Executive Summary

This West African country is counted as a success story on the continent for the following reasons:

- In 1991, Mali successfully achieved a peaceful transition to multi-party democracy after 23 years of brutal dictatorship. Three free-and-fair elections have been held since its first multi-party election, and their results have been respected.
- Mali is a multi-ethnic, peaceful and stable haven in a war-racked region.
- The liberalisation of the economy by successive governments since 1991 and the introduction of market-based reforms have resulted in a strong economic performance. Since 1994, the country's annual economic growth has averaged 5%, well above the sub-Saharan African average of 3.2%. Real GDP per capita has risen by 2.5% every year.[1]

Today, Mali is among the three top economic performers in West Africa, along with Benin and Senegal.

In the early 1990s, gold mining was identified as the means to drive the country's short and medium-term economic growth. The revision of the Mining Code in 1991 resulted in a veritable gold boom. Mali became Africa's third-largest gold producer, after South Africa and Ghana, when large mining corporations such as AngloGold Ashanti, Randgold Resources and Iamgold entered the country.

As a direct result of the development of three new mines by South African companies, gold production has grown almost eightfold in less than a decade, from 6.6 tonnes in 1996 to 66 tonnes in the peak year of 2002, when an exceptional seam was exploited, and returning to a normal level of 53.6 tonnes in

[1] World Bank *Country Brief*, www.worldbank.org

2004. Gold is now Mali's primary export and main foreign currency earner, accounting for 71.8% of Mali's total export income in 2002.

South African investment in Mali is significant when measured against the overall size of the local economy, although restricted to a handful of players and heavily concentrated on gold mining and energy. The South African power utility, Eskom, manages a regional hydroelectric dam. In contrast with the investment profile of South African companies in other African countries, there are no South African retailers, fast food chains or tourism operators involved in Mali.

South African investment has had a considerable impact on Mali's economy, both positive and negative. The effects on economic growth, the balance of payments, state revenue, job creation, private sector development and skills transfer have been generally positive and benevolent. Mining activities by South African companies have bolstered tax and customs revenue, added to payroll and social security charges, and created both downstream and upstream businesses that service the mines at the national and provincial levels. Villages around mines, in particular, have grown into active business nodes through direct and indirect job creation.

Among the negative effects are the limited linkages with local businesses. This is attributable to the specialised nature of South African investment, which is capital- and technology-intensive; the complexities and difficulties of operating in Mali because of language and cultural differences; and the lack of domestic investment capacity.

Although the companies surveyed by SAIIA identified the government's policies, which support peace, political stability, a democratic dispensation and religious and ethnic tolerance, as very positive factors, most of them rated Mali as more business-friendly in theory than in practice. The government's policies, plans and documents affirm its intention to create an investment climate that is supportive of foreign businesses, but operating in Mali makes companies aware of gaps, for example between plans crafted in the past 10 years and old tax and labour regulations that have not been updated.

South African companies listed a number of problems that hinder their operations in Mali. There was remarkable unanimity between them regarding the main constraints: a complicated tax, customs and duties collection regime; a weak judicial system; its poor infrastructure; its landlocked position; the high cost of productive factors; an unskilled work force; its old, outdated labour laws; corruption; a dearth of local financing and partners; payment difficulties; the lack of a direct flight between Bamako and Johannesburg; the difference in language and culture, especially business culture; malaria; and uncomfortable living conditions.

Other constraints, as noted by Standard & Poor's, are a poor economic structure, weak public finances, inefficient public governance, and a scarcely developed private sector. On the plus side, Mali enjoys strong donor support; has reached the completion point under the Highly Indebted Poor Country Initiative; was identified by the G8 in June 2005 as qualifying for complete debt relief; and is a member of the West African Economic and Monetary Union (WAEMU). The last of these ensures a stable macroeconomic environment with a relatively unvarying exchange rate and low inflation, which helps to reduce its vulnerability to external factors.

Mali's membership of, and central geographical position, in two key regional groups — WAEMU and the Economic Community of West African states (ECOWAS) — has significant political and economic implications. WAEMU has 70 million consumers, whereas ECOWAS has 210 million. Peaceful and stable Mali could become a hub for regional trade; a producer of foods, especially rice and sugar, for the region; and a base for South African companies working in unstable neighbouring countries such as Côte d'Ivoire, Togo and Guinea.

In spite of all the problems that investors face in Mali, there are many opportunities besides mining. Investors from France, Canada and China, among others, are taking advantage of these openings in telecoms, textiles, as well as road and railway rehabilitation. Where there are great needs, there are potential markets. The rapid growth of cellphone services is a case in point. There is room for growth in agribusiness, construction, telecoms, business services and tourism.

The government of Mali has shown its seriousness, willingness and commitment to lead the country, against many odds, on the path to modernisation and development. It now needs to complete the reforms already under way, and to address the practical problems of investors in Mali. Priorities include establishing a reliable and stable regulatory framework, streamlining tax and customs procedures, reforming the judiciary and practising good governance.

Taking these steps will build investors' confidence and attract sustainable, long-term investment that will drive economic growth and reduce poverty.