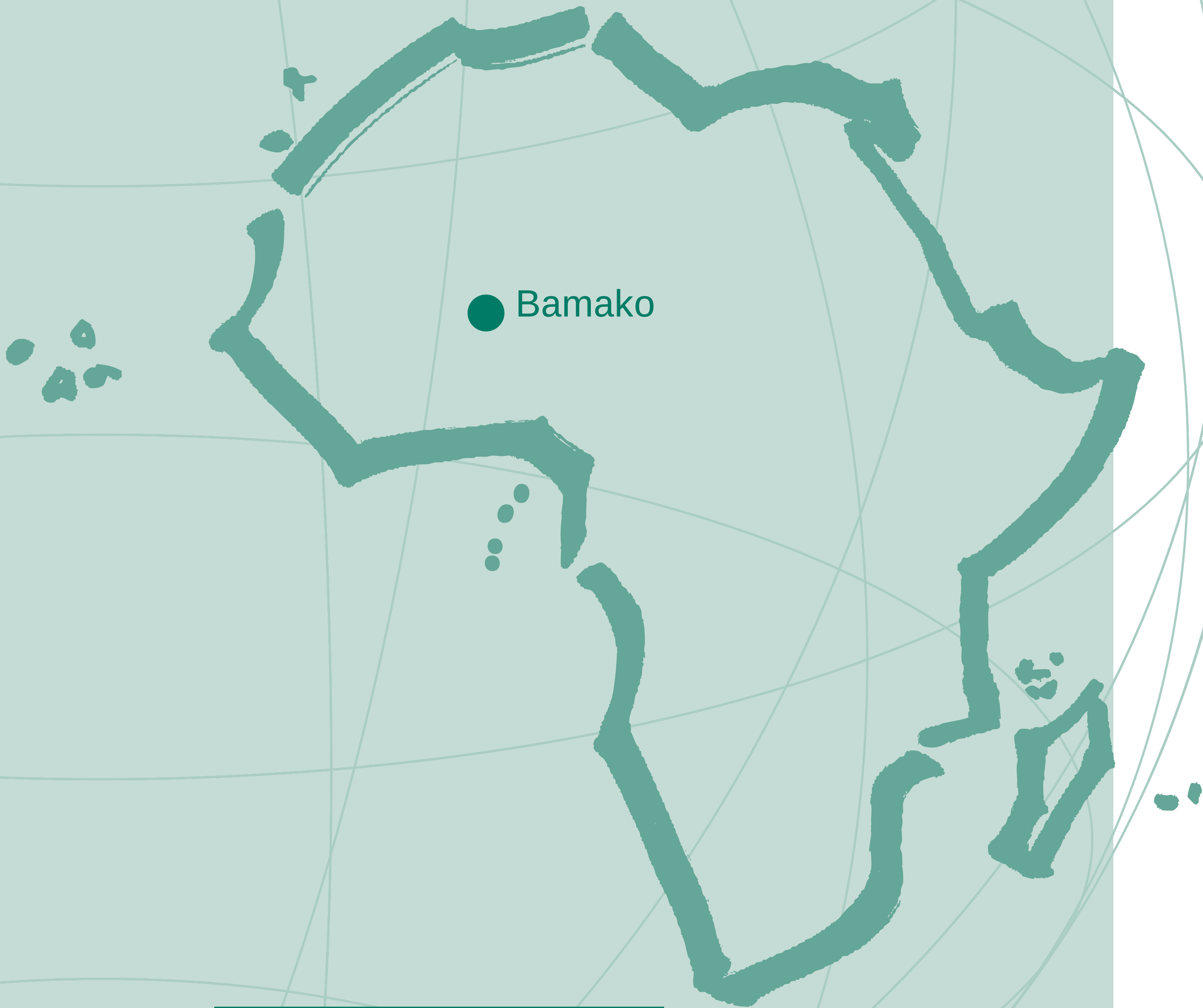
Mali



key figures

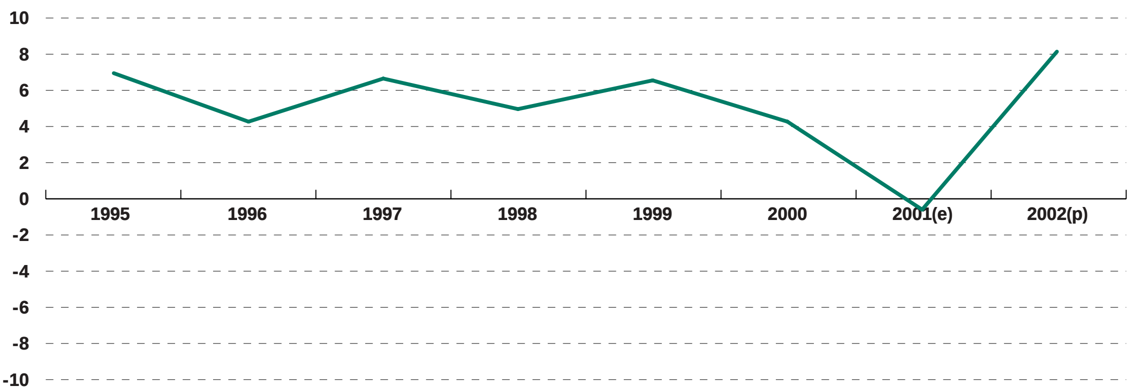
- Land area, thousands of km²: 1 220
- Population, thousands (2000): 11 351
- GDP per capita, $ (2000): 215
- Life expectancy (1995-2000): 50.9
- Illiteracy rate (2001): 56.9

Mali

MALI'S GDP HAS GROWN about 6 per cent a year since the 1994 devaluation of the CFA franc and as from 1991 the country has been moving towards democracy, whose strength may be tested at the presidential elections in 2002. However, the economy suffered several blows in 2000 that slowed down activity. Higher oil prices, political instability in neighbouring Côte d'Ivoire, poor rainfall and most of all a strike in the cotton sector (sparked by a drop in world prices and bad management of the national textile company CMDT) all contributed to the slowdown and spilled over into 2001. The halving of cotton exports and fall in food production cut deeply into the incomes of already-impoverished households. Such meagre performances by the farming sector were partly made up for at macroeconomic level by the speedy opening of new gold mines, which means the fall in growth in 2001 can probably be held to minus 0.6 per cent. A return to normal in the countryside and a slight increase in cotton prices should bring a new spurt of growth in 2002, reaching 8.2 per cent and putting Mali back on track with the economic trends since 1995. This will depend however on structural reforms being made in the cotton sector.

The future of Mali will depend on structural reforms being made in the cotton sector

Figure 1 - Real GDP Growth



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

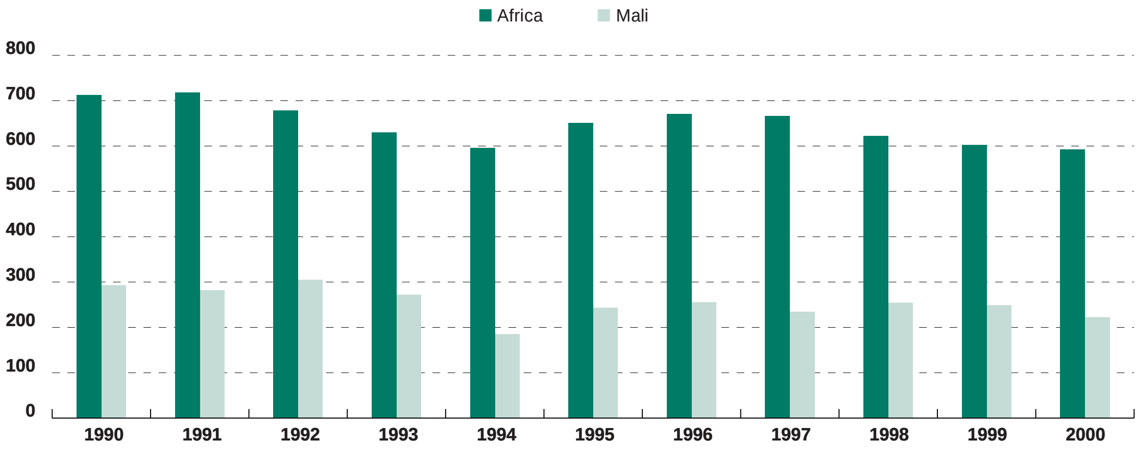
Recent Economic Developments

Since devaluation in 1994, GDP has grown consistently faster than population, which increased by around 2.4 per cent a year during the 1990s. But GDP growth was quite erratic, ranging from 3.2 per cent in 1996 to 6.8 per cent in 1997, and was partly to do with wide variation in primary sector performances.

During the 1980s, agriculture's share of GDP shrank mainly because of bad weather while the tertiary sector became more important. The industrial sector was small throughout the decade at less than 20 per cent of GDP. Globally, the primary sector is still dominant, accounting for more than 43 per cent. The state of agriculture, which is at the mercy of very changeable weather, directly affects GDP and strongly influences other sectors that depend mostly on agricultural raw materials.

The weather was good in 1999, so food crops accounted for about three-quarters of the just over 4 per cent GDP growth in 2000. But there was very poor weather during the summer of 2000, which cut agricultural production by about 15 per cent and

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



Source: Authors' estimates based on IMF data.

seriously affected the 2001 growth figure. The fall in agricultural food production coincided with poor results in export crops, mainly cotton. Production of cottonseed fell by 11.5 per cent during the 1999/2000 farm year and by 52 per cent the following one.

Structural problems also contributed to the bad performance. In 1999, the cotton sector had to cope with bad management by the national textile company CMDT and the steady fall in the world price of cotton since 1995. The CMDT's deficit was about 2 per cent of GDP. Things got worse the following year, especially when embezzlement of CMDT funds was discovered. The government's payment of lower prices to producers because of the fall in world prices as well as the sector's problems was a key factor in a strike by cotton farmers.

But this was not the only reason for the producers' action during the 2000 season. Trade union disputes (talks with farmers were hampered by the question of re-electing the leaders of the *SYCOV* union) and over-rigid attitudes during the conflict were also to blame. Successful mediation by groups such as the Permanent Assembly of Malian Chambers of Agriculture showed the growing importance of civil society. Another obstacle was the decision by neighbouring Senegal and Burkina Faso to set a price for farmers of 200 CFA francs/kg ($0.28) compared with only 170 ($0.24) in Mali. This made the 2000 harvest a major disaster, amounting to only 243 000 tonnes, against 519 000 tonnes in 1998 and 460 000 tonnes in 1999. The 2001 harvest should be substantially better (sowing has been much higher than expected) because of ample rain and the

Table 1 - Estimated Gold Production (tonnes)

Mines	2000	2001	2002	2003
Somisy	5.7	6.3	6.1	5.8
Sadiola	16.8	19.7	16.1	16.1
Morila	3.5	19.3	18.3	22.7
Yatela		5.3	6.4	8.0
Kodieran				3.4[a]
Tabakoto				4.1[a]
Segala				4.0[a]
Total	**26**	**50.6**	**46.9**	**64.1**[a]

a. Tentatively, since opening mines in 2003 depends on world prices, with a minimum $300 an ounce needed to make them worthwhile.
Source: Ministry of Mines, Energy and Water.

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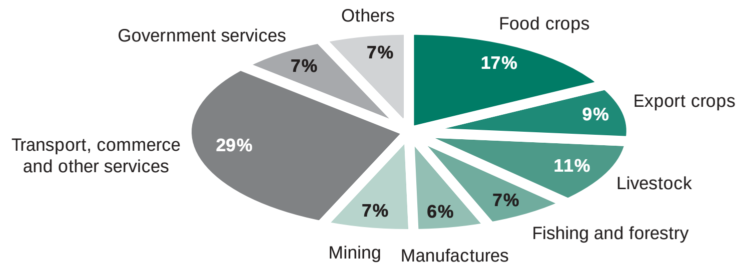
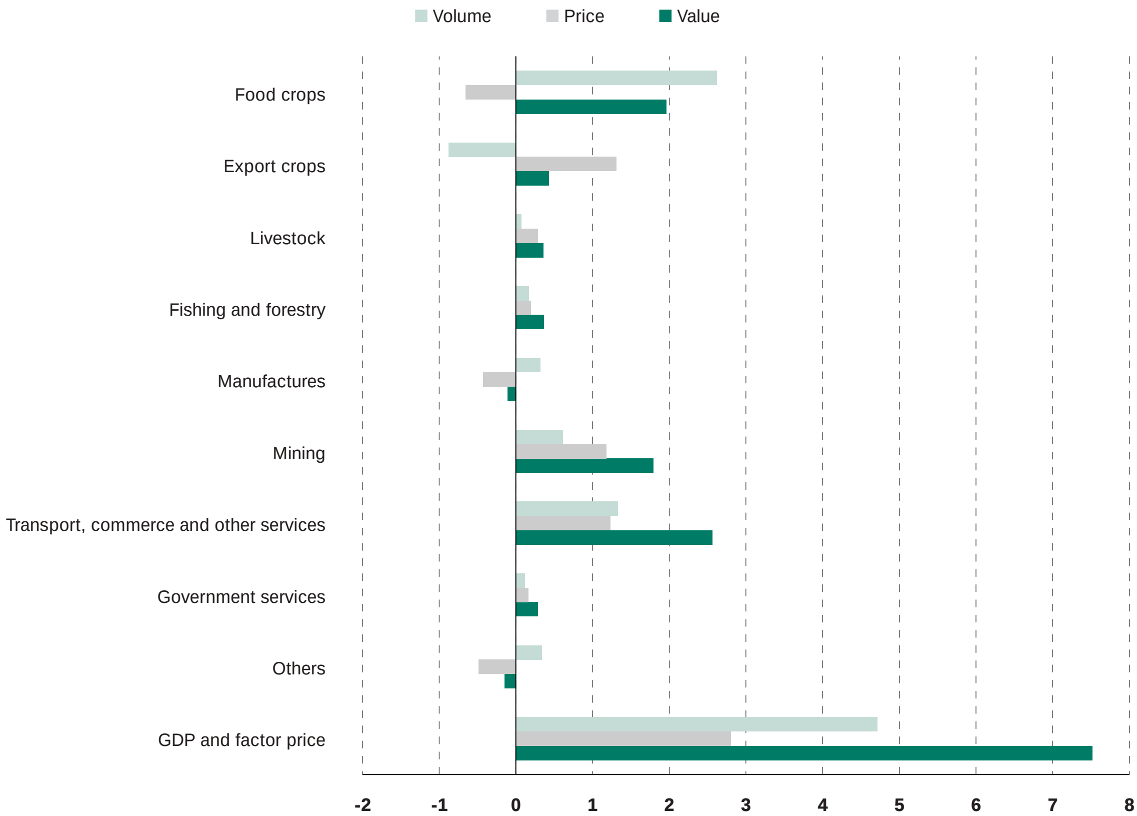
Figure 3 - GDP by Sector in 2000



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

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Note: Mali's national accounting includes the results of harvests in the following year's GDP, so the cotton sector's problems in 2000 do not show up in the chart here.

Source: Authors' estimates and predictions based on data from the *Direction nationale de la statistique et de l'informatique*

government's decision to increase the price to farmers to 200 CFA francs ($0.28).

The gold sector has expanded rapidly since introduction of a mining code in 1991 (updated in 1999). After the Sadiola mine began operating in 1997, gold became Mali's second biggest export and the country is now the third largest producer in Africa, after South Africa and Ghana and ahead of Zimbabwe. Despite the steady fall in gold prices and even though many countries stopped prospecting for it, Mali has opened up new deposits — at Morila in October 2000

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Figure 5 - Cotton Production and Prices in Mali

a. Production and farmers' prices concern cottonseed. The world price given by the World Bank is for cotton fibre, so it has been converted into the equivalent for cottonseed at a conversion rate of 42 per cent.
Source: French Development Agency and World Bank.

and Yatela in May 2001. Three other mines are due to open in 2003 and 2004 which should make up the tonnage as the present mines are worked out. This activity is partly due to lower operational costs than in other gold-producing countries.

Poor world prices have put an end to the gold rush set off by the first discoveries in the 1990s and could also cancel the plans to open mines in 2003. Apart from its dependence on world prices, gold production also has a fairly brief life span[1]. This means a short

Table 2 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**24.1**	**21.1**	**20.0**	**21.1**	**21.1**	**19.2**
Public	9.8	9.2	9.1	9.1	9.4	8.6
Private	14.3	11.9	11.0	12.0	11.7	10.6
Consumption	**95.5**	**87.2**	**90.0**	**90.0**	**87.5**	**87.8**
Public	17.2	15.7	13.9	13.3	13.6	12.6
Private	78.2	71.5	76.1	76.7	73.9	75.2
External sector	**-19.5**	**-8.3**	**-10.1**	**-11.1**	**-8.6**	**-7.0**
Exports	21.9	23.0	22.5	23.3	23.6	23.0
Imports	-41.4	-31.3	-32.6	-34.4	-32.1	-30.0

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

1. Also because when prices are low, the cost of deeper mining cannot be recovered.

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period of concentrated wealth (which is tempting to use for current expenditure instead of long-term investment) and the sprouting of mining communities without provision for what happens to them after the gold is worked out. Gold mining also seriously damages the environment. In the short-term however, it has helped offset the effects of recession and boosted exports and government revenue in 2001.

The structure of demand in Mali shows the importance of household consumption in GDP, as well as the chronic external trade deficit. The slowdown in activity linked with the cotton crisis sharply reduced household revenues for two years — from November 1999 to October 2001 revenue fell by about 60 per cent — with a clear effect on demand. Mali also has a very weak savings structure and what little money there is does not get channelled into productive investment but is used to buy cattle or is hoarded.

Macroeconomic Policy

Budgetary and Monetary Policy

Because Mali chose a socialist development path soon after independence, the country has a strong tradition of state intervention that has endured despite ideological changes since the 1990s. After devaluation in 1994, the government made efforts to reduce macroeconomic deficits. But in 1999, the trade balance was hit by lower cotton and gold prices and more costly oil, and structural problems arose in the cotton and electricity sectors. This cut into government tax revenues. In addition, the UEMOA agreements provided for abolition of tariffs between all member-states on 1 January 2000 and their replacement by a common external tariff. This too involved loss of revenue. To make up for these shortfalls, as well as to modernise the tax system, the government introduced a single 18 per cent VAT on 1 April 1999[2]. At the same time, domestic and customs tax collection improved and new custom regulations were introduced in February 2000 in a crackdown on fraud.

In 2000, the coincidence of a large oil bill (25 billion CFA francs — $35 million) and the losses at the CMDT, which before the crisis earned about 800 million CFA francs ($1.1 million) a month for the government, further increased the budget deficit (from $86.4 million to $97 million). In 2001, losses connected with the CMDT affair continued to be a deadweight on the budget while the general slowdown in activity automatically cut into state revenues. Expenditure rose

Table 3 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**19.6**	**21.6**	**21.3**	**21.4**	**20.7**	**19.9**
Taxes	11.1	13.9	14.1	13.4	12.9	12.4
Grants	7.8	5.6	5.0	5.8	5.7	5.3
Total expenditure and net lending[a]	**24.6**	**24.1**	**25.0**	**25.3**	**25.0**	
Current expenditure	11.3	11.9	13.0	12.8	12.5	
Excluding interest	*9.8*	*11.2*	*12.2*	*11.9*	*11.6*	*10.8*
Wages and salaries	4.0	3.8	3.9	4.2	4.1	4.0
Interest payments	1.5	0.7	0.8	0.9	0.9	
Capital expenditure	13.2	12.2	12.0	12.5	12.5	11.4
Primary balance	**-3.5**	**-1.8**	**-2.9**	**-3.1**	**-3.3**	**-2.3**
Overall balance	**-5.0**	**-2.5**	**-3.7**	**-3.9**	**-4.3**	

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and local authorities' data.

2. Exempted were medical and educational material and agricultural factors of production.

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because the wage bill increased and subsidies were given to the electricity[3] and cotton[4] sectors.

Two events in 2002 may substantially worsen the government's deficit — the presidential elections and the African Nations Cup football tournament. The government has promised not to spend more than 9 billion CFA francs ($12.6 million) on the elections (though this is more than twice as much as the 6 billion initially budgeted) and to limit capital expenditure for the African Nations Cup to 10 billion CFA francs ($14 million).

The government is hoping structural reforms such as the thorough reorganisation of the CMDT (the plan was officially approved in June 2001), along with the end of petrol price subsidies (introduced in July 2001) and rising tax revenues can absorb the deficit in the long term. From 2002, less expenditure on the African Nations Cup and the elections should lead to a better overall balance.

Like other UEMOA countries, Mali's currency is pegged to the French franc and its monetary policy is conducted by the BCEAO, leaving budget policy as the government's main economic instrument. Since devaluation, inflation has been under control at less than 3 per cent and should stay that way in 2002, when it is expected to be 2.5 per cent.

External Position

Mali's trade structure is quite open and comprises three items that together account for nearly 95 per cent of all exports. This means the terms of trade largely dictate how well off the country is — in the case of exports because gold and cotton prices are set internationally and with imports because oil is a major element. This weight of foreign influence is increased by heavy dependence on aid, making the country very vulnerable.

Mali is also influenced by its two neighbours, Côte d'Ivoire and Senegal, with which it has a great deal of trade, Côte d'Ivoire accounting for more than 15 per cent of Mali's trade in 1999. This dependence was demonstrated once again by the crisis in Côte d'Ivoire and the drop in livestock exports that resulted.

Mali has a perennially negative trade balance because it exports so little. Devaluation plus the start of gold mining managed to produce a slight trade surplus which disappeared again in 1999 because of higher oil prices and a fall in the price of cotton. The current account deficit reached 9.6 per cent of GDP in 1999 and topped 9.7 per cent in 2000. The slide in the volume of cotton exports in 2001 was compensated for by a good performance by gold, which reduced the trade deficit. In 2002, the deficit should be near zero because of a return to normal in the cotton sector and a full-capacity performance from gold.

Mali depends largely on international grants and loans to finance its deficits. The country's external debt is one of the largest in Africa. The ratio of debt to exports rose to more than 450 per cent (in nominal terms) in 1999, but because more than 80 per cent of it is soft loans, servicing is quite low, at about 14 per cent of exports of goods and services. Very little of the debt is to the private sector (this has in fact been zero since 1996) and international financial institutions have accounted for more and more of it since the early 1980s (rising from less than 25 per cent to about 50 per cent today).

The debt has been rescheduled several times by the Paris Club and Mali has been granted relief through bilateral agreements, notably with France. Under the Naples Agreement, Mali obtained cancellation of two-thirds of its eligible debt, applying to both the debt itself and the period of repayment. The country was also deemed eligible for the Heavily Indebted Poor Countries (HIPC) Initiative in September 1998. In September

3. The electricity subsidies are to pay for connecting up the Malian grid to the Manantali Dam and to make up for the state utility's losses resulting from the freezing of electricity and water prices. To soften the effect on the budget, the government raised the price of water by 10 per cent and electricity by 5 per cent from 1 July 2001.

4. This was so the CMDT could pay off its 30 billion CFA francs ($42 million) debt to the banks and pay the higher prices to farmers.

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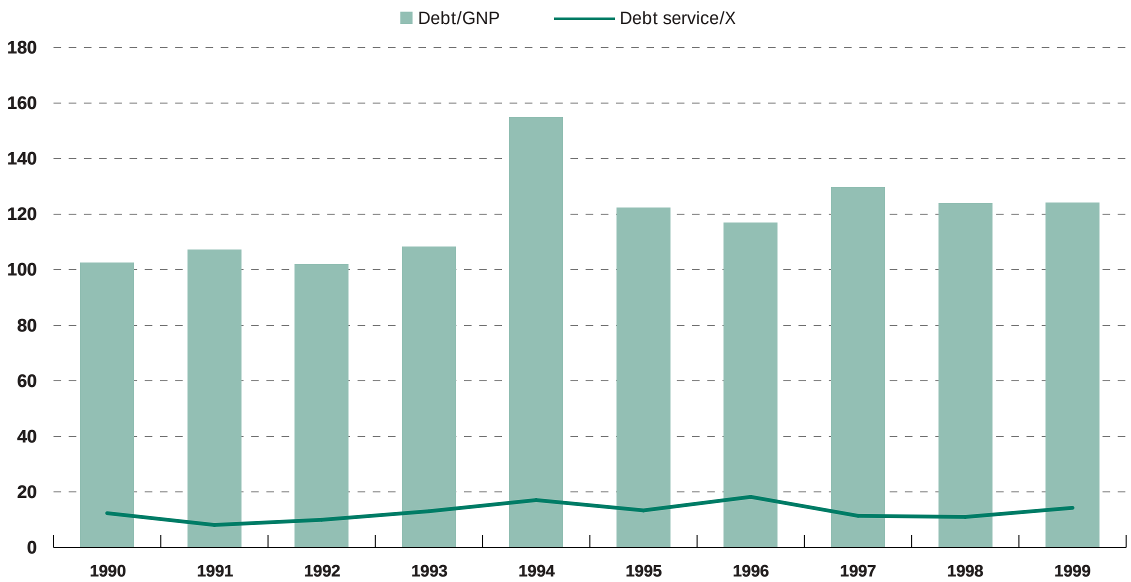
Table 4 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-4.6	0.0	-1.5	-3.1	-0.2	0.8
Exports of goods	18.5	20.7	21.0	21.2	22.0	21.4
Imports of goods	-23.1	-20.7	-22.5	-24.2	-22.2	-20.7
Services balance	-16.0	-10.0	-9.6	-9.9		
Factor income	-2.1	-1.9	-2.6	-1.8		
Current transfers	13.4	4.1	4.1	5.1		
Current account balance	**-9.3**	**-7.8**	**-9.6**	**-9.7**		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

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



Source: World Bank (2001), *Global Development Finance.*

2000, it reached completion point and $128 million (NPV) began to be made available. It is also expected to get another $401 million under the Enhanced HIPC Initiative in exchange for a commitment to efforts in education and health care and producing a final draft of a poverty reduction plan (completed on 30 September 2001). In all, Mali should get $523 million (NPV 1998) of its debt cancelled.

Structural Issues

The poverty reduction and growth programme adopted in 1999 has encountered the biggest obstacles in structural reforms, mainly because of the tricky reform of the cotton sector.

Privatisation has been steadily advancing in Mali since 1994 and the IMF notes, for example, that state-owned firms (except banks) fell from 31 in 1998 to 24 in late 1999. But these sell-offs were done without legal preparation and the first ones were not very successful, including the tobacco company *Sonatam*, which was initially put up for sale at 10 billion CFA francs ($14 million) only to be sold for three billion ($4.2 million). This aroused public anger and made it more difficult to reform the several large remaining state firms earmarked for privatisation.

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The government chose to open up the telecommunications sector to competition before privatising it, adopting in April 2000 a plan originally scheduled for September 1999. It pledged to sell off at least half of the state-owned *Sotelma* before the end of 2001 (tenders were sought in September 2001).

Management of the electricity company EDM was handed over in 1994 to a consortium of Hydro-Québec and Saur. The goal was to produce an audit of its accounts by 1996 but this was not done because the state body's assets could not be precisely determined. The decision to privatise was taken in 1998. The government's inability to reform the company and the heavy commitments required from any buyer (connecting up all towns of more than 8 000 people by 2020 without being allowed to set the price of current) did not make the firm a very attractive prospect. Tenders were finally solicited on 11 August 2000 and those submitted by Saur and IPS were accepted. They took 60 per cent of the company, the government kept 20 per cent and private firms in the sub-region took the remaining 20 per cent. The sale, which came into effect in December 2000, involved privatising production facilities (except for four dams) and franchising the water supply system. Electricity distribution remained under state control however.

The sale of the airport authority ADM and the pharmaceutical firm UMPP, as well as the transfer of the Bamako-Dakar railway line to a predominantly private firm (SETI), all of them set for the end of 2000, have not yet been completed.

It has proved difficult to put the CMDT on the market because various aspects of it discourage buyers. These include its dire financial situation, because of the lack of definition between the state budget and its own accounts, and the vagueness of its official purpose, since as well as selling cotton, it performs social roles in health care and education as well as building infrastructure (repairing roads), all of which are normally the government's job but which in practice affect the prices paid to farmers. To solve these problems, the government in June 2001 approved a reform timetable aiming at opening up the entire sector to competition by 2005. The government has meanwhile pledged to cut costs at the CMDT, focus it on its original activities and introduce a way of setting prices requiring negotiation between the two sides, which implies boosting the role of farmers' organisations. The CMDT would also get government help to repay all its debts to the banks (30 billion CFA francs — just over $42 million) by September 2001.

Mali's banking system has greatly improved since 1995, but at the end of 1999, a quarter of the banks' portfolio of credits were non-performing, according to the IMF. The financial problems of the CMDT aggravated this structural deficiency because of the risk of default attached to these credits. Very few people use banks in Mali and only a small number of individuals and firms have access to credit. Such weaknesses led the government to adopt a restructuring plan for the financial sector in June 2000 with World Bank agreement. This includes state withdrawal from the banking sector by reducing its shares in banks such as BMCD and BIM-SA.

Mali is firmly landlocked and has a very feeble infrastructure, not just in terms of communications and energy but also health care and education. The cause of this structural weakness is poverty and a combination of human factors that exert an almost intolerable pressure on public infrastructure. They include high population growth (fertility of 6.7 children per woman) and rapid urbanisation (only 28 per cent of Malians live in towns but the number is growing by 6 per cent a year). The link between infrastructure and social development is vital and, with World Bank approval, the government adopted a three-year public investment programme focused on agriculture, infrastructure and developing human resources. The authorities are also looking for other energy sources because the electricity grid can only cope with 10 per cent of demand, though the Manantali dam, soon to come into operation, should boost this to 15 per cent. Also being considered are solar and wind energy, which would currently require heavy initial investment but, in view of the country's natural resources, could certainly ease the energy shortage in the long term.

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Political and Social Context

Mali's first multiparty elections in April 1992 were won by Alpha Oumar Konare and his Alliance for Democracy in Mali (Adema). Since then, the country's political life has been turbulent, with opposition boycotts and accusations of embezzlement. The first round of the April 1997 parliamentary elections, initially won by Adema, was annulled by the Constitutional Court, which said they were badly organised. Despite an opposition boycott call, President Konare was easily reelected in May that year and new parliamentary elections strengthened Adema's position. At local elections the following year and in 1999, the opposition, grouped in the Association of Opposition Political Parties (Coppo), again refused to take part despite the setting up of a national forum aimed at dialogue with them. So presidential elections in 2002 will be significant as the first democratic handover of power, since the president's maximum of two terms in office are ending. They will also test all the political groups taking part in the democratic process. The campaign is already heating up and has led to splits in the ruling party over who should succeed Konare.

Internationally**,** Mali is under serious threat of instability on several of its borders. The conflict with the Tuaregs, which officially ended in 1996, has severely strained relations with Mauritania, which Mali has accused of helping the rebels. It continues to make the border with Algeria very hazardous and attacks and vehicle thefts occur. Mali also has a frontier with Guinea, which is directly affected by the wars in Sierra Leone and Liberia. The region's ill-defined borders have led to much fighting in the past, including a brief war between Mali and Burkina Faso in 1985.

More recently, the political crisis in Côte d'Ivoire has seriously affected diplomatic relations with Mali and harmed the Malian economy[5]. But Mali's importance in the sub-region was underlined by President Komare's reelection as president of UEMOA. Mali is one of the 10 African countries that attended a United Nations symposium on arms control and conflict prevention in December 2000 and was invited by Denmark to take part in a special session of the OECD Council of Ministers in 2001. It is also a member of the Islamic Conference Organisation and has close ties with Libya.

The key problem of corruption plagues both state bodies (as the recent turn of events at the CMDT shows) and political life. The authorities seem determined to promote "good governance" and launched an anti-corruption campaign in October 1999 by setting up a committee to systematically monitor use of public funds, including those used by state firms.

The government also has an ambitious decentralisation programme aimed at reducing the gap between rural and urban areas (most services are concentrated in Bamako) and making the country more cohesive, mainly by bringing back into the picture the northern provinces that have been long neglected because of the conflict with the Tuaregs. A commission was set up in 1993 (and strengthened in 1997) to delegate administrative and economic powers to 701 communities, 682 of them created at the same time as the commission. However, this is all relatively new (the first election of mayors and village officials only took place in June 1999) and the transfer of responsibilities and funds will only be done gradually, since many communities do not yet have the skills to handle them.

In the social field, the sustained growth that followed the 1994 devaluation has managed to slow the worsening poverty. But Mali is still one of the world's poorest countries and one of the most impoverished in French-speaking Africa. The poor live mainly in the countryside, where repeated drought causes frequent food shortages. Mali has sharp disparities of all kinds. As well as in income, the imbalances include population distribution (91 per cent of Malians live in the south, mainly around Bamako, while the rest endure the chronic drought in the north), infrastructure (varying from region to region) and wide gender inequality, with women having very little access to health care and education and little involvement in public life, despite their growing role in civil society.

5. As a landlocked country, Mali has access to the sea through Côte d'Ivoire, especially for oil imports.

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Health care data again shows the huge gap between town and country. The overall situation is very bad, especially concerning mother and child health. As a result, despite the very high fertility rate, population growth is quite small. High infant mortality (a projected 120.5 per 1000 between 2000 and 2005) as well as substantial emigration (more than 3 million Malians live abroad, mostly in France and Côte d'Ivoire) checks the growth of a population which was 11.4 million in 2000. Money is no guarantee that social development projects will be carried out or poverty reduced. More than 80 per cent of credit extended to Mali was not used, so of the 350 billion CFA francs ($492 million) earmarked for four years of the 10-year health-care plan Prodess, only 4 per cent of the amount had been disbursed at the end of three years.

Mali's education system is in deep crisis. The government has long given priority to funding universities and their 20 000 students to the detriment of 2 million children in primary education, thus increasing the 57 per cent illiteracy rate. Despite this, secondary and university students have not managed to complete a single uninterrupted academic year for the past decade, which has had a disastrous effect on the country's pool of qualified people. The effects of the weak education sector on the labour market have been aggravated by large-scale emigration of qualified people and a very small working population, which increases the labour shortage.

New public investment programmes sponsored by the World Bank seek to remedy the situation through channelling funds to primary education.

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