and the pressure anti-poverty measures exert on the budget.



The government has greatly improved its management of public finances since the early 1990s and with UEMOA encouragement has introduced a number of reforms aimed at streamlining the tax structure. These include: introducing a single-rate VAT of 18 per cent, a combined tax for small businesses, a single taxpayer identity number and a common external tariff. It has also computerised the customs service and reformed taxation of petroleum products.

As a result, customs revenue rose by an average 15.9 per cent a year between 1994 and 2002 and overall tax revenue doubled between 1996 and 2002 – from 62.8 billion CFA francs ($123 million) to 122.7 billion CFA francs ($176 million). The chain of budgetary expenditure was also made more open. New budget nomenclature decreed by UEMOA and introduced in April 2003 enabled the introduction of a method of budget programmes, based on medium-term spending

1. To meet UEMOA's criteria for comparing country statistics, Mali adopted a new accounting system in 2002, under which harvest n/n+1 is now counted in n instead of n+1.

Table 3 - **Public Finances** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants** [a] | **18.5** | **19.1** | **18.3** | **20.6** | **21.6** | **19.3** | **19.1** |
| Tax revenue | 9.7 | 12.4 | 12.8 | 14.1 | 14.1 | 13.6 | 13.5 |
| Grants | 6.8 | 4.8 | 3.8 | 3.7 | 4.6 | 2.9 | 2.8 |
| **Total expenditure and net lending** [a] | **21.4** | **22.0** | **21.5** | **24.3** | **25.0** | **24.4** | **24.6** |
| Current expenditure | 11.2 | 11.9 | 13.9 | 14.9 | 14.8 | 14.0 | 14.1 |
| *Excluding interest* | *9.9* | *11.1* | *13.3* | *14.1* | *13.8* | *13.3* | *13.3* |
| Wages and salaries | 3.6 | 3.9 | 3.9 | 4.1 | 4.5 | 4.4 | 4.5 |
| Interest payments | 1.3 | 0.8 | 0.7 | 0.8 | 1.0 | 0.7 | 0.7 |
| Capital expenditure | 11.3 | 10.3 | 8.1 | 9.6 | 10.4 | 10.5 | 10.7 |
| **Primary balance** | **-1.7** | **-2.1** | **-2.6** | **-2.8** | **-2.4** | **-4.4** | **-4.7** |
| **Overall balance** | **-3.0** | **-2.9** | **-3.2** | **-3.6** | **-3.4** | **-5.2** | **-5.4** |

a. Only major items are reported.
**Source:** Ministry of Economy and Finance and IMF data; projections based on authors' calculations.

plans. It also allowed for more transparency in anti-poverty project expenditure and identifying the origin of funds (internal, external, HIPC). Aid reform was also started to increase budget support (as opposed to aid to projects). Despite these efforts, the execution rate of investment and development projects remained low.



Budgetary discipline has put Mali on good terms with the Bretton Woods institutions and despite the country reaching HIPC completion-point, the IMF decided in March 2004 to grant a new poverty reduction and growth facility (PRGF) for 2004-06 to help the country consolidate its gains and complete its reform programme, especially in the cotton sector.

The strong economic recovery that followed the good 2001/02 harvests and buoyant mining and construction sectors significantly boosted government revenue in 2002, despite the noticeable impact of the Ivorian crisis at the end of that year. The tax burden rose to 14.1 per cent, up one percentage point from 2001. Non-tax revenue increased by 11 billion CFA francs ($15 million) to 31.2 billion CFA francs ($45 million) due to payments by gold mining firms. Current expenditure rose by less than expected because of disbursement problems.

The ongoing conflict in Côte d'Ivoire meant that the 2003 budget had to be revised downward after being adopted, because of a sharp decline in balances. The budgetary cost of the Ivorian crisis to Mali was put at 60 billion CFA francs ($102 million), leaving the country with a funding shortfall of some 35 billion CFA francs ($60 million), partly made up for by World Bank budgetary aid. Higher revenue was still expected because of better tax collection, the end of tax exemptions for gold firms, these companies' higher profits, and a strong rise in grants to dull the impact of the Ivorian crisis. Temporary measures which reduced government revenue included tax exemption for firms hit by the Ivorian crisis and postponement until May 2003 of a tax on petroleum products.

Expenditure rose in 2003 due to greater anti-poverty efforts, electricity subsidies and arranging alternatives to the blocked Bamako-Abidjan route. Investment thus increased 10 per cent by value between 2002 and 2003. HIPC funds were mainly used for operating costs however, (especially to pay contract workers) because of the acute shortage of labour in social sectors, which led to a sharp rise in the wage bill. The government also gave a 3.8 billion CFA franc ($6.5 million) subsidy to the state energy company EDM to make up for a tariff freeze imposed on it. Layoffs as part of structural reforms (notably of public bodies) cost about 20 billion CFA francs ($34 million).

Wages and public investment are expected to increase further in 2004 and 2005 in line with anti-poverty efforts contributing to bringing capital expenditure to above 10.5 per cent of GDP and the wage bill to 4.5 per cent of GDP. Tax revenue will probably not rise as much, so the budget deficit will deteriorate in 2004 before levelling off in 2005 above 5 per cent of GDP.

Inflation was kept to manageable levels between 1997 and 2000, but rose to 5.2 per cent in 2001 due to a large rise in credits to the economy associated with the Africa Nations Cup tournament and increased prices of cereals, water and electricity. Despite a better cereals harvest in 2002, inflation was still 5 per cent, the highest in the UEMOA area. However, despite continuing trouble in Côte d'Ivoire, inflation slowed sharply in 2003 resulting in an estimated negative rate of -1.3 per cent.

This unexpected success was mainly due to the predominance of food products, especially cereals, in the consumer price index. Good harvests in 2001/02 and 2003/04 and effective government intervention in the market combined to make food 4 per cent cheaper in 2003. This was helped by the minor impact of transport costs on consumer prices linked to the successful opening-up of new trade routes, and narrower profit margins by haulage operators. The extra cost of shipping 20 000 tonnes of cotton fibre through Lome was estimated by the CMDT as 24.6 CFA francs/kg (3.2 per cent of the average FOB price). Public utility price rises were also held to zero by the government, which reduced electricity rates, while the stronger euro made imports significantly cheaper. Despite a good 2003/04 cereals harvest, this situation is unlikely to continue in 2004 and 2005. The euro is expected to level off, future harvests are not expected to be as good, and utility price controls are not possible in the medium term. Inflation is thus expected to rise to around 2.3 per cent in 2004 and to 2.4 per cent in 2005.

Inflation control in all UEMOA countries, a business slowdown because of the Ivorian crisis, and lower rates in the euro zone led the BCEAO to ease its monetary policies by lowering its discount rate from 6.5 to 5.5 per cent in July 2003 and then to 5 per cent in October that year. The economic boost is expected to be quite small, since the cost of loans depends mostly on the level of debt and not on intervention rates.

### External Position

Mali's trade structure is open and very specialised, with gold and cotton accounting for more than 87 per cent of total exports in 2002. Imports are mostly intermediate goods and petroleum products. The country is therefore at the mercy of changing commodity prices (cotton, gold and oil) as well as euro/dollar fluctuations since these items are traded in dollars. Landlocked Mali is also greatly influenced by events in its two powerful neighbours, Côte d'Ivoire and Senegal, with which it has close trade links. The new flare-up in Côte d'Ivoire since September 2002 has badly hit Mali's trade, especially its livestock exports (90 per cent of which go to Côte d'Ivoire), and the country has turned to other ways of getting its exports out through Senegal, Guinea, and Ghana and Togo (both via Burkina Faso).

Mali's trade balance is traditionally unfavourable because of meagre exports. However, in 2002, despite transport problems linked to the Ivorian crisis, exports climbed sharply owing to record gold production and a record cotton harvest in 2001/02. Terms of trade also improved with the strengthening of the CFA franc against the dollar, despite low cotton prices, and produced a trade surplus of about 4.2 per cent of GDP. Trade terms



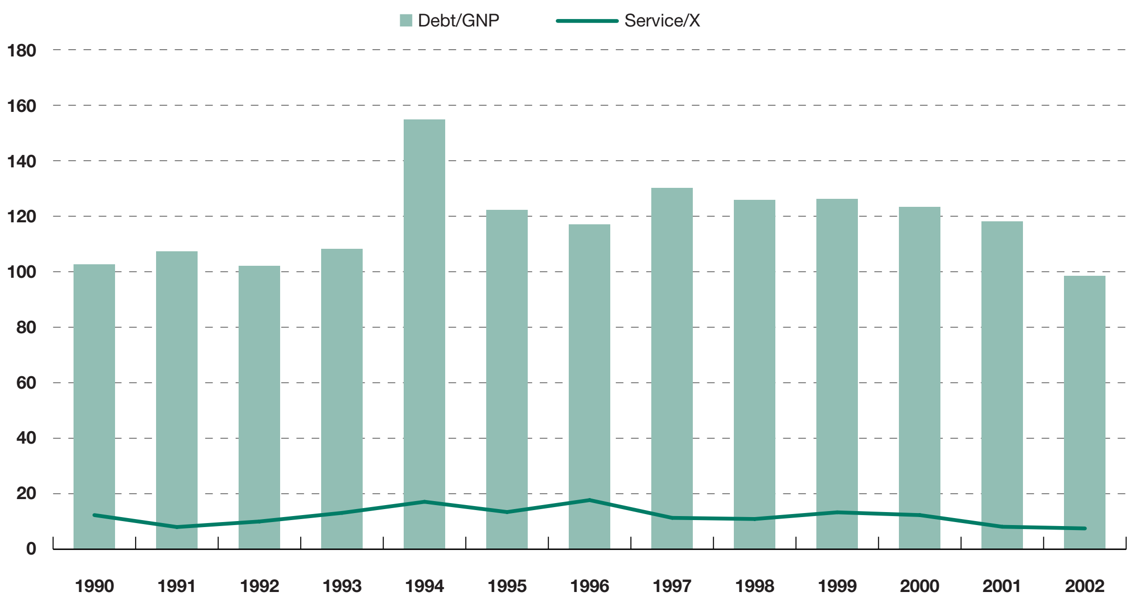
Table 4 - **Current Account** (percentage of GDP)

| | 1995 | 2000 | 2001 | 2002 | 2003(e) | 2004(p) | 2005(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -4.1 | -1.8 | -0.3 | 4.2 | -0.9 | 0.1 | -1.1 |
| Exports of goods (f.o.b.) | 16.3 | 20.6 | 24.1 | 26.8 | 21.6 | 21.3 | 19.8 |
| Imports of goods (f.o.b.) | -20.3 | -22.4 | -24.4 | -22.6 | -22.6 | -21.2 | -20.9 |
| Services | -14.0 | -8.9 | -9.0 | -5.9 | | | |
| Factor income | -1.8 | -3.7 | -5.5 | -7.3 | | | |
| Current transfers | 11.8 | 4.8 | 4.5 | 4.4 | | | |
| **Current account balance** | **-8.1** | **-9.6** | **-10.3** | **-4.5** | | | |

**Source:** BCEAO data; projections based on authors' calculations.

improved again in 2003 with higher commodity prices and further strengthening of the euro. The trade surplus however, deteriorated to -0.9 per cent of GDP, due to the mediocre 2002/03 cotton harvest, much lower gold output and the continuing trouble in Côte d'Ivoire, which was a major obstacle to exporting goods and exerted a negative pressure on the price of items sold to the rest of the sub-region. This should improve somewhat in 2004 following the record 2003/04 cotton harvest. Sluggish cotton prices and an expected drop in that of gold in 2005, unchanged production volumes and little short-term prospect of diversifying exports suggests a larger trade deficit in 2005 of -1.1 per cent of GDP.

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




**Source:** World Bank.



Foreign assistance to Mali runs at about $50 a year per inhabitant, or nearly 80 per cent of total investment and 20 per cent of GNP. About 55 per cent of it is soft loans (on average between 1999 and 2002) and the rest is grants. A large external debt has built up (98.6 per cent of GDP in 2002) due to lack of local funding sources. The private sector share of the debt has been zero since 1996 while multilateral organisations' share has grown more important, accounting for about two-thirds since 1999.

In March 2003, Mali became the seventh HIPC country to reach completion-point, which released $539 million (1998 NPV) in funds, and was able to go before the Paris Club. All bilateral agreements had been signed by December the same year, except for one with France which stumbled over the cancellation of debt incurred by state bodies (the CMDT and the edible oils firm, Huicoma). Arab funding agencies have not yet granted relief either.

Mali's debt is considered sustainable since completion-point has been reached, but the situation remains delicate. The government is contracting new external debt sparingly and since 2002 has only sought soft loans and has stepped up efforts to attract these and grants so as to make the debt viable in the long term. Soft loans were 39 per cent of the total in 2002 (the recommended Bretton Woods minimum is 35 per cent). However the government would like to follow the examples of Senegal and Burkina Faso, which manage to raise nearly two-thirds of their funding in grant form, by approaching new sources, including Scandinavian countries.

## Structural Issues

The government has embarked on thorough reform of the troubled major cotton and infrastructure sectors in view of the tremendous effort needed to fight poverty.

National energy consumption is very small and involves mostly biomass. Only about 10 per cent is modern (oil, and then electricity). The state electricity company EDM reported production of 590 GWh in 2002 for 118 806 customers, while local firms had a capacity of 306 kWh for 1 422 customers. Nationwide electricity coverage increased from 8.5 per cent in 2000 to 9.3 per cent in 2001 and 12 per cent in 2002. The small output is due not only to lack of infrastructure but also the weakness of the existing network. A big step forward was made in January 2002 with the opening of the Manantali Dam (shared with Senegal and Mauritania), which will reach saturation in 2005. Power is to be relayed through dams to be built at Tossaye, Kenie, Felou and Gouina and the system will be connected to the Ivorian grid, though the hoped-for link-up by 2005/06 has been put off due to political troubles. Construction of the dams has aroused strong opposition from NGOs and requires regional-level discussions, so prospects are fairly distant.

To boost energy supply, the government set up a national energy office in 1999 and an electricity and water regulatory body in 2000. The state also withdrew from electricity generation, and production was taken up by EDM (owned 60 per cent by SAUR-IPS since December 2000 under a 20-year agreement), Manantali (operated since 2001 by Eskom) and home producers. Several large firms produce their own power (264 GWh in 2002), including sugar factories, mining plants, the CMDT and Huicoma.

Despite a 58 per cent rise in customers between 2000 and 2003, and creation of 400 jobs, a dispute recently broke out between the government and SAUR-IPS. The firm was accused of not keeping up EDM's 20-year, 240 billion CFA franc ($337 million) investment programme and making price increases that did not match the terms of its contract nor the fact that opening the Manantali Dam provided cheaper current. The contract appears to leave wide room for interpretation and contains clauses (such as the lack of a ceiling on price increases) unsuitable for a poor country highly dependent on oil imports. Also, the choice of a global concession (production and distribution) could be criticised in a country with a very poor distribution infrastructure that requires massive investment of the sort a private investor would not be inclined to make. Another problem was lack of a prior regulatory framework, as the body monitoring the contract was only set up after the fact.

After the first five-year privatisation programme (1994-1999), the government began a second in 1999, mostly of key firms such as the CMDT, the Niger River Authority, the railway company, the airports authority (ADM), the telecommunications company (Sotelma) and EDM. A pre-privatisation opening-up of the telecommunications sector began in October 2001 and a regulatory board was set up to ensure competition was maintained. A second operating licence for both fixed lines and a cellular network was awarded in August 2002 to Ikatel (70 per cent France Télécom and 30 per cent private Malian capital), which began operating in February 2003 by providing 100 000 GSM lines.

A franchise arrangement was chosen for the airports, for management, operation and maintenance, and expanding and renovating facilities. No responses were received to a June 2003 call for bids and a new one was being put together in September that year. The Dakar-Bamako railway was handed over to the Canadian consortium Getma-Canac in October 2003 with a 25-year license, while Air Mali was wound up in April 2003.

Problems in the cotton industry have been aggravated recently by poor world prices. Cotton fibre fell to 93 US cents/kg in 2002, the lowest for 30 years, while subsidies to US, European and Chinese producers totalled $5.8 billion. The government began a drastic reform of the sector, involving a revamp of the CMDT, but this was tricky because of its central role in the economy. The industry's policy statement, drawn up after the national cotton conference in April 2001, was replaced in November 2003 by an updated action plan necessary due to the delay in the reform. The new plan confirmed the goal of breaking up the CMDT by 2006 into three or four private regional firms with a temporary monopoly of purchasing cottonseed in which farmers' organisations would have a share. The government is currently in negotiations with the International Finance Corporation (IFC) to determine the details of privatisation.

Some of the steps spelled out in the earlier policy statement have already been taken, including an audit of the CMDT, which should produce a business plan for 2004-06. The CMDT has also begun laying off a quarter of its workers (597) at a cost of 7.77 billion CFA francs ($13 million). The system of calculating the price to growers has been revised to peg the discount price to the highest price of cotton, rather than to the sale price and prices elsewhere in the sub-region. This has resulted in growers receiving 200 CFA francs ($0.34) per kg for the 2003/04 harvest, 20 CFA francs more than the previous year. Somadiaa was named the temporary adjudicator of Huicoma in October 2003 and is discussing details of the privatisation (price, investments and job-preservation) with the government.

Reform implementation is being hampered by a lack of technical resources and funding. A key aim is to refocus the CMDT on its basic cotton business, though this will require new operators to undertake the services it currently carries out. It would be difficult for ministries involved in developing rural roads, schools and clinics to integrate these services into their tight budgets, particularly in the context of incipient decentralisation (when information about local needs does not easily reach the central government).

The private sector still lacks resources to take over for the CMDT in some areas, such as supplying inputs and crop transport. The government consequently has postponed transfer of the inputs business and slowed down a changeover to private transporters. The pilot privatisation of the Upper Niger Valley Authority (OHVN) ginning factories was not very successful, as the only private company interested, the US firm Dunavant, pulled out in May 2003 citing a lack of openness in liberalising the sector and the troubles in Côte d'Ivoire. The factories were returned to the stock of equipment to be privatised along with the CMDT.

Mali is firmly landlocked and has poor infrastructure, aggravated by the size of the country and its sparse and very unevenly-distributed population. Building road links to other regional capitals – Dakar, Conakry and also Nouakchott – has been speeded up by the Ivorian crisis. Infrastructure development has also become a priority in poverty reduction efforts and the government has privatised road maintenance and set up a national roads office. The Getma-Canac consortium has pledged to invest 60 billion CFA francs ($85 million) by 2008 to upgrade the Dakar-Bamako railway line and quadruple its freight tonnage. Four months after starting operations, one of the firms, TransRail, had already doubled freight tonnage.

Telecommunications is still in the early stages despite recent efforts to expand, notably at the time of the Africa Nations Cup in 2002, and coverage was still only 0.54 lines per 100 people in 2001 (1.2 in towns and 0.02 in the countryside), even though the number of phones rose by 156 per cent between 1999 and 2001.

The banking system is very small and vulnerable to the extreme concentration of risk centred on cotton production. About 20 per cent of loans are non-performing and the legal framework is unreliable. The Ivorian troubles in 2002 greatly swelled the banks' net external assets partly because of delayed imports by some firms and partly due to return of Malian capital from Côte d'Ivoire. As a result, prudential ratios have been improving steadily since 2001.

## Political and Social Context

Democracy is new in Mali and the first multiparty elections were held in April 1992. The first peaceful handover of power was after the 2002 presidential vote, which was internationally praised as peaceful despite voter apathy and obvious disorganisation. The election was won by the independent candidate General Amadou Toumani Toure, who had overthrown President Moussa

Traore in 1991 and whose declared aim was to rule by consensus. Two years after taking office, a broad consensus was still largely in place thanks to his popularity and energetic anti-poverty measures.

However, splits in the Alliance for Democracy in Mali (ADEMA), the party of former President Alpha Oumar Konare, have transformed the political scene. Former Prime Minister Ibrahim Boubacar Keita and 37 other ADEMA MPs left the party in 2001 after a row about corruption to found the Union for Mali (RPM) party. After ADEMA lost the presidential election, its candidate, Soumaila Cissé, also set up his own party, the Union for the Republic and Democracy (URD), criticising outgoing President Konare for a lack of support and the attempts to bring back into ADEMA two members (Mande Sidibe and El Mandani Diallo) who had been expelled for standing as independents in the election. Since then, some RPM figures have moved closer to ADEMA again in protest at ties between the RPM and the URD. Local elections in April 2004 should clarify the situation by showing the strength of the different groups. These will be the last scheduled elections until 2007.

Mali has shown great openness to the outside world in recent years. It hosted the African Nations Cup, former President Konare was elected head of the African Union's Commission in 2003 and ex-presidential candidate Cissé was elected head of UEMOA in February 2004). Mali also took an international stand in September 2003 when, with Benin, Burkina Faso and Chad, it proposed a "cotton initiative" at the Cancun ministerial trade conference that would abolish subsidies for growers in developed countries and set up a temporary system for these countries to compensate poor-country producers.

Relations with France were normalised, despite tension over illegal immigrants, resulting in a visit by French President Jacques Chirac in October 2003; Mali was also chosen to host the next Franco-African Summit in 2005. The renewed troubles in Côte d'Ivoire in September 2002 seriously affected diplomatic relations with that country however, and aroused fears that political and social unrest would spread in the sub-region.

Fighting poverty is the main priority of the government's 2003-07 national political programme presented to parliament in December 2002. The target is to reduce poverty from 64 to 47 per cent by 2007, based on a 1999 poverty line of 97 843 CFA francs ($159) average income per person. A poverty reduction strategy paper (PRSP) set priorities for development partners including: strengthening institutions (reforming public services and the legal system and fighting corruption), human development through better access to basic social services, and expanding infrastructure to boost cotton, rice, livestock and gold production.

The projected cost of the PRSP programme between 2002 and 2005 is estimated at 2 707.6 billion CFA francs ($4.6 billion). External contributions to this are expected to be 1 043.6 billion CFA francs ($1.8 billion). Mali's relative inability to absorb this aid means that money alone will not see the projects achieved nor poverty reduced. For this reason, the HIPC Initiative seems a clear step forward as the funds it released were better absorbed than grant money usually is. HIPC funds are handled in a normal budgetary way[2] and do not have the strings and complicated procedures imposed by individual funding sources. They are also more reliable over the long term than grants. The first HIPC years were trial-and-error and mostly involved extending projects, but since 2002 these funds have been spent on new projects.

The government's November 2003 report on the first year of the PRSP stressed the work to be done to reduce poverty in light of the failure to meet the it's own initial annual economic growth target of 6.7 per cent.



2. Unlike most HIPC countries, Mali does not have a selection committee in which civil society can help draw up projects. HIPC projects are chosen and implemented under standard budgetary procedures. They thereby benefit from the decentralisation process begun in 1992 but they are still not off the ground because local authorities have few of the resources and skills needed. There is also lack of co-ordination between local programmes and national sectoral programmes.

Health conditions in Mali are very poor and are a major issue in the fight against poverty, with a dearth of staff and training. Despite the PRSP's focus on healthcare spending, the assessment report pointed to the sector's low absorption capacity (as shown by the meagre use of funds in the social and health development programme PRODESS). The total rate of funding take-up was 51 per cent in 2001 and 54 per cent in 2002, which meant the target of spending 9.7 per cent of the national budget on healthcare was not met in 2002, when the figure was only 5.3 per cent. There is little improvement in vaccination coverage, maternal mortality and child malnutrition, or narrowing of large regional differences in pre-natal care. However, infant mortality improved from 123 per 1 000 in a 1995-96 demography and health survey to 113 per 1 000 in 2003.

The PRSP report notes significant recent progress in education, with a 64 per cent gross enrolment target being slightly exceeded in 2002, and education receiving 13.9 per cent of the total budget, instead of the planned 12.7 per cent. Under the accelerated 10-year education plan PRODEC, 2 467 classrooms were built in 2001/02 (instead of the 1 500 planned) and about 12 000 teachers were hired between 2001 and 2003. However, the education system remains of poor quality and not enough people are interested in training as teachers. Despite the unexpectedly good progress, regional and gender inequalities remain very large.