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Business in Africa Research Project

Timbuktu's Golden Legacy

The Experience of South African Firms Doing Business in Mali

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About the Author

Mercedes Sayagues is a freelance writer and journalist from Uruguay, who has lived in Africa since 1992. She is based in Pretoria and covers West Africa regularly. Among other studies in 2004, she researched Senegal's Aids policies for SAIIA. Ms Sayagues holds an MA in Journalism from New York University.

About the SAIIA Business in Africa project

This is the fifth country case study in a comprehensive survey of business conditions prevailing in Africa, conducted by SAIIA's Business in Africa project. The report forms part of a series of country and sectoral studies undertaken with a view to extrapolating specific policy recommendations for African governments on how to create a more supportive business environment in Africa.

The New Partnership for Africa's Development (Nepad) initiative emphasises the critical importance of the private sector to the continent's economic development. South Africa's expanding track record as a significant and, even more important, a fellow African investor is a notable indicator of local business confidence in the future of the continent. This is also making it possible for the private sector to play a stronger role in the continent's development.

Although it is generally assumed that South African investors are less averse than others to taking risks, in view of their knowledge of, and proximity to, the African market in terms of appropriate technology and products, the SAIIA Business in Africa project aims to verify whether this is indeed the case. Moreover, the research identifies critical areas in which reform is essential if Africa's private sector is to contribute to growth and sustainable development.

The Business in Africa project is headed by Neuma Grobbelaar, the Director of Studies at SAIIA, who is assisted by Hany Besada, the Business in Africa researcher.

The following reports have been published by the project thus far:

Games D, *A Preliminary Survey: The Experience of South African Firms Doing Business in Africa*, Business in Africa Report 1, SAIIA, 2003.

Grobbelaar N, *'Every Continent Needs an America': The Experience of South African Firms Doing Business in Mozambique*, Business in Africa Report 2, SAIIA, 2004.

Games D, *An Oil Giant Reforms: The Experience of South African Firms Doing Business in Nigeria*, Business in Africa Report 3, SAIIA, 2004.

Besada H, *Glimpse of Hope in West Africa: The Experience of South African Firms Doing Business in Ghana*, Business in Africa Report 4, SAIIA, 2005.

Grobbelaar N & K Tsotetsi, *Africa's First Welfare State: The Experience of South African Firms Doing Business in Botswana*, Business in Africa Report 5, SAIIA, 2005.

Methodology and Rationale

This report is based on a series of interviews that were conducted in Mali in May 2005 with resident South African companies to research their experience of the Malian business environment. The study found that South African companies are mainly involved in Mali's fast-growing gold mining sector. Because of the small number of South African companies currently operating in Mali, the SAIIA survey was complemented by interviews with government officials, private sector operators, academics, diplomats, donors, trade unionists, members of NGOs and United Nations officials. The one-on-one interviews were supplemented with follow-up interviews with some of the head offices of those companies in South Africa.

The study was also informed by research conducted by the UN Economic Commission of Africa (UNECA), the African Development Bank (AfDB), Organisation for Economic Co-operation and Development (OECD), the UN Conference on Trade and Development (UNCTAD), the International Monetary Fund (IMF), the World Bank, the World Trade Organisation (WTO), the United Nations Development Programme (UNDP), Mali Finance, USAID and the Department of Trade and Industry of South Africa.

The purpose of the study was to identify some of the pitfalls associated with doing business in a country such as Mali, while also giving credit to some of the success stories. The study is also informed by the fact that French-speaking Africa poses new and particular challenges to South African investors venturing northwards.

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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.

Mali Profile

People	YEAR 2004
Population, total	11.9 million
Population growth (annual %)	2.4
Life expectancy (years, in 2003)	40.6
Fertility rate (births per woman, in 2003)	6.4
Infant mortality rate (per 1,000 live births, in 2003)	122.0
HIV+ (% of population aged 15–49, in 2003)	1.9
Economy	
GNI Atlas method (current $)	4.3 billion
GNI per capita, Atlas method (current $)	360.0
GDP (current $)	4.9 billion
GDP growth (annual %)	2.2
	YEAR 2003
Value added in agriculture (% of GDP)	38.4
Value added in services (% of GDP)	35.5
Exports of goods and services (% of GDP)	26.4
Imports of goods and services (% of GDP)	30.8
Trade and finance	
Trade in goods as a share of GDP (%)	50.4
Trade in goods as a share of goods GDP (%)	69.9
High-technology exports (% of manufactured Exports, in 2000)	14.8
Foreign direct investment, net inflows in reporting country (current $)	129.0 million
Present value of debt ($)	1.4 billion
Total debt service (% of exports of goods and services)	5.8
Short-term debt outstanding ($)	50.4 million
Aid per capita ($)	45.3

Source: World Development Indicators Database Online, World Bank, August 2005.

Introduction

Mali is among the three top economic performers in West Africa, along with Benin and Senegal.[2] Yet, it remains one of the five least developed countries in the world.[3] According to the World Bank, per capita GDP was only $300 in 2004. Despite some progress since 1998, the country's low social indicators reflect the developmental challenges facing its society.[4] For example, only two out of 10 Malian adults are literate,[5] and nine out of 10 people live on $2 or less a day. Six out of 10 of this group subsist on less than $1 a day.[6] The World Bank estimates that two-thirds of rural people are poor, as compared with one-third of those living in urban environments.[7] Only 65% of people have access to safe water,[8]

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[2] *Mali: Expanding and Diversifying Trade for Growth and Poverty Reduction: A Diagnostic Trade Integration Study*, USAID, June 2004. The study was conducted on behalf of the Integrated Framework (IF) mission. IF participating multilateral agencies are the International Monetary Fund, the International Trade Centre, the United Nations Conference on Trade and Development, the United Nations Development Programme, the World Bank and the World Trade Organisation. The lead IF donor in Mali is the United States Agency for International Development (USAID).

[3] The others are Sierra Leone, Niger, Burkina Faso and Burundi. *Human Development Report*, United Nations Development Programme, New York, 2004.

[4] The only exception is the low HIV/Aids prevalence (1.9%) among its 12.6 million strong population. *2005 Report on the global AIDS epidemic*, UNAIDS, 2005.

[5] Literacy rates are low, with just 26.4% of people aged 15 and over being literate. The primary school rate is 43% of the relevant age group.

[6] *2004 Human Development Index (HDI)*, *Human Development Report*, United Nations Development Programme (UNDP), p. 149.

[7] International Monetary Fund (IMF), *Country Report* No.04/184, June 2004, p. 19.

[8] *HDI*, UNDP, 2004, p. 149.

and four out of five livelihoods depend on small-scale fishing or agriculture: cash crops, cereals and livestock. Life expectancy at birth was 48.5 years in 2002. Under-five child mortality was 220 out of 1,000 live births in 2003, and infant mortality was 122 out of 1,000 live births.[9] As a result Mali ranks third from last (93rd out of 95 developing countries) in the UNDP's Human Development Index 2004, and 174th out of the overall total of 177 nations rated.

Despite this low rating, the economic reforms of the early 1990s reversed Mali's trend towards growing rural and urban poverty, which had increased by 11% annually between 1989–1994. The poverty rate fell by 7.5% between 1996–2000, largely owing to improved cotton production and exports. In 1996, the poverty rate was 71.6%; it decreased to 64.1% in 2000 and 63.8% in 2002.[10] Regrettably, this figure still lags far behind the government's target of reducing poverty to 47.5% by 2006, as set in its 2002 Poverty Reduction Strategy Paper (PRSP or *Cadre Stratégique de Lutte contre la Pauvreté*).[11] To achieve this goal, the government hoped to increase the country's annual economic growth to 6.7% between 2002–2006. So far the annual average rate has been only 5%. Although impressive, this is not enough to lift Mali out of its underdevelopment; keep pace with its average yearly population growth of 2.9%; and reduce the proportion of those living in poverty to less than half of the population.

However, under the PRSP, budget allocations for education and health have improved. Between 2001–2003, the ratio of

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[9] One-third of children are stunted, and there are only five doctors per 100,000 inhabitants, whereas the World Health Organisation recommends 1 per 5–10,000. Malaria is a serious problem, so is sleeping sickness. See www.undp.org.
[10] See *Interim Poverty Reduction Strategy Paper*, Government of Mali, International Monetary Fund, 2000.
[11] 2002 *Poverty Reduction Strategy Paper*, available at www.imf.org.

education spending in relation to total expenditure increased from 27.02% to 30.28%, while health expenditure rose from 10.01% to 10.82%.[12] These allocations grew further in the 2004 fiscal year, when education was allocated 31.48% and health 11.1%.[13] Total expenditure on health and education increased to 6.3% of GDP in 2004, from 5.9% in 2003.[14]

Mali's growth strategy, as articulated in its PRSP, emphasises that economic growth led by the private sector is the means to reduce poverty. As a result, the country is actively seeking foreign investment from the global market.[15] The government has introduced a range of economic reforms to make Mali attractive to investors and a number of foreign companies, amongst them South African businesses, have responded positively. This report looks at Mali's business environment through the lens of the experience of South African firms operating in the country.

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[12] One constraint on the government's effort to improve public health through the PRSP is the low absorption capacity of the health sector. The low rate of funding take-up—51% in 2001 and 54% in 2000—explains the scant improvement seen in vaccination coverage, maternal mortality, child malnutrition and prenatal care. *African Economic Outlook 2004-2005*, African Development Bank (AfDB) and Organisation for Economic Co-operation and Development (OECD), 2004, p. 206.

[13] IMF, *Country Report* No. 04/182, June 2004, p. 5.

[14] *Ibid*, p. 21.

[15] IMF, *Country Report* No. 05/129, p. 39.

Overview of the Socio-Economic Environment

Landlocked Mali shares borders with seven countries, namely Senegal, Mauritania, Algeria, Niger, Burkina Faso, Côte d'Ivoire and Guinea. Mali is also the largest country in West Africa, covering a geographical area of 1,241 238 square kilometres, more than twice the size of France (544,000 square kilometres). Its geographical position has adverse and costly implications for the country's international trade logistics and transportation costs. It also makes trade with its neighbours and within the sub-region imperative.

Mali's capital, Bamako, has a population of 1 million. Most of the manufacturing sector in the country (with the exception of cotton ginning) is based in the capital. This lively city suffers from rapid urbanisation and poor sanitation, and its downtown area creates the impression of a huge informal market. Another major city is Mopti, the port on the Niger river, which has a population of 82,000 and is a central economic hub and exchange point for goods that travel across the country by land, water, truck, bus, camel, and boat.[16] Ségou, with a population of 107,600, lies 300km northeast of Bamako on the Niger Delta, in the middle of fertile rice, cereal and sugarcane farmland. Sikasso, home to 136,000 people, lies in the South, and is an important trading centre near the borders of Burkina Faso and Côte d'Ivoire. Kayes, which has a population of 68,400 inhabitants, is the hottest city in Africa, with temperatures soaring to more than 50°C in summer. It is located in the west close to Senegal. In the north, the small

[16] When the waters are high after the rains, large boats can navigate the Niger and Senegal rivers. In the dry season, *pinasses*—large motorised canoes—and *pirogues*—small dugout canoes—carry goods and passengers.

towns of Gao and Kidal are the gateways to the Sahara desert. Despite the importance of these urban areas for business, 70–80% of Mali's 12 million population lives in the country. Only 96 out of a total of 703 communes (Mali's lowest administrative unit), are urban.[17]

Mali has three distinct climatic zones. Land is very fertile in the rain-fed southwest, the Sudano subtropical region that covers 16% of the territory. This is where the majority of the population lives. The Sahelian climate belt, stretching from east to west across the centre of the country, is a drought-prone savannah shared by pastoralists and farmers, who rely on the Niger river for water. The northeast belongs to the Sahara desert, which covers more than half of the country and also represents the country's poorest region.

Despite the adverse climatic conditions in much of Mali, rural agriculture is an important economic activity with a great deal of potential. The Niger river (1,700 kilometres long) and the Senegal river (900 kilometres long) are capable of supporting 2 million hectares of irrigated agriculture. Their flood cycles allow for the cultivation of food and cash crops: cotton, groundnuts, rice, maize, sorghum, millet and cassava. The rivers also provide fish and act as transport arteries throughout the country. However, Mali remains highly vulnerable to drought and desertification. Its climate is also extremely inhospitable. In the cooler part of the dry season (from November to February), the hot harmattan wind blows sand and dust from the Sahara across the country resulting in a low ash-gray cloud cover that filters sunlight and reduces visibility. In the hottest part of the dry season (between February and June), temperatures rise up to 50°C. During the rainy period from June to September, malaria is endemic.

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[17] *Decentralisation and Poverty Reduction, 2003 National Report on Sustainable Human Development in Mali*, UNDP, 2003, p. 6.

Mali's Political History

Mali was the seat of several great pre-colonial kingdoms, including those of Ghana, Mali and Songhai, from the 8th century. The prosperity of these kingdoms was built on gold, salt and the slave trade along the Trans-Saharan trade routes. The interaction of merchants from the Arab north and the African south created a unique, varied and rich culture. The Kingdom of Mali, at its height in the 14th century, extended from the central Sahara to the Atlantic coast, covering an area four times the size of France. The cities of Timbuktu and Djenné were renowned throughout the Islamic world as centres of wealth, trade, art, architecture, astronomy and scholarship. However, in the mid-16th century the Songhai empire (1355–1591) fractured into several smaller kingdoms. In the 19th century, when the French colonisers arrived, Mali was under the rule of the Tukulor kingdom.

French colonisation lasted for 65 years, from 1895–1960. Mali was named French Sudan and its borders were redrawn several times before the current demarcation was formalised in 1937. In 1959, during the struggle for independence, led by the militant political party the Sudanese Union, French Sudan and Senegal formed the Federation of Mali. Attempts to incorporate the Upper Volta (Burkina Faso) and Dahomey (Benin) into the federation failed. The federation achieved independence from France in April 1960, but disintegrated shortly afterwards, when Mali and Senegal split into two separate republics.

Mali's first president was Modibo Keita, a descendant of the Mali kings and the leader of the Sudanese Union party. Keita severed ties with France, withdrew from the Franc Zone and adopted a non-convertible national currency. His experiment with a home-grown, authoritarian brand of socialism, combined with an inexperienced administration, resulted in an economic and political crisis. He was forced to reverse his rejection of the franc. His rule came to an abrupt end on 19 November 1968, when Lieutenant (later General) Moussa Traoré, leading 14 army officers, staged a military coup and declared himself the new president. Although a new constitution was adopted in 1974, creating a one-party state ruled by the *Union Démocratique du Peuple Malien* (UDPM — the Democratic Union of the People of Mali), the military continued to wield considerable power and used it ruthlessly. In the following decade, a bloated civil service, a huge and inefficient public economic sector, ballooning national debt and successive droughts all but destroyed the country's economy.

At the end of the 1980s, the government introduced a series of small economic reforms, which led to the liberalisation of the country's cereal markets, greater efficiency in its state enterprises, the introduction of new incentives to the private sector, and the conclusion of a structural adjustment agreement with the IMF. This partial opening up of the system made possible the emergence of an independent press and the establishment of various political groups. However, the austerity measures mandated by the structural adjustment programme, in tandem with an increase in visible corruption among top officials, led to popular discontent. This focused on a growing demand for the introduction of multi-party democracy.

A Tuareg rebellion, which broke out in 1990 in the north, was followed in March 1991 by anti-government, student-led riots in Bamako. The protests were supported by the trade unions and the opposition *Alliance pour la Démocratie au Mali* (ADEMA), led by a former minister of education, Alpha Oumar Konaré. The forceful repression of these riots left 150 dead and 700 injured. A few days later, a group of military officers under

Lieutenant-Colonel Amadou Toumani Touré took control of the country, and arrested President Traoré. The officers appointed a civilian body, the Transitional Committee for the People's Safety, to supervise the transition to civilian rule. A national conference was held to produce a draft constitution, which was approved by referendum in 1992. Mali also conducted successful presidential, national assembly and municipal elections in the same year. ADEMA's Konaré, the new president, steered the country towards a pluralist democracy, the restoration of civil liberties, economic liberalisation and modernisation.[18] Konaré was re-elected to office in 1997, and replaced by Touré in 2002.

The current political system

The President and the National Assembly are directly elected for a five-year term by the country's voters. The President appoints the Prime Minister and the Council of Ministers. The unicameral legislature or National Assembly has 147 elected members, of which 13 represent Malians abroad. The electoral system combines proportional and constituency-based representation.

The country's constitution guarantees an independent judiciary, although the Justice Minister appoints judges and supervises law enforcement and the president chairs the Superior Judicial Council, which oversees judicial activity. The constitution also guarantees various freedoms: of the press, speech, assembly, association and religion. Mali is divided into the capital district of Bamako and eight additional administrative regions, which are in turn separated into 49 *cercles*, or districts, with 703 communes. Bamako has six communes.

[18] Former President Traoré was found guilty of crimes against humanity and of corruption in a court of law and sentenced to death, commuted to life imprisonment. In 2002, the outgoing president (Konaré) pardoned him. Traoré was released from jail and now lives in Bamako. See Malinews at www. malilink.net/archives, 19 July 2002.

Toumani Touré (popularly known as ATT), received much praise for being one of the handful of African military leaders who has voluntarily handed over power to a democratically-elected regime. In 1993 he set up an NGO, the Children's Foundation, which became active in rural development, education and health. He then embarked on building a political support base and developing relationships with West African and European political and business leaders. In 2002, Touré ran as an independent candidate for presidential office, without the support of a formal party structure. Instead, he relied on a loose coalition of associations called the *Mouvement Citoyen* (Citizens' Movement). He won 65% of the vote in the second round, defeating ADEMA's candidate, Soumaila Cissé.[19] His success was attributed to his charisma and ability 'to remain above the fray of party politics and build consensus around him'.[20]

Touré's first cabinet, appointed in June 2002, consisted of 21 ministers who were representatives of six parties, technocrats and independents. The cabinet was reshuffled in September, but no major changes were made to economic policy. A third cabinet was appointed in May 2004, with reduced political party representation and a greater number of personal appointees of the president. A former finance minister in Touré's first cabinet, Issoufi Maiga, an independent, was appointed Prime Minister.

The political landscape in Mali is fragmented. There are more than 90 parties, although only 10 have a national following. Although alliances are shifting with the approach of

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[19] Voter turnout during the election was low, representing only 38% of the electorate in the first round and 30% in the second round. An additional 27% of votes were invalidated because of voting irregularities. See www.globalinsight.com.

[20] The Economist Intelligence Unit (EIU), *Country Report*, November 2004, p. 6. See www.eiu.com.

presidential and legislative elections in 2007, Touré has harnessed the support of two of the biggest and most influential parties in Mali. ADEMA[21] and the *Rassemblement pour le Mali* (RPM) formed an alliance in 2004, and together command a majority in parliament. However, even though ADEMA and the RPM have pledged their allegiance to the president during his current term, each party will field a presidential candidate in 2007.

Mali's emphasis on decentralisation introduces another important layer of government that is of particular relevance to investors. These are local officials, who are increasingly gaining influence on the political scene. In the municipal elections of 2004, ADEMA won just under one-third or 3,336 seats out of a total of 10,789 local council seats. The RPM won 1,590 seats, while the remainder went to small parties and independent candidates.[22]

Ethnicity and religion

Mali is known for the peaceful coexistence of its many ethnic groups. One reason for this unity in diversity is a strong sense of pride in their rich, shared cultural history. The country has over 15 different ethnic groups. The biggest of these, the Mande, comprises the Bambara, Malinké and Sonninké, and represents just under half of the population. Other groups are the Peuhl, Dogon, Songhai, Miniyanka, Senufo, Kassonke and the Tuareg. Although French is the official language, many rural adults do not speak it. Bambara is the most-spoken of Mali's indigenous languages, especially south of Mopti. Traditionally, most socio-economic development in the country has taken place in the

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[21] In 2003, a splinter group from ADEMA formed a new party, the Union for the Republic and Democracy (URD). This weakened ADEMA, as it lost 15 of its 51 MPs out of a total of 147. However, ADEMA remains the biggest party in parliament. See www.globalinsight.com.

[22] See www.izf.net.

south, which is populated by settled agriculturalists. Most of the Mande-speaking political leaders come from this area or the central regions. However, despite the dominance of the Mande in the political life of the country, successive governments have tried not to alienate the other ethnic blocs and to avoid showing favouritism, although ties based on ethnic kinship are an element of social cohesion in Mali.

Religion is another important factor in the close interweaving of the social fabric. Mali has a deeply religious society. About 80% of its people are Muslim, 18% hold animist or traditional beliefs mixed with Islamic precepts and 2% are Catholics. In general, Islamic practice in Mali (as in Senegal), is moderate, tolerant and inclusive, not fundamentalist. The country's national motto, 'One People, One Goal, One Faith', is displayed on all official documents.

Another element of social bonding is provided by the Sufi Muslim brotherhoods. These groups play a critical role in organising the social life of communities, building solidarity and giving them a sense of belonging. Most Muslims are members of these brotherhoods. The most widespread group, which operates in Mali, Mauritania, Niger and Chad, is the Tijaniyya brotherhood. The brotherhoods and other social institutions support a complex web of social and commercial relations that cut across ethnic and geographical boundaries. For example, the Dogon, a farming people, and the Bozo fisherfolk have a special alliance and kinship. In rural areas, one often finds that farm work is done collectively through associative groups called *'ton'*, which organise communal work in the fields. In this way farmers help each other to plough and cultivate their individual plots.

However, the integration into the modern economic and political life of the country of the nomadic pastoralists of the Sahara, the Tuareg (6% of the population or some 610,000), remains problematic. Most of the Tuareg reside in Kidal, Mali's most remote and poorest region. A 2003 UNDP survey of poverty and development among Mali's 703 communes found that in Kidal 98% of people are poor.[23] It was also the only region where poverty was spread across both rural and urban communes. Half of this group were rated as extremely poor.

Because most economic development and political representation originates in the south and central parts of the country, the Tuareg believe they are marginalised and excluded. These complaints have historical roots, as the Tuareg were under-represented in the political administration of the country after independence and excluded from the newly-established political networks, and thus did not benefit from the new dispensation. A proposal made shortly after independence to introduce comprehensive land reform measures that would threaten their nomadic lifestyle was perceived by the Tuareg as an attempt at cultural genocide, and led to a brief, disorganised uprising of hit and run attacks by small groups on camels with light weapons in 1962.[24] The rebellion was brutally crushed, and a repressive military administration was installed in the north of the country. The economic plight of the Tuareg was exacerbated by severe droughts in 1968, 1974, 1980 and 1985, which caused severe losses of livestock and destroyed the livelihoods of many. Several groups were forced to move to relief camps, or became internally displaced. A second rebellion took place in June 1990, but this time the Tuareg were better equipped, with light vehicles and Soviet-made weapons. The government

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[23] *National Human Development Report 2003*, UNDP, 2003, p. 29.

[24] *Conflict and Conflict-resolution in the Sahel: the Tuareg Insurgency in Mali*, by Lieutenant Colonel Kalifa Keita, Army of the Republic of Mali. Strategic Studies Institute, US Army War College. www.carlisle.army.mil/ssi/pdffiles/PUB200.pdf

adopted a heavy-handed counter-insurgency campaign which also targeted civilian communities. Many Tuareg fled to neighbouring countries.

Traoré realised that the Tuareg problem could not be solved militarily, and accepted an offer made by the government of Algeria to mediate between the government and the rebels. On 6 January 1991, an agreement was signed in Tamarasset, Algeria, to resolve the conflict. It included the following undertakings:

- to reduce the army's presence and phase out its administrative structures in the north;
- to integrate 3,000 Tuareg men into the army, police, customs and civil services;
- to hasten decentralisation in order to devolve power to local and regional councils;
- to increase infrastructure expenditure in the North to 47.3% of the total committed to infrastructure development; and
- to repatriate refugees from neighbouring countries.

Even though Traoré was overthrown the following year, the new government adhered to the agreement and developed a strategy to build trust between the Tuareg, the government and the army. It included regular meetings with the Tuareg leaders to discuss grievances; the mounting of events that celebrated Tuareg culture; the introduction of army-led food distribution and medical assistance; and the training of the armed forces in human rights and ethics, to improve behaviour towards civilians.

However, the North is still poor, and its people remain vulnerable to drought. Even though the government has built schools and wells, its economy remains fragile. Many young people are unemployed.[25] The main cities of Timbuktu and Kidal are isolated from the rest of the country because they can be reached only by air flights or a punishing 20-hour journey by road using 4x4 vehicles. Isolated incidents of banditry continue to be reported near Timbuktu.

Regional distribution of poverty 2003: number of poor communes per region					
Region	**Very poor**	**Poor**	**Medium poor**	**Less poor**	**Not poor**
Kayes	16	29	24	25	35
Koulikoro	4	18	17	22	47
Sikasso	26	28	31	24	38
Ségou	22	22	28	17	29
Mopti	20	18	21	24	25
Timbuktu	22	9	4	8	9
Gao	8	2	2	6	5
Kidal	5	2	1	2	0
Bamako	0	0	0	0	6
Total	123	128	128	128	194
Source: *National Human Development Report 2003, UNDP*					

[25] *National Human Development Report 2003*, UNDP, 2003, p. 29.

Islamic terrorism in the Sahel

Even though the threat of Islamic fundamentalism and terrorist activity is low in Mali, the US military refers to the Sahel as Africa's second anti-terrorist frontier (the first being the Horn of Africa). The vast, porous and unpatrolled expanses of the Sahara desert, which are shared by Mali, Mauritania, Algeria, Niger and Chad, all of which are predominantly Muslim, could shelter fundamentalist mullahs, militants and terrorists. As a result, the Pentagon is funding the Pan Sahel Initiative (PSI) — managed from the PSI's base in Stuttgart, Germany — to train the military in Mali, Mauritania, Niger and Chad in anti-terrorist surveillance techniques. Costing $6.5 million, of which more than half accrues to Mali, it is a small operation by the Pentagon's standards. However, for the minuscule budgets of the armies of these impoverished countries, it represents a substantial amount of funding. Pending Congress approval, the US plans to expand this programme into a Trans-Saharan Counter Terrorism Initiative that would also include Morocco and Algeria. The proposed budget would be $120–132 million for the first year, followed by $350–400 million to be spent over the subsequent five years.

The Pentagon's interest also reflects the rising strategic importance of West African oil for the US, and the accompanying need to keep the region secure. The country already buys 15% of its oil from West Africa (including Angola), and this proportion is likely to rise. This notoriously unstable region contains a number of failed states, including Liberia, Sierra Leone and Equatorial Guinea, and simmering civil conflicts in Côte d'Ivoire and Togo. Allegations have been made that al-Qaeda may have laundered money by buying diamonds in Sierra Leone and Liberia. Algeria is home to a known group of active Islamic rebels, and the train station bombing incident on 11 March 2004 in Madrid, Spain, was planned in Morocco. In early 2003, a group of German tourists who ventured into the Sahara without a guide were kidnapped by an Algeria-based militant group, the *Group Salafique pour la Prédication et le Combat* (GSPC) or the Salafi Group for Preaching and Fighting. The hostages lived for seven months in northern Mali, and were freed only after Germany had paid a ransom of €5 million. Their kidnappers were later pursued into Niger and Chad, where they were captured and handed over to stand trial in Algeria.

Are the concerns about Islamic activities in the Sahel well-founded? A new report by the Brussels-based International Crisis Group (ICG) analyses the four PSI countries, and concludes that the Sahel is not a hotbed of terrorist activity.[26] Instead the report suggests that Sahelian countries need development more than military aid. It notes that Mali's solid democratisation process, peace, stability, press freedom and tolerant strands of Sunni and Sufi Islam do not encourage Islamic fundamentalism.

Yet the extreme poverty and vulnerability of the nomadic peoples of the Sahara create an environment conducive to the establishment of smuggling networks that support trafficking in cigarettes, people (notably illegal immigrants to Europe) and potentially drugs and weapons.

The smuggling routes seem to traverse Mali and flow from:

- West Africa to Gao in Mali and onwards to Algeria;
- Mauritania to Western Sahara to Morocco and then to Spain; and
- Gao and Kidal in Mali to Algeria and Tunisia, and on to Malta and Italy.

The GSPC militants allegedly have strong links with the smuggling rings and solicit taxes from them. The area is awash in small arms, a legacy of the 1962 and 1990 rebellions. In addition, the GSPC's distribution of the ransom money paid by Germany throughout the region has bought the group a degree of acceptance from the locals. The report also notes a surge in proselytisation by Pakistani mullahs since 1998. Fundamentalist preachers of the largest Muslim missionary society, the Tablighi, have been flocking to Kidal, which was the centre of the Tuareg rebellions.

The ICG believes that the region does deserve increased attention from the West, but that it should be of a developmental nature, such as modest investments in tourism, livestock and infrastructure (such as deep wells and modern slaughterhouses) to provide young men with an alternative to smuggling. In addition, improved air and road access would also boost tourism and livestock sales in these remote regions. However, the report also emphasises that customs and surveillance procedures at the airports should be improved.

[26] *Islamist Terrorism in the Sahel: Fact or Fiction?* International Crisis Group, Africa Report No. 92, 31 March 2005. See www.crisisgroup.org.

The Economic System

Employment, debt and economic prospects

Mali received its first sovereign credit rating from Standard & Poor's in May 2004, as part of a United Nations Development Programme (UNDP) initiative to include a group of previously unrated developing countries.[27] The country scored a B/Stable B for both its local and foreign currency positions. However, the analysis noted several constraints, namely a poor economic structure, weak public finances, inefficient public governance, and a weak private sector that is scarcely developed apart from gold mining and agriculture. On the plus side, the country enjoys strong donor support, has reached completion point under the Highly Indebted Poor Country Initiative (HIPC) and has recently been identified by the G8 as qualifying for complete debt relief.[28] As already noted, it is a member of the WAEMU, which ensures a stable macroeconomic environment with a relatively consistent exchange rate and low inflation, which partly compensates for its vulnerability to external shocks. For example, inflation rates, which were relatively low in global terms between 1997–2000, rose to 5.2% in 2001 owing to the inflow of credit associated with Mali being the host of the African Cup of Nations football tournament. It remained high at 5% for most of 2002, but declined dramatically to -1.3% in

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[27] The UNDP launched this initiative in 2003 `to help Sub-Saharan and other developing countries obtain sovereign credit ratings to support their efforts to mobilise resources from private capital markets, which are required to secure accelerated rates of economic growth and reduce poverty.' To date, Ghana, Benin, Cameroon, Burkina Faso, Mozambique, Madagascar and Mali have been rated. See www.oecd.org/dataoecd.

[28] According to S&P, Mali's net government debt, prior to the recent debt relief decision, would have remained high at an estimated 58% of GDP in 2004. *Sovereign Ratings in Africa*, Standard & Poor's, June 2004, p. 30.

2003 because of an abundant harvest that reduced food prices by 4%, no increase in the price of public utilities and a strong euro, which made imports cheaper.[29] In 2004, consumer prices increased by 2.5% owing to a rise in food prices towards the end of the year. This was attributed to a reduced harvest after a locust invasion, and rising oil prices. Inflation not related to foodstuffs remained stable at 0.8%.[30]

Mali's economy is small, and the formal economy employs only 15% of the labour force of 4.6 million.[31] The civil service is the largest employer, with 42,000 employees. Services and manufacturing account for another 36,500 jobs. The informal economy dominates economic activity and accounts for 41% of Gross National Income (GNI) (as compared with the regional average of 42%).[32] In 2001, the informal sector provided an estimated 1.2 million jobs.[33] In Bamako, 80% of the working population have occupations in the informal sector. Most people are self-employed traders and farmers.

The formal economy employs only 15% of the labour force.

At a macro-economic level, Mali's balance of payments (BOP) suffers from its strong dependency on a few export commodities, its minimal industrial base and its complete

[29] The FCFA is pegged to the euro.

[30] The IMF estimates that a return to programme projections of inflation at 2.5% is likely in 2005, whereas the EIU projects 3% inflation in 2005/06, in line with the 3% target set by WAEMU. IMF, *Country Report* No. 05/12, p. 9. and EIU, *Country Report*, November 2004, p. 8.

[31] Unfortunately Mali is also experiencing a significant brain drain. There is steady emigration of qualified Malians to West Africa, Europe and the US. The deficit of qualified workers at all levels, from engineers to electricians, is a considerable constraint on the growth of the formal sector.

[32] *Doing Business 2004*, World Bank. See www.doingbusiness.org.

[33] *Diagnostic Trade Integration Study*, USAID, 2004, p. 36.

dependence on imported oil and capital goods such as machinery. This has resulted in a chronic balance of payments deficit. Nevertheless, it is shrinking, as exports of cotton and gold grow steadily. As a result of Mali's integration with the world economy and an increase in gold sold abroad, its exports have grown by 14% since 1995. Imports grew by only 5%, reducing the trade deficit from 20% of GDP in 1995 to 2% in 2002, when the total value of Mali's exports surpassed its imports for the first time. The reason was a sharp rise in gold production, which generated a surplus of 31% (FCFA 131.8 billion, equivalent to 4.2% of GDP).[34] However, the dependence of the economy on two commodities, gold and cotton, and the small size of the private sector resulted in a far smaller surplus (FCFA 58 billion) in 2003.[35] This was the result of a decrease in overall gold production; the disruptions in air freight caused by the collapse of the regional airline, Air Afrique, and the termination of air services by the international airlines Sabena and Swissair; and an increase in transport costs because the civil war in Côte d'Ivoire made it necessary to re-route exports. In 2004 the terms of trade weakened even further because of a 30% fall in the price of cotton and an equivalent rise in oil prices.[36]

However, despite the growth in exports, Mali's extreme concentration on a few export commodities makes the country highly vulnerable to external shocks. The economy is

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[34] African Economic Outlook, AfDB/OECD, 2004, p. 73.

[35] The country's total imports were FCFA 503.8 billion in 2003, whereas total exports amounted to FCFA 561.8 billion according to Mali Finance. Various sources cite different values for total trade. The World Bank states that the total value of the country's exports in 2003 was $985 million, whereas total imports were $1,01 billion. Selected World Development Indicators 2004, *World Development Report 2005*, World Bank, p. 263.

[36] Exports in this year were FCFA 582.1 billion, versus imports of FCFA 585.4 billion. IMF, *Country Report* No. 05/129, p. 5.

heavily dependent on the export of three primary goods, namely gold, cotton and livestock, with very little beneficiation and/or manufacturing locally. Other exports are fruits (especially mangoes) and vegetables, and cosmetics and creams using shea nuts, African clothing and artefacts. Spain buys 80% of Mali's local production of tiger nuts (6,200 tonnes in 1999). In 2003, Mali exported 90kg of shea nut oil and 3,732kg of dry nuts to the UK, Denmark, Sweden and Japan.

Cotton provides the livelihood of one-third of the population.

Cotton production alone provides the livelihoods of one-third of the population and is the second-largest export commodity, accounting for 38% of export earnings in 2002 and contributing 7% of GDP and 6% of total tax revenue. Livestock is the third leading export, and also the main source of income for 30% of the population. In total, 70% of the land is devoted to the rearing of livestock. Mali has large animal herds, estimated at 26 million animals in 2001. Bovines represented 27%, sheep 28% and goats 40%.[37]

However, the importance of cotton and livestock as exports has declined since 1998 in comparison with gold, which is now the country's primary export, accounting for 42% of total export earnings in 2002 and earning Mali the ranking of Africa's third-largest gold producer. The growth in gold production from 2% of real GDP in 1990 to 11% in 2001 and 14% in 2002 is largely attributable to new investments in the industry, mostly from South Africa.[38] Three new gold mines with a potential yield of 500 tonnes were opened between 1997–2001.

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37 Donkeys and camels are important for transport and portage of goods.

38 *Trade Policy Review Mali*, Report of the Secretariat, Trade Policy Review Body, World Trade Organisation, WT/TPR/133, 24 May 2004 (04-2119), p. 64. See www.wto.org.

In the past two decades, the direction of Mali's trade with the rest of the world has changed dramatically.[39] Europe has become less important, and Asia and Africa more so. A key reason for this development is that the European textile industry, the largest importer of Malian cotton, has outsourced most of its manufacturing operations to Asian countries. Although purchasing decisions are still made in Europe, Mali's cotton is now shipped to Thailand, Vietnam, Malaysia, India and China instead of Europe. A small proportion of its cotton is exported to Italy by sea. In addition, the share of Africa in Mali's trade, particularly with WAEMU countries, has increased steadily.[40] Mali exports food products, clothing and livestock to WAEMU countries. For example, cereals, fruit and vegetables are exported to Senegal and Burkina Faso, and live cattle to Côte d'Ivoire.

Mali's poor terms of trade are accompanied by a weak but improving debt position. After independence the country amassed large volumes of external debt, equalling 98.6% of GDP or 2,33 billion CFA francs in 2002.[41] Of this figure, two-thirds was owed to multilateral institutions.[42] Since Mali reached the completion point for debt relief under the HIPC in March 2003, the country's domestic and external debt declined to 67.5% of GDP in that year, compared with 79% in 2002.[43] Reaching the completion point also enabled Mali to reduce the net present value (NPV) of its external debt below the threshold of 150% of exports of goods and services. The country's remaining debt

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[39] *The Impact of Transport & Logistics on Mali's Trade Competitiveness*, by Carana Corporation for the Trade Enhancement Service Sector Project (TESS), USAID, August 2004, p. 15.
[40] *Mali Investment Guide: Opportunities and Conditions*, UNCTAD/International Chamber of Commerce, March 2004, p. 16.
[41] IMF, *Country Report* No. 05/129, p. 24.
[42] *African Economic Outlook*, AfDB/OECD, 2004, p. 202.
[43] See www.globalinsight.com.

now stands at $704 million.[44] HIPC alone will provide debt relief amounting to $675 million over time.

The announcement on 11 June 2005 that the G8 has identified Mali as one of the countries qualifying for complete debt relief will enable the government to re-allocate the substantial resources that would have been used to service debt to education, health and poverty alleviation. This will entail increases in public service expenditure, which has raised another concern for the government—corruption in officials. President Touré identified the elimination of corruption[45] and the promotion of education as the two top priorities of his government.[46]

To maintain debt sustainability, the government plans to diversify the economy, increase exports, ensure that any new debt is accrued on concessional terms, and favour grants over loans. Where grants make up a proportion of financing from external sources, the government hopes to increase that share from the current 40% to 60% over the medium term.[47] The country's public finance position remains weak. International grants, representing 4.4% of GDP in 2003, made up 21% of total government revenue. In 2003, foreign aid to Mali translated into $50 per year per capita, or 80% of total investment and

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44 See www. jubileecampaign. org.uk.

45 In 2004, the *Corruption Perception Index* of Transparency International ranked Mali No. 77 among 145 countries surveyed. Ghana was 64, Senegal 85 and Nigeria 144. A higher number reflects a higher perceived level of corruption. The Index is a summary of polls that reflect the perceptions of business people and country analysts, both resident and non-resident.

46 *Country Commercial Guide* (CCG), United States Government. See www.w3.usa.org.ml/guide/html

47 IMF, *Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding*, Bamako, 20 May 2004, p. 7.

20% of GNP. Of this assistance, 55% took the form of soft loans, and the rest was grants.[48]

As noted in Standard and Poor's report, in Mali, as in most HIPC countries, grants and debt relief finance large fiscal imbalances. The country remains fiscally weaker than many of its peers, and is struggling to fight poverty. For example, despite the grants, Mali's fiscal deficits are projected to run to 4–4.5% of GDP in the foreseeable future.[49] The IMF concurs with this estimate, and predicts that the current account deficit before official transfers is expected to widen significantly in 2005, owing to low cotton prices and rising oil prices. However, after 2005, the current accounts deficit is expected to narrow, as oil prices moderate and gold exports expand because of the development of new mines.[50] Apart from gold and agricultural exports, remittances from some four million Malians based in West and Central Africa, Europe and the US, contribute an estimated $76.3 million per annum to the country's foreign earnings, and actively support domestic consumption.[51]

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48 *African Economic Outlook*, AfDB/OECD, 2004, p. 202.
49 Standard & Poor's, June 2004, p. 31.
50 *Ibid*.
51 See www.globalinsight.com.

Economic growth in Mali: A brief overview

Mali has posted an impressive average economic growth rate of 5% after the devaluation of the CFA franc in 1994 and the introduction of some market-related economic reforms which made its exports more competitive. It reached its highest level (more than 6%) between 1994–1999. However, it slowed down after 2000 because of lower world prices for cotton and gold, and poor rains in 2001. In 2002, unusually high gold production of 66.1 tonnes and additional tourism revenue related to the African Cup of Nations counterbalanced the negative effects of poor rains and civil war in neighbouring Côte d'Ivoire, yielding growth of 4.3%.[52]

In 2003, good rains, a 30–40% higher output in cereals, rice and cotton, and better prices for the latter, led to 6% growth.[53] The primary sector expanded by 19%. However, the manufacturing sector contracted owing to low cotton output in 2002, and gold production dropped by 19% to 51.6 tonnes. The tertiary sector expanded by 4.9%, thanks to dynamic growth in transport and mobile telephony. The former was prompted by the need to find alternative external trade routes for Mali's exports because of the crisis in Côte d'Ivoire.

In 2004, growth slowed down to 2.2% as a result of below-average rainfall and a locust invasion of nearly one million hectares, which damaged food crops, grazing and livestock. This disaster was counterbalanced by a good cotton harvest and performance by manufacturing, construction, trade and services. Nevertheless, growth did not achieve the original objective of 4.7% set out in Mali's Poverty Reduction and Growth Facility (PRGF).[54]

The Economist Intelligence Unit predicts stronger real GDP growth of 5.5% in 2005 and 6.6% in 2006, due to a recovery of primary sector markets and sustained growth in the secondary sector. The IMF projects a real GDP growth rate of nearly 6% (almost reaching the target of the PRGF). This forecast envisages a recovery in agricultural production (other than cotton) and in the gold sector because of new investment in the Sadiola mine.[55]

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[52] IMF, *Country Report* No. 04/184, p. 5.
[53] *Ibid*.
[54] IMF, *Country Report* No. 05/129, p. 5.
[55] *Ibid*.

Economic indicators for Mali, 1998–2002					
Category	**Percentage**				
	1998	***1999***	***2000***	***2001***	***2002***
Real economy					
Change in real GDP	8.1	5.7	-3.3	12.0	3.9
- Primary	10.9	7.7	-10.4	11.7	-4.4
- Secondary	11.1	-8.8	4.4	26.1	20.0
- Tertiary	4.8	5.3	4.3	8.7	1.1
External Economy	**CFA billion**				
	1998	***1999***	***2000***	***2001***	***2002***
Current transactions	-143.6	-176.1	-226.9	-275.9	-136.5
- Exports, f.o.b.	334.8	355.4	388.1	531.2	631.4
- Imports, f.o.b.	-329.3	-372.8	-421.5	-538.4	-498.3
- Services (net)	-159.2	-161.3	-167.9	-198.1	-167.2
- Current transfers	40.0	45.8	44.3	51.1	58.5
Capital account and financial transactions (net)	108.3	137.1	182.6	131.1	183.2
Overall total	-22.6	-10.1	27.8	-32.9	96.4
Source: *IMF, 2004.*					

Sectoral breakdown of the economy

Agriculture

Mali has a predominantly agro-pastoral economy, which is dominated by the primary sector. The latter is also the main source of income for the population, providing two-thirds of local employment and contributing 32% of the nominal GDP in 2002. In that year, agriculture represented 53%, livestock 31%, and fishing and forestry 16 % of the sector's total contribution to nominal GDP.[56] Other studies set the contribution of agriculture to GDP as high as 45%, broken down into food

[56] *Trade Policy Review Mali*, WTO, pp. 52–53.

crops (15%), livestock (10%), cash crops of cotton and peanuts (9%), forestry (5%) and fishery (1%).[57] However, agro-processing is minimal because of a lack of vertical integration of agriculture into agro-processing industries, such as canned food and beverages. As a result, the country is failing to capitalise on its comparative advantage in growing crops. At present agro-processing accounts for less than 3% of GDP.[58]

Despite the lack of vertical integration, agriculture is the most organised sector of Mali's economy. Reform of the farming sector began in 1989, with price liberalisation and the withdrawal of the state from direct involvement in productive activities in agriculture in 1992. At the same time codes on managing forestry, water, grazing and land ownership were revised and a Permanent Association of Malian Chambers of Agriculture (ADCAM) was created to conduct a dialogue with the state.

Agro-processing is minimal.

The reforms resulted in a steady increase in production, yields and areas cultivated (see the table below). However, many smallholders still use old technology and production methods; make limited use of small-scale irrigation; and lack access to credit. They are also excluded from decision-making fora on agricultural matters that concern them. However, despite these obstacles, cotton production has shown remarkable growth.

[57] *Diagnostic Trade Integration Study*, USAID, 2004, p. 64.
[58] *Ibid*.

Table: Cereal and cotton production, 1998–2004 ('000 tonnes)

	1998 –99	***1999–00***	***2000–01***	***2001–02***	***2002 –03***	***Forecast for 2003–04***
Cereal crops	2,621	2,650	1,844	3,109	3,11 9	3,610
- Millet	973	945	604	1 009	995	1,214
- Rice[a]	53	47	66	110	89	99
- Sorghum	1,203	1,178	847	1,372	1,37 3	1,519
- Maize	378	467	316	606	653	765
- Fonio[c]	14	13	11	12	9	13
Cotton	325	239	212[b]	395	439	600

a Data from the National Directorate of Statistics of Mali about the volumes of rice and maize production differ considerably from the figures shown above. Rice production was estimated at 846,000 tonnes in 2002 according to the Investment Guide, UNCTAD 2004.

b There was a strike by producers during the 2000–2001 season.

c Local cereal

Source: Trade Policy Review Mali, WTO, May 2004

Mali enjoys a strong comparative advantage in cotton production and export because it produces high quality fibre at low cost. Production has increased steadily since the reforms, from 325,000 tonnes in 1988–89 to 439,000 tonnes in 2002–03 and 600,000 tonnes in 2003–04. Mali was ranked

Africa's largest cotton producer in 2004.[59] Worldwide, it is the fourth-largest, and accounts for 3% of global production.

Cotton is grown mainly in the south of the country, in Sikasso, Koulikoro, Segou and Kayes. It is cultivated on approximately 96,000 square kilometres by 170,000 producers on small and medium-sized farms. Mechanisation is used on 65% of these farms.

The production and marketing of cotton is managed by the *Compagnie Malienne du Developpement Textile* (CMDT), of which 60% is owned by the state and 40% by the French agro-industrial group Digris. CMDT provides technical assistance, inputs and credit to producers, and has a legal monopoly on ginning and marketing in the four regions mentioned above,[60] although small quantities of cotton are grown in areas outside the territory controlled by the CMDT. The company is funded by loans from various commercial and multilateral banks.

Almost 99% of production is exported as cotton fibre ginned by CMDT, with little value-addition, although the government has established some incentives for investment in textile processing. Duty and quota-free access to the US market through the African Growth and Opportunity Act (AGOA) has supported the industry and encouraged the establishment of a regional textile and apparel industry.

However, the sector is also highly vulnerable to external shocks. These include poor rains and low commodity prices. For example, cotton prices fell from $1.38/kg in 1998 to $1,09/kg in

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[59] In West Africa, the country accounts for two-thirds of the region's annual production of 800,000 tonnes.

[60] Already, CMDT has relinquished many operations (transport, road maintenance) to the private sector. The loss-making CMDT is scheduled for privatisation in 2006, and is to be broken up into four smaller companies. The challenge will be to protect small producers and guarantee their supply of seeds, fertilizer and pesticides during the transition. *Diagnostic Trade Integration Study*, USAID, 2004, p. 66.

2002 because of growing global production resulting from subsidies to cotton farmers in the US, Europe and China. Oxfam estimates that subsidy-related losses for Mali amounted to 1.7% of GDP or 8% of export earnings in that year. In 2004, producers were forced to accept a 25% reduction in the price of cotton.[61]

Economic and commercial importance of the cotton sector in Mali				
Season	***2000–2001***	***2001–2002***	***2002–2003***	***2003–2004***
Hectares planted	227,900	531,490	490,000	525,000
Production, tonnes	243,000	570,000	430,000	600,000 (estimated)
Yield kg/ha	1,066	1,091	880	1,140
Production cotton fiber, tones	102,000	240,000	180,000	252,000
Producer price FCFA/kg	170	200	180	200
Source: Mali Investment Guide, UNCTAD/ICC, 2004				

All WAEMU countries and Brazil agreed at the WTO Ministerial Conference in Cancun on a common position that demanded a phase-out of cotton subsidies in the West and the payment of compensation to developing countries for losses incurred due to subsidisation. In March 2005, the WTO ruled that the American subsidies were illegal and should stop.

[61] Oxfam estimates that a typical Malian producer cultivates two hectares and earns $400 a year from the crop. Thus a reduction of 25% means that production costs may not be covered. *Bitter Harvest*, Oxfam, 2002. See www.oxfam.org.uk.

Cereal production in 2002/03 was 3.6 million tonnes, enough to make Mali self-sufficient (except for wheat, which is imported).[62] However, cereals such as maize, fonio, sorghum and millet are grown mostly for household consumption, with only 20% marketed commercially. Small quantities of millet, sorghum and maize are exported to Burkina Faso and Senegal. Because a locust invasion and poor rains in 2004 resulted in a serious deficit of 300,000 tonnes of cereals in 2005, the government requested emergency aid of 51,000 tonnes for vulnerable groups in the agro-pastoral Sahelian belt. Commercial imports and the national food security stock were expected to cover the remaining shortfall.[63]

Of other cereal crops, rice has become a very popular staple in West Africa, with an estimated annual regional consumption of 1.5 million tonnes. However, WAEMU imports two-thirds of its rice. The 1994 CFCA devaluation has made the growing and exporting of rice competitive, and Mali has become self-sufficient in this regard. The area now cultivated for rice growing on the Niger river delta has doubled in one decade, from 200,000 hectares in 1991 to 328,000 in 1998/99 and 465,000 hectares in 2001/02. Total rice production reached 846,000 tonnes in 2002. Although the country exports small quantities to Senegal and Côte d'Ivoire, it could export to Ghana, Burkina Faso and Guinea, if production is expanded. The *Office du Niger* (ON) or Niger Board[64] accounts for about

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[62] *Diagnostic Trade Integration Study*, USAID, 2004, p. 64.

[63] *Mali Emergency Operation EMOP*, World Food Programme, January–September 2005, p. 2.

[64] The *Office du Niger* (ON), a state enterprise, is a restructured version of the old colonial agricultural development office. During the economic reform period, the ON was transformed from a monopoly into an agency that manages and grants serviced land and land rights to producers. ON manages 1,150 million hectares of potentially irrigated land. At present approximately 85,000 hectares are being used for the cultivation of rice, sugar cane and other crops.

half of the rice production on 60,000 irrigated hectares with a high yield of 5,800kg/ha, compared to 2,237kg/ha for other producers. The ON could improve production by cultivating a further 900,000 irrigated hectares. Twenty percent of the estimated yield would meet WAEMU's rice requirements.

Groundnuts are also a staple in the local diet. Production was 212,000 tonnes in 2004. Mali is also Africa's largest producer of shea nuts. The country has over 150 million trees, with a potential annual harvest of 25,000 tonnes. The nuts are used to make butter, creams and cosmetics. This sector is female-dominated activity, as women working in small co-operatives collect the nuts and grind them using traditional technology. In contrast, the Karite-Mali factory processes 3,000 tonnes per annum to extract 1,200 tonnes of butter using a semi-industrial process. The EU's approval of the use of up to 5% of karate butter in chocolate products has opened up the possibility that Mali can export more shea nuts to Europe.

Fruit and vegetables (mangoes, beans, potatoes, shallots and tomatoes) also hold great promise for further development. Mali exports more than 1,000 tonnes of mangoes (87 varieties) and 400 tonnes of beans to Holland and France a year. Shallots and tomatoes are exported to West Africa in general, potatoes and hibiscus to Côte d'Ivoire. The fruit and vegetable sub-sector has grown considerably in the past 10 years because of growing urban and regional demand. For smallholders, the shorter cycle of vegetable production is a viable alternative to cultivating rain-dependent cereals. An estimated 100,000 people work in this sub-sector, which is worth more than $90 million to the country annually. About 10% of Mali's fruit and vegetable production is exported to Europe and the region.[65]

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[65] *Mali Investment Guide*, UNCTAD/ICC, 2004, p. 34.

However, the export of agricultural products faces constraints in all the supply chain stages. These include problems with collection, packaging and storage; a lack of reliable cold chains because of the limited number of refrigerated trucks; spoilage during transit; and long travel times to markets. For example, packing of mangoes into 40-foot containers causes the spoiling of 10% of boxes (500 out of 5,000) during transit.[66]

Mali's agricultural and agro-industrial sectors are currently operating below their substantial potential. They, therefore, offer significant growth and investment opportunities. Regional exports look particularly promising and would offset the limited purchasing power of the small domestic market.

The Markala Sugar Project

One agricultural sub-sector that holds great promise is the sugar industry. Mali enjoys significant comparative advantages that would enable it to produce sugar competitively: plenty of available flat land, appropriate soils, abundant water from the Niger River and low-cost labour. There is also a strong domestic and regional demand for sugar. Even though Mali consumes 130,000 tonnes each year, it manages to produce only 30,000 tonnes domestically.[67]

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[66] *Impact of Transport & Logistics on Mali's Trade Competitiveness*, USAID, 2004, p. 42.

[67] Mali's sole source of sugar production and processing is currently being done by a formerly state-owned enterprise, the *Complexe Sucrier du Kala Supérieur* (SUKALA-SA). The company was opened to private participation in 1996. The government shareholding is 40% versus a 60% shareholding by the Chinese firm CLET. The state plans to sell its residual holdings. SUKALA grows sugarcane on two plantations managed by the Niger Board area near Markala. Using antiquated technology, its two mills produce 30,000 tonnes of sugar a year. This is sold in Mali by approved wholesalers. By-products include an annual 200 hectoliters of alcohol and molasses, which is used as animal feed.

The Markala Sugar Project (continued)

In 2002 75,000 tonnes of sugar worth FCFA 20 billion or $30 million were imported.[68] WAEMU consumes 500,000 tonnes a year, whereas it produces only 300,000 tonnes. It imports the rest, mainly from Brazil and the EU.

The government is considering the establishment of a sugar agro-industry development project with donor support in the region of Ségou, 300km northeast of Bamako, close to the Markala dam. The *Projet Sucrier de Markala* (SOSUMAR) or Markala Sugar Company plans to grow sugar cane in an irrigated area covering 15,000 hectares, and to build a new sugar factory with a processing capacity of 165,000 tonnes a year. The project is expected to create 2,000 full-time and 4,000 seasonal jobs in this economically depressed area. A company-supervised outgrower scheme giving access to the project to individual farmers will provide more jobs and encourage the development of private commercial farms. The total cost of the project is estimated at $215,721 million. During an Investors' Roundtable in September 2004, a consortium of sugar producers from South Africa was selected as the strategic partner to take over 52% of the capital. This group is conducting a due diligence study, and it is hoped that agreement will be reached in 2005.

The Markala project would make Mali self-sufficient in sugar, saving up to $45 million a year in import substitution. At the same time, exports into the region would earn the country much-needed foreign exchange. Mauritania, which grows no sugar at all and consumes around 110,000 tonnes a year, has been identified as likely to become Mali's biggest client for sugar.[69] The improved road connections between Mali and Mauritania would also encourage trade between the two countries.

Mali could also export sugar and sugar by-products such as ethanol to the EU, as the latter liberalises its sugar imports from least developed countries between 2006–2009 in accordance with the framework of the 2001 'Everything but Arms' initiative.[70]

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[68] *Mali Investment Guide*, UNCTAD/ICC, 2004, p. 36 and *Diagnostic Trade Integration Study*, USAID, 2004, p. 62.

[69] In 2001, Mauritania imported 120,000 tonnes of white sugar from the EU. *The Great EU Sugar Scam*, Oxfam Briefing Paper No.27, August 2002, p. 25.

[70] The *Everything but Arms* initiative launched by the European Union

France is the world's third-largest importer of ethanol and accounts for 10% of the global ethanol market. Its imports of this commodity grew by 7% between 1997–2001.[71]

Sugar-cane by-products are also used to make paper and produce biogas. Another possible spin-off for the Markala project is that shrimp farms could be established on the river and canal banks.

In the experience of other African countries such as Mozambique, sugar cane projects can become poles of local development and economic growth.[72] They provide a large number of formal and seasonal jobs, inject cash into the local economy and transfer technology and skills to locals.[73] However, the success of the Markala project will also depend on a strict government sugar pricing policy and the containment of sugar smuggling, which, according to a recent World Bank Diagnostic Study, appears to be widespread.[74]

Industry and manufacturing

Mali's industrialisation is considered to be negligible. Manufacturing remains weak and chiefly concentrated on

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in 2001 provides tariff and quota-free access to its market for all products—except weapons—from the 49 least developed countries. Under pressure from European sugar producers, however, sugar from LDC countries was granted restricted quotas (74,000 tonnes in 2001/02), with cumulative annual increases of 15% leading to unrestricted access in 2009. Oxfam, *The Great EU Sugar Scam*, August 2002.

71 *Mali Investment Guide*, UNCTAD/ICC, 2004, p. 36.

72 See Grobbelaar N, *Every Continent needs an America: The experience of South African firms doing business in Mozambique*, Business Report 2, SAIIA, 2004.

73 As the mayor of Markala told the author: 'We dream every day that this project will come true. It will bring new life to the area.'

74 Sugar is smuggled through Mauritania, Senegal, Gambia, Guinea-Bissau, Guinea-Conkary and possibly Burkina Faso and Côte D'Ivoire. *Diagnostic Trade Integration Study*, USAID, 2004, p. 12.

cotton ginning.[75] In 2002 the manufacturing sector accounted for 8% of all economic activity and only 14,000 jobs. The UNDP concludes that 43 years after independence, investments in Mali's productive sector appear wholly insufficient. The reasons include weak and primitive accumulation; rigidities within the banking and financial systems; insufficient basic infrastructure; poor-quality labour and low levels of FDI. The Diagnostic Trade Integration Study for Expanding and Diversifying Trade for Growth and Poverty Reduction notes that the level of manufacturing value added (MVA) in Mali is extremely small, even by the standards of the sub-region. The country is ranked as the third-lowest performer in the region, (above Guinea Bissau and Niger), in terms of MVA per capita.[76]

The high cost of productive factors is the main factor deterring investment in the manufacturing sector, despite the numerous investment opportunities that have been created by the government over the years.[77] Even in the key cotton sub-sector, manufacturing is minimal. As mentioned earlier, 90% of Mali's cotton fibre is exported in its raw state. Only 10% of total cotton production is spun, woven and printed in Mali by two companies, the Mali Textile Company (Comatex) and Mali Textile Industries (Itema). Of the two, Comatex supplies 20% of the domestic market.

Other key manufacturing industries include husking paddy rice and processing food (sugar, flour, biscuits, pasta, dairy products, beer and soft drinks). Other less prominent industries produce tobacco, packaging, soap, cosmetics using shea

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[75] *Terms of Reference for the First Forum of Investors in Mali*, Ministry for the Promotion of Small and Medium Enterprises, July 2004, p. 2.
[76] *Diagnostic Trade Integration Study*, USAID, 2004, p. 7.
[77] The government policy is to increase the share of manufacturing to 12% and jobs to 30,000 by 2007. The Investment Code gives incentives to industries that will process raw materials, such as cotton fibre, textiles, skins and hides, milk, eggs, meat and packaging.

nuts (three companies set up since 1998 out of nine approved), footwear, batteries and medicines. Most of the firms active in these areas are former state companies that were either opened to private capital or wholly privatised. However, informal activities abound, from bakeries to clothes making.

Energy

Just 10% of Mali's total energy consumption is derived from modern sources such as hydrocarbons and electricity. Firewood supplies the rest of its energy needs. Less than 15% of the population's households had access to electricity in 2002, although this is an improvement on 8.5% in 2000. In 2002, 120,000 households had electrical connections.

The government initiated reforms in this sector in 1998 to ensure a wider and more reliable power supply. Its new regulatory framework has opened the production, distribution and sale of electricity to private operators.[78] The sector is regulated by the *Commission de Regulation de l'Electricité et de l'Eau* (CREE) and the *Direction Nationale de l'Energie* (DNE) at the Ministry of Energy.

The state utility *Energie du Mali* (EDM-SA) was privatised in December 2000. Although 40% remains state-owned, the remainder of shares are held by a French consortium, SAUR International-IPS-WA. EDM has created over 400 jobs and connected 58% more households over two years. In addition, a hydroelectric plant, with a capacity of 200MW located on the

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[78] The reform of the energy sector has brought about some improvements such as fewer brownouts, blackouts and fluctuations. However, a number of businesses have generators as a back-up in the case of a power failure, while large firms such as the mines, sugar factories, CMDT and Huicoma produce their own energy supplies. *Diagnostic Trade Integration Study*, USAID, 2004, p. 41.

Manantali dam on the Senegal river, was recently brought into operation. The power generated by the Manantali plant is shared between Mali (51%), Senegal and Mauritania. The plant is operated by the South African power utility, Eskom. An additional power source, the Kénie hydroelectric plant, which will have a capacity of 56MV, should become operational in 2006/2007.

Despite the reforms introduced by the government, the utility costs negotiated by CREE and EDM remain high, even though they are aligned with the WAEMU average. This poses a significant barrier to industrialisation and investment. In the last two years, there have also been significant disagreements between EDM and the government over price increases. In 2004, the government negotiated a reduction but had to compensate EDM to the tune of $6.5 million.[79] It seems that the contract with EDM was poorly formulated because it set no ceiling on price increases and made no provision for cross-subsidising rural electrification. Moreover, the relevant regulatory body was set up only in 2001, after the contract with EDM had been signed.

It remains a challenge for Mali to expand its energy supply and extend the electricity network to the rural areas. Importing electricity from Ghana or Côte d'Ivoire might offer an alternative. The development of the West African Power Pool (WAPP), a collective initiative to build a regional energy market in the next 15–20 years, using public and private (build-operate-transfer) financing, should also assist. Although four more dams are currently being planned along the Senegal river, there is strong opposition from NGOs to their being built because they argue that the dams will displace communities and damage the environment.

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[79] African Economic Outlook, AfDB/OECD, 2004, p. 200.

Services

The major components of Mali's services sector are formal trade, transport, telecommunications and financial services. According to the IMF, the services sector accounted for 33% of GDP in 2002. With the exception of 2000, when it accounted for 37%, its contribution to the economy has been in the region of 33% since 1999. [80]

Transport

Mali has a deficit in trade services because of the heavy costs of financing freight and international trade insurance. The country's landlocked position and remoteness from the nearest seaports (especially since the conflict in Côte d'Ivoire has made its ports unusable) has placed its exports at a commercial disadvantage. This is especially onerous for Mali because its exports of goods and services account for a third of GDP. Total imports and exports have accounted for more than two-thirds of GDP in recent years.[81]

Mali needs to improve its domestic and international transport systems and create a more efficient logistical chain. Both government and donors recognise the importance of addressing the current deficiencies. In 2004, a study on the Impact of Transport and Logistics on Mali's Trade Competitiveness[82] identified several shortcomings in the current arrangements that affect Mali's competitiveness on the global market:

- the inadequacy of policies intended to improve trucking services and vehicle capacity;

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[80] *Trade Policy Review Mali*, WTO, 2004.
[81] *Impact of Transport & Logistics on Mali's Trade Competitiveness*, USAID, 2004, p. 14.
[82] *Ibid*, pp. 6–9.

- failure on the part of government to enforce regional treaties;
- a producer mindset that pays scant attention to the final destination of exported goods;
- production and logistical difficulties that result in high spoilage and shrinkage rates during transportation;
- limited attention to logistics management;
- informal payments to, and profiteering, by customs officials;
- a low level of transparency and of automation; and
- insufficient cargo security.

The impact of the war in Côte d'Ivoire

Civil war broke out in Côte d'Ivoire, one of Mali's neighbours, in 2002. Mali remains neutral in the conflict. At a summit hosted in Bamako by President Touré in July 2004, both Mali and Burkina Faso pledged not to allow Ivorian rebels to use their territories.[83] Mali is a supporter of the French-inspired Linas-Marcoussis peace agreement signed in February 2003, and also backs the South African mediation efforts and the peace agreement concluded in Pretoria in April 2005.

Although the initial concerns felt by Mali's government over a possible influx of refugees and armed rebels have faded, the negative impact of the conflict has been felt in numerous ways. Most critically, Mali lost access to its key export corridor through Abidjan. The war has cost Mali dearly in terms of lost trade, customs and tax revenues and increased transport costs.

Abidjan in Côte d'Ivoire, at a distance of 800km from Bamako, is the nearest deep-sea port to Mali. It is also the biggest, most efficient and best-equipped port

[83] For example, Malian security forces arrested 37 rebels who crossed into its territory after a clash in the north of Côte d'Ivoire in June 2004. EIU, November 2004 p.12.

in the region, and used to handle 80% of Mali's exports. In 2003, Mali exports through Abidjan dropped by 75%.[84] Mali was forced to switch to other export routes and ports: Dakar in Senegal, Lomé in Togo, Tema in Ghana, Cotonou in Benin and Conakry in Guinea. These ports lie between 1,200–2,100km from Bamako, increasing both the cost and logistical difficulty of moving goods from Mali to be shipped. Because of congestion in Dakar, Lomé has captured more than 45% of Mali's cotton exports, even though the 1,967km-long road is narrow, mountainous and hazardous, and requires an additional border crossing through Burkina Faso. The state cotton company, CMDT, estimates that the extra cost of shipping 20,000 tonnes of cotton fibre through Lomé is CFCA 24.6/kg, or 3.2% of the average FOB (Free on Board) price.[85]

Conakry is a feeder port at the end of a 980 kilometre long, partly paved road. Only one-quarter of Mali's ageing truck fleet can manage the Tema–Bamako route. Tema has insufficient storage facilities and presents other problems, such as the use of English by officials and driving on the left side of the road. Again, because of the war, many freight forwarders suspended their services at the Côte d'Ivoire–Mali border post. At the border crossing south of Sikasso, the only freight forwarder still operating charges ten times the usual fees.[86]

The loss in export of transport services is estimated at FCFA 1.1 billion per month, or US$1.5 million.[87]

Côte d'Ivoire was also a key trading partner of Mali, selling it many goods, especially petroleum-derived products, and buying food commodities, particularly cattle and meat, from Mali. Meat exports from Mali to Côte d'Ivoire were halved between 2002 and 2003.

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84 *Impact of Transport & Logistics on Mali's Trade Competitiveness*, USAID, August 2004.
85 Free on Board (FOB) describes a price that includes goods and the services of loading goods on a vehicle or vessel at a named location. See www.economics.about.com. *African Economic Outlook*, AfDB/OECD, 2004, p. 201.
86 *Impact of Transport & Logistics on Mali's Trade Competitiveness*, USAID, 2004, pp. 34–36.
87 *Diagnostic Trade Integration Study*, USAID, 2004, p. 1.

The impact of the war in Côte d'Ivoire (continued)

The loss of this market (90% of live cattle exports) has badly affected pastoralists in Mali's Sahelian belt. It made them more vulnerable to the combined impact of a locust invasion and poor rains in 2004. With grazing and water points exhausted by early 2005 and the key cattle market closed, pastoralists and their herds are experiencing extreme hardship.

In the last quarter of 2002, the shortfall in government revenue attributable to decreased trade with Côte d'Ivoire was FCFA14.2 billion—8,6 billion in customs receipts and 5.6 billion in domestic taxes. By the end of 2003, lost customs revenue amounted to €23 million, according to the IMF. The total cost of the war to the 2003 budget was $102 million, resulting in a funding shortfall of $60 million. This was partly made good by budgetary aid from the World Bank.[88]

Although the estimated 800,000 Malians employed as workers in Ivorian cocoa plantations and general agriculture have not been repatriated, the remittances they send home have dropped, causing hardship to their families. Finding casual work in Côte d'Ivoire, a traditional means of earning a livelihood for rural and nomadic Malians during times of drought, is no longer an option.

On the positive side, the Ivorian crisis has forced Mali to re-think its trade strategy. The government is diversifying trading routes and ports used. With the help of donors, it is improving rail and road linkages to Senegal, Mauritania, Togo, Burkina Faso and Guinea-Conakry. It is also looking to improve transport on the Senegal river, to link Kayes in West Mali to St Louis in northern Senegal.

In 2004 the Bamako–Abidjan route reopened under a convoy system guarded by military escort that had been negotiated by the *Conseil Malien des Chargeurs* (CMC), the association of shippers, exporters and importers. Paradoxically, the convoy system reduced the 'informal fees' normally paid to Ivorian customs and local authorities from approximately $460 per truck to $190. The fees are distributed evenly between the rebels in the North and the loyalists in the South.[89]

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88 *African Economic Outlook*, AfDB/OECD, 2004, p. 200.
89 *Impact of Transport & Logistics on Mali's Trade Competitiveness*, USAID, 2004, p 35.

Mali Trade Indicators									
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Exports of goods and services									
Value ($m)	406	521	525	646	644	680	649	876	1,066
% of GDP	23.0	21.1	20.0	26.1	24.8	26.5	26.8	33.4	32.3
Annual growth (%)	7.1	6.2	3.0	44.9	-0.1	17.4	-1.1	24.8	29.2
Imports of goods and services									
Value ($m)	647	692	746	823	869	938	954	1,238	1,110
% of GDP	42.9	36.2	35.8	36.8	35.2	38.2	39.4	50.3	40.6
Annual growth (%)	-6.7	7.0	7.8	10.2	5.6	8.0	1.7	29.8	8.5
Trade (% of GDP)									
% of GDP	65.9	57.3	55.8	62.9	60.0	64.6	66.2	83.7	72.9
Gross Domestic Product									
Value ($m)	1,776	1,882	1,943	2,074	2,199	2,347	2,422	2,716	2,828
Annual growth (%)	0.9	6.2	3.2	6.8	6.0	6.7	-3.3	13.3	4.4
Source: World Development Indicators Online, World Bank 2004. Published in Impact of Transport & Logistics on Mali's Trade Competitiveness, USAID 2004									

Banking

According to the OECD, Mali's banking sector is small and vulnerable to the extreme concentration of risks related to cotton production. About 20% of loans are non-performing.[90] Mali's banking sector is composed of eight banking institutions (the state has a holding in five) and three financing facilities.[91] As mentioned earlier, the latter mainly support the cotton sub-sector, and have less exposure to formal industrial activities and import–export transactions. Banking is subject to the

[90] *Ibid*, p. 12.

[91] Two banks were earmarked for privatisation in 2005: the *Banque du Dévéloppement du Mali* (BDM) and *Banque Internationale du Mali* (BIM). IMF *Country Report* No. 05/129, p. 18.

common banking regulations of WAEMU and to the prudential provisions of the WAEMU Banking Commission, which also has a monitoring role.[92] For example, financing arrangements are subject to the approval of the Minister of Finance, who checks their compatibility with WAEMU's banking regulations. The Central Bank of West African States (CBWAS) approves the establishment of financing facilities, subject to the opinion of the Banking Commission, and also appoints the auditors. This two-tier approval system often leads to delays, even though the Commission must make a decision within six months.

The IMF notes that although the banking sector has played an important role in supporting Mali's economic development (as demonstrated by the increasing monetisation of the economy[93] and the deepening of financial intermediation), some serious structural difficulties persist. These include the large gap between bank lending and borrowing rates because of a lack of competition, despite the entry of new banks into the market; the difficulties of recovering overdue loans; high operating costs;[94] and a large number of non-performing loans. The Diagnostic Trade Integration Study (DTIS) reports that despite some financial sector reforms since 2000, financial intermediation remains weak and bank services remain concentrated in the urban areas (as is the case in most developing countries). In addition,

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[92] Information on the West African Banking Commission is available at http://www.izf.net/izf/FicheIdentite/COBAC.htm.

[93] Relative to GDP, money supply increased steadily from 23% in the early 1990s to about 29% in 2002, while credit to the economy rose from 9,9% to 21.4% in the same period. *Diagnostic Trade Integration Study*, USAID, 2004, p.43.

[94] Banks, financial establishments, foreign exchange dealers and other persons principally engaged in banking or financial operations, discounters and brokers are subject to a 15% tax rate, but are exempt from VAT at 18%. *Trade Policy Review*, WTO, May 2004.

> 'lending is mostly limited to short-term trade finance as banks are cautious about extending long-term credits for investment because of the paucity of bankable projects, the high proportion of short-term deposits, and inadequate legal and judiciary protection against delinquent debtors'.[95]

Telecommunications

Mali's teledensity is one of the lowest in Africa, well below international standards. In the region, Mali is rated the second-lowest after Niger. The number of landlines is four times less than that of Côte d'Ivoire.[96] According to the 2004 UNDP HDI, in 2002 there were five telephone fixed lines per 1,000 people in Mali, in comparison with five cellphone and 2.4 Internet users per 1,000 people.[97] The average for Sub-Saharan Africa at the time was 15 telephone fixed lines, 39 cellphones and 9.6 Internet users per 1,000 people. The concentration of telephone lines in the urban areas is 98%, as against 2% in the rural parts of the country. Of the urban figure, 90% of the fixed lines are concentrated in Bamako, which is home to only 10% of the population. In the main towns, the number of fixed lines is 24 per 1,000 inhabitants.

Nevertheless, the telecoms sector has been booming because of greatly increased use of mobile telephones and Internet services. Growth in the former has been spectacular in Mali, as in most African countries in which mobile telephone companies have invested. The country has two operators. The first, *Societe des Telecommunications du Mali* (SOTELMA), had 58,000 fixed lines in 1998. Its subsidiary, Malitel, signed up 50,000 GSM lines and 6,000 analogue mobile users between 2000–2002. SOTELMA is scheduled for privatisation by July 2006. The

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[95] *Diagnostic Trade Integration Study*, USAID, 2004, p. 43.
[96] *Mali Investment Guide*, UNCTAD/ICC, 2004, p. 20.
[97] Because of the recent and continuing boom in cellphones and Internet connections, these figures should be higher today.

state will sell its 49% interest in two tranches, 33% to a strategic partner and the remainder to the Malian public.

A second mobile phone operator, Ikatel SA, which started its operations in February 2003, had signed up 100,000 subscribers by June that year. It had doubled this number by 2005. In 2002, there were seven Internet providers in Mali and more than 7,000 users.

Tourism

On average, just under 100,000 tourists visit Mali every year. The figure for 2003 was 97,000.[98] The average receipt per tourist was estimated at $549 in 2002. In West Africa only Ghana did better with estimated earnings of $815 per visitor in that year. The sector contributed $82 million to GDP in 2001 or just under 3% of GDP.[99] Tourism generates substantial employment, offering 4,000 direct positions and a further 12,000 indirect jobs. A number of hotels in every price range were built or renovated in Bamako and Mali's other main cities for the Africa Cup of Nations in 2002, considerably broadening the accommodation on offer to visitors.

However, most of the country's tourist attractions are located in the rural and remote areas. Mali has three renowned World Heritage sites, namely the historic towns of Timbuktu and Djenne, with their awe-inspiring examples of mud architecture and sacred mosques; and the unique Dogon culture to be found on the Bandiagara escarpment. Camel safaris in the desert are combined with visits to historical sites. Boat trips on the Niger and Senegal rivers, which include fishing, hunting and water sports, are also very popular. The best wildlife reserve in Mali is Gourma, centrally located between Timbuktu

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[98] Tourist arrivals doubled between 1990 and 2000, *Diagnostic Trade Integration Study*, USAID, 2004, p. 81.
[99] *Ibid.*

and Gao and comprising 1,200,000 hectares. It is best known for elephants and gazelles. However, Mali's strongest draw card is its cultural tourism. Mali's music, puppets and crafts are famous world-wide.

The influx of tourists into the rural areas, especially those remote from the towns, has meant additional income and jobs for members of rural communities. The government also offers substantial incentives to investors through its Tourism and Hotel Investment Code, including exemptions from corporate tax, *Bénéfice Industriel et Commercial* (BIC), the industrial and commercial tax and customs duties on imported equipment. In 2001, more than half of the investment projects approved by the government were in the hotel sector.

Despite the enormous potential of tourism there are considerable obstacles that hinder the development of this industry. These include long travelling distances; minimal but expensive domestic air links; appalling bus services between the towns; a shortage of good hotels outside Bamako; a scarcity of skilled hotel and restaurant staff and trained guides; heat and dust in the dry season; and malaria in the rainy season.

The Ministry of Tourism and the UNDP released a comprehensive report and an Action Plan for the development of this sector in 2003. In the latter, the government expresses its intention to make better use of Mali's cultural and historical sites and improve the quality of services.

Mining

Mali's economic reforms have yielded the best results in the gold mining industry, attracting considerable foreign investment, boosting state revenues and creating thousands of jobs.

In the early 1990s, mining became a strategic priority for the government. Gold mining, in particular, was identified as a vehicle to drive the country's short and medium-term economic growth. The revision of Mali's Mining Code in 1991 consolidated a new legislative and regulatory framework that offered many incentives to investors. This was supported by the devaluation of the CFCA in 1994, which made it more cost-effective for mining companies to operate in Mali. The result was a veritable gold boom. High quality deposits of about 800 tonnes were discovered in southwest Mali after the entry into Mali of large mining corporations such as AngloGold Ashanti, Randgold Resources and Iamgold.[100] Gold production grew from less than four tonnes in 1993 to 66 tonnes in the peak year of 2002, when an exceptionally rich seam was exploited. Production dropped to a normal level of 53.6 tonnes in 2004. Gold is now Mali's primary export and main foreign currency earner,[101] accounting for 71.8% of Mali's total export earnings in 2002.[102] The industry's contribution to real GDP has doubled every four years, from 2.25% in 1992 to 6% in 1998 to 14% in 2002.

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[100] *The Value of Gold for the Republic of Mali*, Associates for International Resources and Development (AIRD) and *Ecole Nationale de l'Administration, Université du Mali*, for USAID, April 2002, p.13. See www.andover.edu/aep/papers/faculty/maligold.pdf

[101] Gold exports brought in $525.6 million in 2001, while cotton, Mali's second largest export, contributed only $101.5 million to Mali's foreign earnings. See www.globalinsight.com.

[102] *Mali Trade Policy Review*, WTO, May 204, p. ix.

Gold production (in tonnes)					
2002	***2003***	***2004***	***2005***	***2006***	***Average 2004–06***
66.1	54,1	53,6	57,4	69,3	60,1
Value (in millions of CFA francs)					
340,793	376,656	414,458	509,259	413,268	445,661,7
Source: *IMF Country Report No. 04/182, June 2004, annex 1*					

The Ministry of Mines, Energy and Water is responsible for the management of the mining sector. The National Directorate of Geology and Mines or *Direction Nationale de Geologie et Mines* (DNGM) oversees the actual implementation and monitoring of mining legislation; develops national policy in the research, development, exploitation and processing of mineral resources; and co-ordinates the application of this policy. The Ministry of the Environment monitors compliance with national policies, laws and regulations on the environment, and the use of resources through three technical departments: a permanent Technical Secretariat, the National Department of Purification and Pollution Control and the National Nature Conservation Department.

Unfortunately, the government's capacity to fulfil these duties is weak. It has, therefore, been unable to protect communities and the environment from damage caused by mining, especially during the early phases of mine development.

The first large gold mine that started operations at the beginning of the boom was Syama in southern Mali. Syama was operational between 1990–2001, but closed because of poor performance and a fall in the price of gold on the global market. However, in the buoyant gold prices prevailing at present, Syama's deposits might become profitable again. Negotiations with the Australian firm Resolute Mining to reopen the mine are underway. Other mines that have been established since the mid-1990s include Sadiola, Morila and Yatela. The lion's share of investment in these mines has come from South African mining companies.

New mines that have become operational since the late 1990s				
Date	**Mine**	**Reserves (tonnes)**	**Shareholding/Joint Ventures**	**Employees**
1997	Sadiola	160	Anglogold Ashanti – 38% Iamgold – 38% Government – 18% IFC – 6%	1,040 (93% Malians)
2000	Morila	32.6	AngloGold Ashanti – 40% Randgold Resources – 40% Government – 20%	1,200 (675 contractor employees 90% Malians)
2001	Yatela	60	AngloGold Ashanti – 40% Iamgold – 40% Government – 20%	730 (93% Malians)

At least 15 companies prospected for gold in 2003,[103] and at least seven mining projects are expected to become operational in the next few years. Among them are the following:

- Loulo: Reserves – nearly 44 tonnes. Randgold Resources (80%) and the state (20%). Initial investment: $78.5 million. Mine operational since mid-2005. Located in Western Mali, close to the border with Senegal.

[103] Among these are: North Atlantic Nickel Corporation (Canada) with five permits; Great Quest Metals Ltd. with 14 concessions; Etruscan Resources (Canada) with four exploitation permits; Afcan Mali, a subsidiary of Afcan Mining Corporation (Canada); African Metals Corporation, which prospected for gold and diamonds in its concession in Kéniaba Sud, in western Mali; Newmont Mining Corporation and Axmin Inc. (Canada); Golden Star Resources Ltd. (USA) and Geo Services International (UK). See Bermudez-Lugo O, 'Mali Mineral Industry' *in US Geological Survey Minerals Yearbook 2003*, p. 2. See www.minerals.usgs.gov/minerals/pubs/country/2003.

- Banankoro: Estimated reserves – 17 tonnes. Joint venture between New Gold Mali SA (a subsidiary of Maurel & Pram, France) and Afri Ore International Ltd, with the state (20%). In southern Mali.
- Segala and Tabakoto: Combined reserves – 29 tonnes. Nevsun Resources Ltd. from Canada (80%) and the state (20%). In southwest Mali.
- Diagounte: Estimated reserves – 879,000 oz gold. Robex Resources Inc. (Canada) (85%) and RMB Resources Lmts. (UK). In western Mali, 30km southwest of Sadiola mine.
- Kodieran: Estimated reserves – 43 tonnes. *Societé pour le Développément des Investissements en Afrique* (SODINAF/ Mali), partners (80%) and government (20%). Located 300km south east of Bamako, and 7km northwest of Kalana mine.

All the gold mines mentioned above are open-pit operations. However, moves are being made to invest more funding in the exploitation of Mali's first industrial underground gold mine, Kalana. The mine was previously fully state-owned and was originally operated with Soviet support.[104] Privatised in February 2002, Kalana was acquired by MEMEC, a company backed by the British firm Avnet Gold (a merger of Avocet Mining and Nelson Gold). MEMEC plans to invest an initial $15 million to start extracting Kalane's gold reserves, estimated at 44 tonnes.

Apart from the formal industrial mining operations, about 150,000 people are involved in artisanal gold panning. This produces about 2.5 tonnes a year and supports an estimated one million Malians. Only Malian nationals or citizens from

104 Mali was aligned with the Communist bloc before the fall of Moussa Traoré in 1991.

countries that have reciprocal agreements with Mali are allowed to engage in gold panning. The government and the World Bank are currently collaborating to assist gold-panners to improve their skills and teach them how to protect the environment.[105]

Economic Indicators Mali: GDP Composition by sector 1998–2002
(in percentage of GDP)

	1998	*1999*	*2000*	*2001*	*2002*
Primary	36	38	35	35	32
Agriculture	21	22	19	20	17
Livestock	10	10	11	10	10
Fishing and forestry	5	5	6	5	5
Secondary	22	20	22	24	27
Mining and quarrying	6	6	7	12	14
Manufacturing	11	8	8	6	8
Electricity, gas and water	10	10	11	10	10
Construction and public works	1	1	2	2	2
Tertiary	34	34	37	35	33
Trade	12	13	14	13	13
Transport and telecommunications	5	5	5	5	5
Banks and insurance	1	1	1	1	1
Non-tradable services	9	8	9	9	9
Other services	8	8	8	7	7

Source: IMF (2004). Published in Trade Policy Review Mali, WTO, May 2004

[105] One component targets women involved in peripheral activities such as food supply and small businesses.

Regionalism

Mali's location in the centre of West Africa has significant political and economic implications for the country. Mali is a member of a number of regional groups, including WAEMU, set up in 1994; the ECOWAS,[106] the Senegal River Authority (OMVS), the Inter-State Committee for the Fight Against Drought on the Sahel (CILSS) and the Niger River Basin Authority (ABN). Mali took over the presidency of the Community of Sahel and Sahara States (CENSAD) in 2004. WAEMU represents 70 million consumers, whereas ECOWAS acts on behalf of 210 million. However, WAEMU has the most direct bearing on the health of the Malian economy.

WAEMU

WAEMU's membership comprises eight West African countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

The key objectives of the Union are to:

- achieve convergence in the economic policies and performance of member countries, especially those related to fiscal policy;
- establish a customs union and common market based on the free movement of people, goods, services and capital within the borders of the Union;
- ensure better co-ordination of sectoral policies;

[106] Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo are members of ECOWAS.

- harmonise business and taxation laws among member states through the African Organisation for the Harmonisation of Business Law (Ohada);
- systemise data in line with the West African accounting system; and
- draft a comprehensive investment code for the Union.

To achieve these goals, the member states adopted a macroeconomic convergence pact which established a supervision mechanism and set an implementation schedule. Donors have been very supportive and the EU, US, the World Bank and the AfDB have backed several initiatives. These were to improve regional integration in WAEMU; facilitate and support trade; and harmonise economic and regulatory issues in the Union. WAEMU has a regional development bank, the West African Development Bank (WADB), which provides for projects that are considered important to fostering the integration and the economic development of member states.

WAEMU's monetary policy and the management of its regional currency, the *Franc de la Communauté Financière Africaine* (FCFA), is governed by an autonomous central bank, the Central Bank of West African States (CBWAS), which applies a tight monetary policy that aims to control inflation within the West African Franc Zone. The FCFA is issued by the Bank and pegged to the euro[107] through a special monetary arrangement with France. Capital circulates freely throughout the region and monetary integration is both horizontal (through the Central Bank) and vertical (through the operational accounts held by the French treasury). The convertibility and stability of the currency issued by the regional Central Bank is guaranteed by the French treasury, which requires member

[107] The exchange rate in 2005 is FCFA 655.957 = euro 1. The exchange rate of the CFA/US dollar follows the euro/US dollar exchange rate. At the time of writing, it was FCFA 500 = $1.

states to maintain a minimum of 65% of their foreign reserves in euros lodged with it.

The Franc Zone

Fourteen African countries, most of which are former French colonies, share the Franc Zone.[108] The members are divided according to history and geography into two regional groups, West and Central Africa. WAEMU, as noted above, covers eight West African countries, whereas the *Communaute Economique et Monetaire de l'Afrique Centrale* (CEMAC) comprises Cameroon, Chad, the Central African Republic, Congo, Equatorial Guinea and Gabon. Each region has a central bank that oversees monetary integration.

Whereas the CFA franc was created in 1945 by the French colonial administration, post-colonial treaties have shaped the Franc Zone. By the mid-1980s, deterioration in the terms of trade, the overvaluation of the CFA and the losses caused by successive droughts had led to mounting fiscal deficits and low rates of economic growth throughout the West African Franc Zone. In January 1994, the CFA franc was devalued, for the first time in 46 years.[109] Despite the short-term hardship this created for consumers as the prices of many goods skyrocketed, the longer-term competitiveness of the *Union Economique et Monétaire Ouest Africaine* economies improved substantially. In January 1999, with the emergence of the European economic and monetary union, the CFA peg to the French franc was transferred automatically to the euro at a fixed rate, and has remained firm.

However, it is speculated that a further devaluation might occur if the current political crisis in Côte d'Ivoire continues because it is severely inhibiting the economic performance of all members of the zone.[110]

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108 The only exceptions are Equatorial Guinea and Guinea-Bissau.

109 The exchange rate weakened from CFA50:FF1 to CFA100:FF1. WAEMU, merging two existing bodies, the West African Monetary Union and the West African Economic Community, was set up two days before the devaluation.

110 At the end of 2004, the CBWAS introduced new notes of 500, 1,000, 2,500, 5,000 and 10,0000 CFA francs because the old notes were

The Franc Zone (continued)

(The impact of the political and economic crisis in Côte d'Ivoire on the region can be understood in the context that it accounts for 40% of WAEMU's GDP).[111]

The stability of the CFA franc is founded on tight monetary and credit discipline, which is underpinned by two specific safeguard measures. Central banks are required to maintain a 20% foreign exchange cover of their sight liabilities, and governments are not allowed to draw more than 20% of the previous year's budget receipts from their regional bank's central funds.[112] These institutional arrangements have benefited the zone because they have kept inflation low and rendered the economies of member countries less vulnerable to capital accounts pressures.[113]

Their success has been reflected in the lowering of the Central Bank's discount rates from 6.5% to 5.5% in July 2003, to 5% in October 2003 and to 4.5% in March 2004, in response to an overall fall in inflation in WAEMU, a decline in interest rates in the Euro area and an increase in international reserves.

The harmonisation of fiscal legislation in WAEMU member states has led to the development of common agricultural, energy and industrial policies. This has made possible the setting of a regional standard for excise duties and value-

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frayed, dirty, and easy to forge. Counterfeit 10,000 notes have long been a problem in West Africa. Moreover, two major bank robberies in Côte d'Ivoire in 2002 and 2003 put a large number of stolen notes in circulation. The Ivorian civil war split the country in two, without any security controls in the rebel-held north and west regions. Demand for goods and weapons translated into opportunities to pass off stolen or counterfeit notes. Although the Bank gave the public until the end of 2004 to exchange the notes, there are concerns that some rural people across the eight countries might be poorly informed and may have been left holding old (now invalid) notes. See EIU, November 2004, p. 21.

111 EIU, *Country Profile Senegal 2003*, p. 3.

112 *Ibid*, p. 4.

113 *Sovereign Ratings in Africa*, *Sovereign Analyses*, *Mali (Republic of)*, Standard & Poor's, June 2004.

added tax (VAT) on petroleum products, industrial and commercial profits. There is also convergence in the legal framework, government finance accounting, statistics, accounting legislation, competition policy, quality control, public procurement, intellectual property, taxation and consumer policy.[114] However, WAEMU has lagged behind in creating similar arrangements for the transport sector, which is a crucial area for Mali. Poor co-ordination, weak transport networks, roadblocks, unnecessary controls, bribery, arbitrary customs inspections and divergent health requirements are some of the key stumbling blocks to effective regional trade. This hinders economic development in Mali.

On the other hand, the establishment of a customs union has had some positive results. It has streamlined customs procedures in its member states and introduced a Common External Tariff (CET) in January 2000. (See Appendix 1.)

WAEMU guarantees the free circulation of goods wholly produced or partially manufactured in its member states. To qualify for this status, 60% of a product's raw content must originate from a WAEMU member and 30% of its beneficiation (down from 40% since January 2003) must have taken place in a member country.[115]

ECOWAS

For Mali, the second most important regional organisation is ECOWAS. Mali is a founding member of the organisation, which was launched in May 1975 in Lagos, Nigeria. The main

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[114] *Diagnostic Trade Integration Study*, USAID, 2004, p. 19.

[115] The WAEMU commission provides the certificate of origin, which attests that value addition of 30% has taken place, whereas the state grants the documentation certifying 60% local content. This process will change on 1 January 2006, after which all discretion regarding rules of origin will be transferred to the individual WAEMU states.

objective of ECOWAS was to establish an economic, monetary and customs union that allowed the free movement of people and goods, to overcome the political isolation and economic weaknesses of its members as individual states. Since many of the region's economies were too small to perform competitively or negotiate with Europe and the US on their own, the reasoning was that a regional economic bloc of 15 states would foster collective self-sufficiency, competitiveness in the global economy, and economic growth and development. The route taken to bring this about mainly entailed the introduction of import substitution policies.[116]

ECOWAS covers a surface area 6.1 million square kilometres, has a population of 210 million, and generated a regional GDP of $106 billion in 2002. The economies of its members vary between the dominance of an oil giant, Nigeria; the moderately diversified examples of countries like Senegal and Ghana; systems devastated by war, as in Liberia and Côte d'Ivoire; and the many small, weak economies that make up the majority. Only four of its members—Senegal, Ghana, The Gambia and Guinea—are likely to achieve half of their Millennium Development Goals.

In its efforts to support regional economic integration, ECOWAS has earned a mixed record. Even though it has funded the construction of several inter-state roads, the organisation has not made enough progress towards building a customs and monetary union and boosting intra-regional trade. Current flagship infrastructure projects, such as the construction of the West African gas pipeline linking the natural

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[116] The United Nations Economic Commission for Africa (UNECA), created in 1958, promoted this thinking, inspired by a Latin American continental free-trade grouping, *Asociacion Latinoamericana para el Libre Comercio* (ALALC) which in turn had modelled itself on by the European Community.
See www.sec.ecowas.int/sitcedeao/english/achievements.htlm.

gas fields of Western Nigeria to Benin, Ghana and Togo and the West African Power Pool, are aimed at providing better infrastructure linkages.

However, ECOWAS has made substantial progress in allowing the free movement of people. It was the first grouping in Africa to implement an agreement extending the right of free movement and of residence within its borders to all citizens. Other accomplishments in this area include the elimination of visas and entry permits for citizens of member states; the introduction of the ECOWAS travel certificate[117] and travellers cheques; the harmonisation of immigration and emigration forms; the introduction of a Brown Card Motor Vehicle Insurance Scheme; and the creation of national committees to monitor the free movement of people and vehicles across borders. However, a recent review of ECOWAS[118] revealed that most travellers complained of being harassed and forced to pay bribes at border posts. In addition, there are numerous unwarranted security checkpoints, which also provided opportunities for the extortion of payment along international roads.

ECOWAS lists four steps towards achieving a common market.

- Firstly, customs duties and equivalent taxes are to be eliminated. In principle, local products and handicrafts may circulate freely within ECOWAS, but in practice many member countries have not dismantled their

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[117] The ECOWAS ministerial meeting in Bamako on January 2000 recommended the adoption of a single official travel document that would ultimately become a common international passport for ECOWAS citizens. It also favoured and the issue of a single entry visa into ECOWAS to citizens of third countries. See www.sec.ecowas.int

[118] *Overview of Regional Programme*, WARP/USAID. See www.usaid.gov/locations/sub-saharan_africa/countries/warp

internal tariffs. This part of the market integration programme should be concluded by the year 2007.[119]

- Secondly, a common external tariff (CET). The adoption of a CET has been hampered by the need to compensate states for a loss of customs revenue attributable to lower tariffs. Revenue from import and export duties remains a substantial contributor to the state budget in many countries. The establishment of a compensation mechanism should ease the burden consequent on the adoption of the CET. However, some industries that fear competition from cheaper imports, such as the Nigerian textile trade union and manufacturers association, are lobbying their parliaments to delay or oppose the introduction of a CET.[120] In May 2005 it was agreed in Banjul, Gambia, that ECOWAS should adopt the WAEMU CET by July 2005, in phases due to end in 2007.[121]
- Thirdly, economic and financial policies are to be harmonised.[122] All member states are required to set up a surveillance mechanism to ensure that the

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119 In April 2002, the Council of Ministers approved a new procedure for the ECOWAS Trade Liberalisation Scheme, which grants exemption from customs duties to certain regionally manufactured goods. The Council used to approve these exemptions, but now the decisions lie with national approval committees set up by member states, thus aligning ECOWAS with WAEMU procedures. WAEMU seems to have been more successful than ECOWAS in integrating its economic and monetary policies.

120 Press reports, Norwegian Council for Africa. See www.afrika.no

121 *Ibid.*

122 A USAID-funded study found that movement of capital (in ECOWAS) is very limited, because savings levels are low and financial services are expensive. In addition, investment codes need to be harmonised because at present different exemptions and special advantages are granted to investors. *Diagnostic Trade Integration Study*, USAID, 2004, p. 18.

macroeconomic convergence criteria of ECOWAS are met. These criteria include:

- a budget deficit of less than 4% of GDP;
- a ceiling on central bank financing of the budget deficit (calculated on the basis of 10% of the previous year's revenue);
- an annual inflation target below 5%; and
- foreign reserves equivalent to at least six months of imports.

- Lastly, a monetary zone is to be created. Even though at a meeting in Accra, Ghana, in 2000 some countries[123] committed themselves to launching a common currency, the eco in January 2003, this ambitious project has been postponed several times. The reason is that these states have not met the convergence criteria. The eco is to circulate simultaneously with the FCA franc for a fixed period before a single currency is adopted.[124]

In the area of intra-regional trade, ECOWAS has not done well. In 2002, the organisation's total exports, including intra-regional exports, amounted to $23.8 billion. Of this sum, $15.1 billion, or two-thirds of the total figure, was contributed by oil and petroleum products. The remainder was distributed between raw commodities such as minerals (gold, diamonds and bauxite) and agricultural products (cocoa, coffee, groundnuts and cotton).[125] In the same year ECOWAS imported items to the value of $25.3 billion from the rest of the world.

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[123] The countries, namely Gambia, Ghana. Guinea, Liberia, Nigeria, and Sierra Leone were all non-WAEMU members.
[124] See www.sec.ecowas.int/sitcedeao.
[125] See Associates for International Resources and Development, www.aird.com/projects.

ECOWAS Trade, 2001 (As a percentage of Total Trade)		
Region	**Exports**	**Imports**
European Union	31.44%	45.5%
North America	31%	9.59%
Asia	14.68%	20.89%
Intra Ecowas	9.25%	13.61%
Rest of Africa	8.70%%	18.53%%
Source: ECOWAS Handbook of International Trade		

Trade among ECOWAS members is low and represents about 10% of the total trade of the 15 countries. This imbalance reflects the persistence of favoured relationships with former colonial countries and the weakness of transport and logistics links between member states. Another reason for the low level trade within the region is limited access to accurate and up-to-the minute information on prices, markets and supply and demand conditions.[126] (See the box below for a description of current attempts to overcome these constraints and boost intra-regional trade). However, it is estimated that a high volume of informal, unrecorded and unofficial trade, especially in foodstuffs, takes place in the region. It is likely that unrecorded movements of capital occur as well.

[126] To fill this gap, two web-based, trade facilitation mechanisms were put in place. Statement by ECOWAS Executive Secretary, Dr. Mohamed Ibn Chambas, Press release 4, ECOWAS, March 2005. See www.sec.ecowas.int/presse/en/presseshow.php?nb=16&lang=en&annee=2005

Efforts to improve intra-regional trade

To improve regional trade, ECOWAS has established two information-sharing mechanisms.

The Regional Market Systems and Traders' Organisation of West Africa (MISTOWA) was launched in Accra, Ghana, in February 2005. It will initially cover Benin, Burkina Faso, Ghana, Mali, Nigeria and Senegal, concentrating on nine priority products, such as cassava, maize, rice, cashew nuts, tomatoes, cattle and shea butter in which those countries enjoy a relative competitive advantage. In the second phase, additional products such as fish, mangoes, red meat, sesame seed and cowpeas will be listed. An Internet-based platform and portal, MISTOWA will provide market information, news, demand and supply data for producers and traders.

The project is funded by USAID and implemented jointly by ECOWAS and the International Centre for Soil Fertility and Agricultural Development (IFDC). It will support the ECOWAS Protocol on Agricultural Policy (ECOWAP) and the Regional Food Security Information System (RESIS).[127]

The Trade Opportunities Management System (SIGOA-TOPS) promotes trade contacts between companies in the region, supports the regional trade liberalisation scheme and facilitates the exchange of information between official trade promotion organisations and the private sector. It provides on-line information on offers of, and demand for, goods, and on services and tenders. The project is supported by the International Trade Centre and the European Union.[128]

Trade in ECOWAS is dominated by the region's leading industrial states—Nigeria, Senegal, Côte d'Ivoire and Ghana. At $41.4 billion in 2003, Nigeria's economy is also the largest within the region. Its GDP is greater than the combined total of all the other economies.[129] Nigeria also leads in volume of exports, largely of oil and petroleum, whereas agricultural goods dominate the exports of other ECOWAS countries.

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[127] See www.mistowa.org.
[128] See www.sigoa-tops.net
[129] The Economist, *World in Figures 2004*, p. 176.

The superior economic performance of the bigger countries within the region has led governments of smaller countries to pursue bilateral agreements with these larger economies rather than within the region. However, the small and landlocked economies of ECOWAS, such as Mali, Burkina Faso and Niger, are hampered by significant constraints. A study of these constraints on trade within ECOWAS lists some of them:[130]

- political instability and civil war in some member states;
- poor governance and inadequate economic policies in some member states;
- the weakness and lack of diversification of some national economies;
- huge differences in size of the economies;
- insufficient political will among some members to pursue more trade within ECOWAS;
- an absence of reliable road, energy and telecoms infrastructure within countries and between states;
- irregular payments of financial contributions to ECOWAS institutions;
- governmental failure to involve civil society and the private sector;
- the shortcomings of some integration mechanisms; and
- the proliferation of regional organisations with similar aims.

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[130] *Achievements and Prospects, 2000.* www.sec.ecowas/int/sitcedeao/english/achievements.htm

Seven of the 15 member states of ECOWAS are also members of the West African Monetary Union (WAEMU); eight are members of CENSAD and seven of the CILSS.

The Economist Intelligent Unit also lists the following issues as problems for members of ECOWAS:[131]

- antagonism towards the most powerful member — Nigeria;
- mistrust between Anglophone and Francophone members;
- an overall lack of financial resources; and
- opposition from the IMF to a monetary union dominated by Nigeria, whose monetary imbalances could trigger regional monetary instability.

The emergence of the New Partnership for Africa's Development has breathed new life into the flagging economic integration project of ECOWAS, which was designated as the co-ordinating and monitoring agency for Nepad at a meeting in May 2002 in Yamassoukro, Côte d'Ivoire.

Mali, in particular, stands to benefit from the completion of trade liberalisation between ECOWAS and WAEMU. Mali's geographical location in the region, and its sharing borders with seven countries, provides it with an opportunity to evolve into a regional hub for the distribution of locally produced goods; to gain access to a much larger market, increasing its attractiveness as an investment destination; and to integrate more fully with the world economy. However, this will remain a dream unless the region improves the transit routes for goods, road and rail networks, and streamlines customs and tariff procedures.

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[131] EIU, *Country Report Senegal 2003*.

CENSAD and CILSS

Other organisations of which Mali is a member are CENSAD and the CILSS.

The Community of Sahel and Sahara States (CENSAD) was formed in 1998 at the behest of Libya's leader Colonel Muammar Gaddafi. Originally it covered the Maghreb, Sahel and the Horn of Africa, but it is expanding beyond those areas. Its 22 members account for 350 million people or 43% of Africa's population. Among them are big economies like Egypt's and Nigeria's. Although CENSAD could operate as a bridge between the Middle East and Africa, in practice, it is controlled by Libya (both its headquarters and development bank are in Tripoli) and has achieved relatively little. Libyan exports and imports dominate trade within CENSAD, giving credence to the common perception that CENSAD is a Gaddafi-inspired response to international trade sanctions against Libya. The presidency of CENSAD rotates among the member states: Benin, Burkina Faso, Central African Republic, Chad, Côte d'Ivoire, Djibouti, Egypt, Eritrea, The Gambia, Ghana, Guinea Bissau, Liberia, Libya, Mali, Morocco, Niger, Nigeria, Senegal, Somalia, Sudan, Togo and Tunisia.[132]

The Inter-State Committee for the Fight Against Drought on the Sahel (CILSS), set up in 1973 by six Sahelian countries, includes Burkina Faso (then Upper Volta), Chad, Mali, Mauritania, Niger and Senegal. The main purpose of the organisation was to co-ordinate a regional response to drought. The Gambia, Cape Verde and Guinea Bissau joined later. Reorganisation in 1993 led to an expansion of its original objectives, which were improving food security and fighting drought and desertification. Programmes pursued include

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[132] *Assessing Regional Integration in Africa*, UNECA 2005. See www.uneca.int.

producing statistics and research, promoting solar energy, environmental protection, food security and natural resources management.

The pros and cons of multiple membership of regional organisations

Mali's simultaneous membership of ECOWAS, WAEMU, CENSAD and the CILSS has both positive and negative implications. Multiple membership and the existence of small groups within overlapping economic groupings is a frequent occurrence in Africa. According to a 2002 UNECA study, 26 of Africa's 53 member states are members of two regional economic communities (RECs), 20 are members of three RECs, the DRC belongs to four. Six countries belong to only one REC.[133]

According to the study, some analysts argue that multiple membership brings advantages for small countries because pursuing 'multiple track integration' might enable them to benefit from gains in each grouping. Small sub-regional groups may also find it easier to harmonise national policies, and then work towards regional integration. It could be argued that WAEMU, a relatively small grouping, but far more advanced in its progress towards building a customs union and common market than ECOWAS, is determining the pace and nature of regional integration in the latter. ECOWAS has adopted the WAEMU CET.

Other authors argue that multiple membership brings disadvantages. Among these are a wasteful duplication of efforts, which leads to counterproductive competition among countries and institutions. It also adds to the logistical burden on member states, which have to undertake multiple financial obligations, schedules, meetings, reporting schemes, policy decisions, instruments and procedures. For example, customs officers have to deal with many different customs procedures, tariff rates, rules of origin, trade documentation, statistical nomenclature and required paperwork, all of which complicate trade instead of simplifying it.

Finally, argues UNECA, multiple membership and overlapping groupings 'muddy the goals of integration' and 'dissipate collective efforts towards the common goal of the AU' an African Economic Community, as mandated by the Abuja Treaty.

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133 *Ibid*.

Trade and Business Linkages between South Africa and Mali

Mali has become an important diplomatic partner of South Africa. Full relations between South Africa and Mali were established on 16 May 1994, and Mali opened an embassy in Pretoria a year later, on 28 December 1995. Until South Africa established an embassy in Bamako in November 2002, diplomatic relations were managed from the South African embassy in Dakar, Senegal.[134]

Bilateral relations are on a sound footing. Many high-level meetings and missions have been exchanged, including visits by South African ministerial delegations for minerals and energy; arts, culture and science; defence; and trade and industry. During Nelson Mandela's presidency, both he and his then deputy, Thabo Mbeki, visited Mali. President Amadou Toumani Touré attended President Mbeki's inauguration in 1999. He returned to South Africa on an official visit in March 2000. President Mbeki paid a state visit to Mali in November 2001.

Mali hosts many high-level international and regional meetings that require the attendance of South Africa's Minister of Foreign Affairs.[135] Dr Nkosazana Dlamini-Zuma undertook five trips to Mali in 2004, and a further two during the first quarter of 2005. Several of these were related to the resolution of the conflicts in Côte d'Ivoire and Togo. Apart from visits of a bilateral nature, others relate to AU lobbying – particularly

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[134] The first South African ambassador to Mali was appointed in November 2003 and presented his credentials in February 2004. The inauguration of the embassy in Bamako took place on 31 May 2004.

[135] These include the Human Security Network Ministerial Meeting in May 2004 and the G5-meeting (Algeria, Ethiopia, Mali, Nigeria and South Africa) before the African Union Ministerial Meeting in early 2005.

South Africa's bid for an African seat on a reconstituted UN Security Council. South Africa has many reasons to work closely with Mali. As an island of stability in a fractured region, and being committed to democracy, pluralism and good governance, Mali is a strong supporter of Nepad and the African Union, and the concept of an African Renaissance.

Mali ratified the treaty of the African Union in July 2000. A former president of Mali, Alpha Oumar Konaré, is the current chair of the AU Commission and a close ally of Mbeki. Konaré is also the Executive Secretary of the AU Commission. Again, Mali is one of the 15 members of the Nepad Heads of State Implementation Committee.

President Touré is an active participant in African diplomacy. Mali has played a key role as peacemaker in several West African conflicts, most notably in the civil war in Côte d'Ivoire, and the civil unrest in Togo, and the country is an active supporter of the South African mediation in Côte d'Ivoire.

A Joint Commission of Co-operation (JCC) between South Africa and Mali was established in December 2000 and held its first session in Pretoria in August 2004. Four working groups were established to look at possible cooperation in the following areas:

- agriculture, livestock and ostrich breeding and fisheries;
- education, culture, arts and crafts, tourism and health;
- transport, mines and energy; and
- foreign affairs and co-operation.

However, co-operation between the two countries is already well established. Within the context of the South–South Health Care Delivery Programme agreed during the G77 Havana Summit in 2000, South Africa contributed R9 million towards the expense of deploying Cuban medical brigades to work in rural Mali. The money made it possible for Mali to pay the salaries of

108 Cuban specialists until June 2004. South Africa gave substantial financial and technical help with air and ground transport, and in augmenting Mali's medical and drug-screening coverage for the African Cup of Nations soccer tournament in 2002.[136] During the locust invasion of 2004, South Africa sent pesticides and two spraying aircraft to assist the Malian government. The South African team carried out half of the total spraying done.

As gold producers, South Africa and Mali have a joint interest in the stabilisation of the international gold price. At the request of the South African Minister of Mines and Energy and the National Union of Mining Operators of Mali, the Council for Science and Industrial Research (CSIR) sent an expert on small-scale mining to introduce extraction technology that can be used on sites without electricity to Mali. South African and Malian jewellers have also participated in exchange programmes, to learn traditional and modern crafts from each other. The South African mining companies that are established in the Mali economy have sent 10 young people on scholarships to study mining in South Africa, while the South African Ministry of Foreign Affairs has invited officials from its counterpart ministry in Mali to study English in Pretoria for 10 months.

A high point of the cultural co-operation between the two countries is a project to preserve the ancient manuscripts in the Ahmed Baba Institute of Higher Learning and Islamic Research in Timbuktu. Some 20,000 manuscripts on astronomy, medicine, mathematics, law and history, dating from the 13th century onwards, are in such poor condition that they are in danger of being lost forever. Nine Malian document restorers have undergone training in Pretoria and Cape Town in book repair

[136] One possible motivation was to secure Mali's vote for South Africa's bid to hold the World Soccer Cup in 2010.

and conservation techniques. This project is supported by both the South African government and a fund-raising committee in South Africa chaired by the business tycoon, Tokyo Sexwale.

South Africa and Mali have signed a number of agreements detailed in the table below.

Bilateral agreements signed by Mali and South Africa	
Date	**Title of Agreement**
4 March 1995	Agreement for the Reciprocal Promotion and Protection of Investments (under negotiation, not signed by either of the two countries)
3 December 2000	Agreement between the Government of the Republic of South Africa and the Government of the Republic of Mali for the establishment of a Joint Commission on Co-operation (JCC)
3 December 2000	Memorandum of Understanding on Co-operation between the Ministry of Foreign Affairs of the Republic of South Africa and the Ministry of Foreign Affairs and Malians Living Abroad of the Republic of Mali
November 2001	Memorandum of Understanding on Co-operation on Sports and Recreation between South Africa and Mali
6 August 2002	Agreement on the Preservation of the Ancient Manuscripts in the Ahmed Baba Institute of Higher Learning and Islamic Research in Timbuktu
9 July 2002	Bilateral Air Services Agreement
3 May 2005	Agreement between the Government of the Republic of South Africa and the Government of the Republic of Mali on defence and military technical co-operation

Other memoranda of understanding and agreements are in the drafting stage. They include co-operation in sanitary and phytosanitary matters; in the fields of culture, mining and energy; and the waiving of visa requirements for diplomatic and official passport holders.

Trade

France is the biggest economic player in Mali. As a former colonial power, France shares the same language and has intimate knowledge of Mali's business culture, has close ties with the political and economic establishment, and strong historical trade links. French products and brands are well known in Mali, partly because French aid programmes are often tied to procurement from France. Mali is the sixth largest recipient of French official development aid, which was valued at €80–90 million in 2003. In addition, France extends generous trade financing and export subsidies to companies supporting trade between Mali and France. Mali also hosted the French–Afro Summit in 2005.

France is the biggest economic player in Mali.

However, in recent years, Mali has also developed close ties with the US, China, Libya and Morocco. In 2003 and 2004, President Touré visited these countries and signed a range of bilateral agreements on trade and other issues. For example, during President Touré's state visit in 2004, China announced the cancellation of $62 million in public debt owed by Mali, and offered a financial assistance package to the country. Most of this comprised grants worth CFA306,6 billion.[137]

However, Europe remains Mali's number one trading partner. The EU receives more than one-third of its exports, especially those of high value, such as gold from Mali. The West African country exported goods worth $158 million to Europe in 2002. (See table below.) High-quality mangoes are air-freighted to France and the Netherlands, along with spices and other foods for the Malian community there. Exports to the US consist mainly of African clothing, crafts and jewellery.

[137] EIU *Country Report Mali*, November 2004, p.13.

Mali's export trading partners in 2003		
Region	**Tonnage**	**Value**
Africa	39.6%	12.7%
Western Europe	35%	71%
Asia & Oceania	24%	15%
North America	0.1%	0.1%
South America	0.6%	0.6%
Eastern Europe	0.2%	0.1%
Middle East	0.3%	0.1%
Source: Impact of transport & logistics on Mali's trade competitiveness, Carana Corporation 2004, USAID, p. 16.		

Mineral and chemical products top the list (FCFA112,887 and FCFA 106,551, respectively, in 2002) of imports into Mali. Vehicles and machinery alone account for 30% of all Mali's imports, followed by petroleum products, food products and building materials. Most imports come from the EU, chiefly France, although the origin of the country's imports is changing as well. The share of imports from Asia and North America and other countries in Africa is growing steadily.[138] The top 10 suppliers into Mali are France, Côte d'Ivoire, Senegal, China,

[138] For example in 2000, Africa accounted for 37% of all imports into Mali. Of these, 35% were from WAEMU countries. This grew to 40% in 2003. The large majority came from Côte d'Ivoire and Senegal, with FCFA 137,482 FCFA 50,064 billion and billion respectively. However, these figures do not reflect the value of goods according to origin. Many of the goods originate elsewhere. Still, more petroleum products are now imported from African countries with refinery capacity, such as Ghana and Côte d'Ivoire before its civil war. West Africa Monetary Institute. See www.wami-imao.

Japan, Belgium, the UK, South Africa, Brazil and North America.[139]

However, despite South Africa's ranking among the top 10 providers of goods imported by Mali, the flurry of bilateral and multilateral diplomatic activity and technical and cultural cooperation between the two countries, trade is a relatively minor factor. It is mainly linked to mining, and is generally in favour of South Africa. Mali is South Africa's third-largest economic partner in West Africa, after Nigeria and Ghana, and ranked 54th in terms of South African exports out of a total of 182 countries across the world.

South African exports to selected ECOWAS countries, 2004 (R'000)		
Country	**Value**	**Rank**
Nigeria	2,960,113	1
Ghana	1,243,374	2
Mali	371,025	3
Côte d'Ivoire	308,866	4
Guinea	282,985	5
Senegal	211,436	6
Source: www.thedti/econdb		

[139] Japan sells four-wheel drives and computers. Nigeria sells car spare parts; Senegal and Côte d'Ivoire sell many consumer goods; and Brazil sells sugar.

South African imports from selected ECOWAS countries, 2004 (R'000)		
Country	**Value**	**Rank**
Nigeria	5,195,147	1
Côte d'Ivoire	105,520	2
Ghana	64,342	3
Togo	30,724	4
Benin	23,516	5
Guinea	10,513	6
Mali	8,162	7
Sierra Leone	4,860	8
Source: *Department of Trade and Industry, South Africa 2005.*		

South Africa's exports to Mali reflect the ebb and flow associated with its substantial mining investments in the country. They include machinery, electrical equipment and base metals. Other South African products imported by Mali are building materials, mineral products and prepared foodstuffs. With regard to Malian imports into South Africa, Mali was ranked 7th in the ECOWAS region in 2004. Malian imports into South Africa include textiles, wood pulp and mining equipment.

Total South African trade with Mali				
South African exports to Mali (R'000)				
1995	**2000**	**2002**	**2003**	**2004**
64,231	245,231	199,378	177,620	371,025
South African imports from Mali (R'000)				
1995	**2000**	**2002**	**2003**	**2004**
12,249	6,632	9,064	6,857	8,162
Source: www.thedti.gov.za				

The Departments of Trade and Industry and Agriculture of South Africa have identified the following opportunities for South African exporters wishing to do business in Mali: there is a need for fertilizers; improved seeds; cotton-ginning and textile equipment; gold-mining and ore-processing equipment; new and used clothing; computers; processed foods, especially dried or long-shelf items; electronics; irrigation systems; public health supplies and generic drugs; telecoms equipment; infrastructure; and hydroelectric power generation equipment.

Although South African trade with Mali is low, the former has become a significant investor in Mali.

Investment

The introduction of economic reforms by the Malian government in 1991 led to a sharp increase in FDI flows into the country a few years later. Between 1989–1994, Mali attracted a paltry $2 million in foreign investment per annum. However, between 1994–2000, this figure rose to $64.5 million a year. The devaluation of the CFCA by 50% in 1994 strengthened Mali's position. FDI jumped to $123 million in 1995 and to $74 million in 1997, mostly generated by investment in the mining sector. FDI flows slowed down in 1998/99 and 2000 because of municipal and presidential elections, coupled with an energy shortage. Since 2000, FDI in mining, textiles, housing and agro-business (in this order) has grown by 42.8%.

FDI in Mali overview, annual average, selected years, $ million					
	1985–95	***2001***	***2002***	***2003***	***2004***
Inward	11	122	244	132	180
Outward	-	17	2	1	1
Comparison of FDI flows with Senegal's FDI					
Inward	18	32	78	52	70
Outward	5	-7	34	3	4

Between 1995–2000, the *Centre Nationale de Promotion de l'Investissement* or National Investment Promotion Centre (CNPI) recorded 125 FDI projects worth $44.8 million and creating 2,500 jobs that were outside the mining and commercial sectors. In the same period, four FDI mining projects with a combined value of $340.5 million, at the Sadiola, Morila and Yatela gold mines and the *Societe d'Explosifs Chemico-Mali SA*, created 2,290 jobs. Investment picked up in 2001, particularly in hotels and infrastructure, as Mali prepared to host the African Cup of Nations soccer tournament in 2002.

Although Mali lags behind Senegal and Côte d'Ivoire in terms of the value of FDI that it is attracting, it is surpassing many other countries in the sub-region. Its potential is ranked fairly favourably by UNCTAD.

Selected country rankings: UNCTAD FDI Potential Index				
Rank	***Economy***	***1988–1990***	***1998–2000***	***2000–2002***
110	Moldova, Republic of	----	0.110	0.129
111	Ghana	0.096	0.117	0.128
112	Sri Lanka	0.090	0.128	0.127
113	Mali	0.071	0.131	0.126
114	Paraguay	0.127	0.142	0.125
115	Nicaragua	0.094	0.119	0.125
116	Cameroon	0.107	0.113	0.123
Source: World Investment Report 2004, UNCTAD				

As in the case of trade, France is the dominant investor in Mali. More than 170 French firms operate here in fields that include electricity, gas, water, oil retailing, steel, glass, cars, bicycles, beer, computers, manufacturing, food processing, tobacco, matches, public works, accounting and insurance. A high profile French investment was the purchase of Bamako's leading hotel, L'Amitié, by the Sofitel chain (*Societe Lafico-Mali SA*) when it was privatised in 2001. This was followed by a lavish four-star renovation estimated at costing CFCA 12,6 billion, according to the National Investment Promotion Centre and UNCTAD. In 2002, the country's second cellphone operator, Ikatel, owned jointly by France Telecoms (70%) and private Malian capital (30%), invested CFCA 113,7 billion in expanding its operations. However, the dominance of French investment is fading in view of the many new entrants into the Malian market.

About 30 Canadian firms now operate in mining, construction, Internet services, publishing and railways. Chinese companies have invested in cotton, sugar, agrofoods, textiles, public works and pharmaceuticals, while German firms have invested in a luxury hotel, solar energy, real estate and metals.

South African, Canadian, Australian and Japanese firms are the main investors in mining.

The major foreign firms in Mali are Mobil Oil (US), Total (France), IPS from the Agha Khan group (US), IAM-Gold and Mink Minerals (Canada), AngloGold Ashanti and Randgold (South Africa), Mercedes-Benz and Chrysler (Germany), Renault (France), Covec and CSCEC (China), Maersk (Denmark) and Yoongpoong (South Korea). Of 262 industrial firms currently operational, 7,25% are wholly owned by foreigners and 12,22% are joint ventures between Malians and foreigners.[140]

The largest affiliate of foreign transnational companies in Mali in 2002 in the industrial sector was BHP Mali from Australia, involved in mining and quarrying and employing 85 people. In the tertiary sector, the three biggest affiliates were all engaged in trade: Napa from Malta, with 2,515 employees, and two French companies dealing in vehicles and bicycles, with 30 and 65 staff, respectively. Five firms have taken advantage of the free zone regime, which grants tax exemption to businesses exporting at least 80% of their production.[141] A Lebanese firm owns Bamako's two high-grade supermarkets, and another obtained a concession in 2003 to run the airports in Bamako, Timbuktu and Gao.

South Africa's private sector investment in Mali is significant, but mainly concentrated on gold mining. Two South African

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[140] *Investir au Mali*, a study by the Ministry for the Promotion of Investment and of Medium and Small Enterprises, February 2005, p. 2.

[141] Avadamatex, a joint venture between the Indian firm Sriayaya and the Spanish firm Plumatex, extracts cotton fibre. The Syrian–Lebanese SADASA produces bandages and hydrophile cotton. Fitina, a venture shared by Malian, Mauritian and French entrepreneurs, produces 4,000 tonnes of textiles a year. The other two are the French firm Bamako Catering and the French–Malian company Tropical Expression Mali, which deals in mangoes, citrus and nut oil.

companies, Randgold and AngloGold Ashanti, are the leading gold producers in Mali. The three mines that are operated by these companies produced 63.6 tonnes out of the total of 66 tonnes in the peak year of 2002.

Other prominent foreign players in the economy include the South African parastatal, Eskom, which manages the regional hydrothermal power station at Manantali. As already noted, Manantali supplies electricity to Mali, Mauritania and Senegal.

Eskom

The South African utility company Eskom operates both a hydrothermal power station at Manantali and a high voltage network that supplies electricity to Bamako. The Manantali dam is located in Western Mali and was built by the Senegal River Development Authority (OMVS), an inter-governmental body based in Dakar and representing Mauritania, Mali and Senegal.

Manantali is administered by the *Societé de Gestion de l'Energie de Manantali* (SOGEM), a legal entity set up by the OMVS, and comprising of the three governments represented through the energy ministers. In 2002, Eskom won the international tender to operate the power station of the three governments.

The Manantali plant produces 200 megawatts a year, and supplies 60% of the region's power. Of the output generated, Senegal uses 33%, Mauritania 15% and Mali 52%. Even though Manantali is a small plant (by comparison, South Africa consumes about 40,000 megawatts a year), the project has huge political ramifications. It involves three countries and is a showpiece for Pan-African collaboration in Nepad's energy sector.

Source: *World Energy Council 2003. Interview with Eskom managers.*

South African Airlines (SAA) has also been investigating the viability of providing a direct flight between Johannesburg and Bamako for over a year.

The South African Department of Trade and Industry (DTI) has identified investment opportunities arising from the privatisation of telecommunications, energy and textile companies and low-cost housing.

National Centre for the Promotion of Investment (CNPI)

The Malian government created the CNPI in December 1996. A state agency with an administrative mandate under the Ministry for Investment and Private Sector Promotion, the CNPI is a focal point for domestic and foreign investors. Its functions are:

- to assist investors in obtaining the necessary permits to start a business in manufacturing or services (the National Directorate of Commerce and Competition deals with trade);
- to encourage partnerships between Malian and foreign enterprises;
- to train local entrepreneurs in needed skills, formulating tenders or contracts;
- to collect and share information on investment; and
- to organise information about investment in Mali.

Between 1997–2002, the CNPI received 2,100 domestic and 2,010 foreign investors from more than 30 countries, and trained around 1,000 local entrepreneurs in business skills.

Although the CNPI plays an important role in facilitating investment into the country, a review in 2004 by Mali's Ministry of Finance found that the CNPI has underperformed and requires reorganisation.[142] Despite the intention that it should act as a one-stop shop for investors, in practice most of the paperwork related to the entry of foreign investors is dealt with in various ministries because authorisation to operate is granted by them, not the CNPI.

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[142] *Mali: Structure institutionelle de promotion des investissements*, (Mali: Institutional structure for investment promotion), Mali Finance, June 2004, Bamako. Mali Finance is a project funded by USAID and implemented by Chemonics International.

National Centre for the Promotion of Investment (continued)

The study found that the CNPI had limited human and technical resources and a top-heavy management structure (a staff of 30, with 14 in managerial positions). The functions of the CNPI also overlap with those of other institutions such as the Presidential Council for Investment. Also some 15 departments in different ministries promote investment in their particular fields (fisheries, tourism, transport and so on). This multiplicity of understaffed and under-resourced departments with duplicate functions and little co-ordination has contributed to inefficiency levels in the administration. Moreover, the CNPI lacks a focal presence in Malian embassies and consulates abroad.[143]

However, the restructuring of the CNPI, which will involve a merger with the *Agence pour l'Aménagement et la Gestion des Zones Industrielles (AZI-SA)* or the Agency for the Management of Industrial Zones, should streamline its operations.[144] Although Mali does not yet have a fully operational industrial zone, three sites have been identified, and work is currently under way to provide them with access to electricity and sanitation. The 200-hectare industrial zone of Dialakobougou, 10km from Bamako and the airport, was set to become operational in 2005.[145]

Between 1997–2002, the CNPI received inquiries from 4,100 would-be investors, about half of them national.

One reason for this unusually high number was that Mali's hosting of the African soccer championship in 2002 created many economic opportunities.[146] Between 1997–2003, the CNPI lodged 450 applications for investment. Of these, 170 projects, worth FCFA 160 billion and creating 3,500 jobs were authorised. This means that more enterprises were set up in Mali during those six years than in the first three decades following its independence (1960–1990).

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143 This is exacerbated by the absence of a properly functioning website. The website was inactive for two years and posted a PO Box address as a contact without an email address, phone or fax number.
144 This was approved in August 2005.
145 See websites www.promali.org and www.cnpi-mali.org.
146 *Investir au Mali*, Mali Government, 2005, p. 11.

Results of the SAIIA Survey

Several South African firms have worked in Mali on a short-term basis during the past decade. Most of these were involved in infrastructure projects related to international tenders. Many of these companies pointed out that the economic and regulatory environment had changed considerably over the past few years. All South African companies surveyed pointed out that operating in French-speaking Africa, and dealing with its particular business practices, both impose challenges.

The questions posed in the SAIIA survey asked companies to comment on whether Mali provided a business-friendly environment; the nature of their investments and most serious obstacles they faced. Firms were also asked to make practical recommendations for both the South African and Malian governments on how to improve the investment climate and boost the private sector in Mali.

How business-friendly is Mali?

Most companies rated Mali as business-friendly in theory, but less so in practice. The government's policies, plans and documents all create an impression of a country eager to welcome investments from foreign businesses. But there is a gap between policy and practice, between plans crafted in the past 10 years and the old tax and labour regulations, which have not been updated.

However, the South African firms interviewed confirmed that they had easy access to and a sound relationship with, the upper echelons of government—even at presidential level, if necessary. For example, AngloGold Ashanti and Eskom are both members of the recently-established Presidential Investors' Advisory Council, which includes 16 key local and foreign economic players and representatives of the World Bank and

IMF. The Council is a consultative body that fosters dialogue between the private sector and the government at the highest political level. The aim is to identify problems and recommend solutions. The Council, which met for the first time in September 2004, meets twice a year under the chairmanship of President Touré. In between these high-level meetings, public–private working groups focus on developing ways to promote foreign investment into Mali.

In a speech opening the Council's second meeting in March 2005, President Touré identified as a key priority the reorientation of Mali's economy from one based on subsistence agriculture to one centred on agro-industry as a key priority.[147] The establishment of the Council and the opening of dialogue with the private sector clearly demonstrates the Malian government's desire to attract foreign investment and use the private sector as the engine of economic growth. Thus, at senior government level there is a strong commitment to engagement with the private sector. All the company managers interviewed by SAIIA described the ministers heading departments relevant to their activities (such as mines and foreign affairs) as competent technocrats who were friendly to foreign investors. This attitude, however, does not trickle down to the lower layers of the administration. The main problems for South African investors stem from obstructiveness in the middle and lower levels of government bureaucracy and the judicial system. Harassment by customs, tax and labour inspectors and a culture of rent-seeking reveal a poor understanding of how a dynamic private sector should operate. Among mid-level officials, there is little support for the national strategy of investment promotion. Instead, businesses

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[147] See the presidential website: www.koulouba.pr.ml.

are faced with quantities of red tape and long delays in processing business documentation.

The experience of South African firms does not differ substantially from that of other companies, who are subject to the same treatment. Several surveys carried out by both the government and donors report similar complaints among local and foreign businesses. But for South Africans the difficulties are compounded by the differences in economic environment, language, culture, religion and judicial system. Even the accounting system is different.

Complaints about bureaucratic harassment and delays have been made to the relevant ministers, but these issues have not been resolved. As a result, many South African firms welcome change that is driven by exogenous factors, such as the WAEMU requirements that member countries harmonise customs and duties. The Malian government's compliance with these requirements has rationalised and modernised many procedures that affect South African investors.

At the time of writing, mining companies (South African and others) did not have regular meetings with the government, although they reported on gold production levels according to a strict monthly schedule. Mining companies were planning to set up an association or chamber by the end of 2005. Despite some of the problems identified during the course of the survey, almost all of the South African mining firms already operating in Mali said not only that they would continue their activities but that they are considering expansion. Both AngloGold Ashanti and Randgold Resources are prospecting for new gold deposits.[148]

[148] For example, Randgold's new gold mine, Loulo, near the borders with Senegal and Guinea, is scheduled to start production in late 2005. The mine has estimated reserves of 36 tonnes. According to Bloomberg, Randgold is expected to invest a further $100 million in

Only one mining company in Mali reported extreme dissatisfaction with operating conditions. The country's taxation system was 'bleeding the company dry,' said a company executive, who added that the business had considered pulling out but decided against it. On a more positive note, South African staff members who have worked in Mali for many years pointed out a significant transformation in recent years: better road infrastructure and telecoms; a greater variety of goods produced domestically, making local procurement an option; and a modernising economy. 'The country is moving forward while keeping its peace and harmony among people,' said one mine manager.

Starting a business in Mali

According to the World Bank's *Doing Business: Snapshot of Business Environment 2005*,[149] it takes 13 procedures, 42 days and an average expenditure of $557 or 190.7% of GNI per capita to open a business in Mali.[150] The regional average is 63 days, and costs 215.3% of GNI.

Obtaining a business registration number requires depositing a minimum capital requirement of at least 490.8% of GNI per capita ($360 in 2003) in a bank, compared with a regional average of 297.2% and an OECD average of 28.9%.

Different institutions grant authorisation to set up the enterprise according to the type of business. For example, the Ministry of Industry and Commerce fulfils this function for industrial and manufacturing companies and the Ministry of Mines, Energy and Water does the same for mining and oil.[151]

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addition to the initial $89 million spent during development of the first phase of the mine—excluding power, finance costs, working capital and exploration. 'Randgold's Mali Mine May Cost More', *Bloomberg Dispatch*, 5 August 2005.

149 Explore Economies, *Doing Business*,The World Bank Group, 2005. See www.doingbusiness.org.

150 EIU calculation.

151 *Mali Investment Guide*, UNCTAD/ICC, 2004, p. 43

Starting a business requires the following steps to be accomplished:

- constitution of the firm: 15–30 days;
- the drafting and registering of the statutes by a notary;
- registration at the *Tribunal de Commerce* and the Tax Registry, the obtaining of a fiscal identification number (NIF);
- registration at the Commerce Registry;
- insertion of legal notices drawn up by a notary in a newspaper;
- authorisation.

Main reasons for investing in Mali, and the nature of investments

Most of the investments made by South African mining companies and their subcontractors in Mali have been greenfield developments, acquisitions and mergers. Firms invest in the country for a variety of reasons, including market expansion, profit margins and better return on equity. Strategic positioning to enter the regional market is also a consideration.

A major factor in the interest shown in Mali by mining companies has been the rising cost of gold production in South Africa—around $350 per ounce in December 2004, versus $95–175 per ounce in Mali. For example, in December 2004, when the gold price was at a 16-year-high at $457 an ounce, the cost of production in South Africa was $349 an ounce, 40% more than the global average.[152] In comparison, costs per ounce were $95 at the Morila mine, $163 at Sadiola and $175 at Yatela.[153]

The parastatal Eskom falls into a different category, having been subcontracted by SOGEM, an intergovernmental body

[152] *Business Day*, 25 April 2005.
[153] Source: company documents, 2003.

representing the governments of Mali, Senegal and Mauritania. Eskom's main reason for operating in Mali is strategic and political, since Eskom chairs the Business Committee of Nepad and energy is one of Nepad's priorities. This was why Eskom tendered for the Manantali operation. Another strategic motive is that operating Manantali has given Eskom exposure in the region. Guinea and Mauritania have both approached Eskom with proposals for further work.

The gains accruing from regional exposure are also true for other South African firms. Executives are gaining confidence about operating in West Africa after their exposure to Mali. One mining company has also expanded its operations to Senegal and is prospecting for gold there.

All the companies interviewed for the survey are dominant in their sector. They identify other South African companies and international firms as their main competitors. Among the latter are Canadian mining companies such as Iamgold Semos, Nevsun Resources, Robex, African Goldfields Corporation and Barrick Gold Mali Ltd.

Although a number of South African retailers have visited Mali to assess investment prospects, they have been hesitant to enter the market. The chief reasons deterring them from investing are the predominance of a massive informal sector; a small and fragmented domestic market; low purchasing power for consumer goods among the tiny middle and upper class, combined with the high poverty rate of 60% of the population; the constant movement of smuggled goods across the country's many long, porous borders; and the long distance from ports that increases the retail price of goods.

The government enjoys a mandatory share of 10% in every mine, with the option to increase this share to 20%. Sadiola, Morila and Yatela, the three largest gold mines, are all managed by South African companies and the government's stake in each is 20%.

The main advantages offered to South African companies opening bases in Mali

All of the companies interviewed identified the government's policies supporting peace, political stability, a democratic dispensation and religious and ethnic tolerance as very positive factors in their decision to make Mali an investment destination. The personal safety level is high, and Malians are friendly to foreigners. Private property ownership is guaranteed, foreign ownership of land is permitted, and land can be used as collateral to obtain financing. It takes only 44 days to register a property, compared with the regional average of 114 days and the OECD average of 34.[154] Land is available for industrial, agricultural or tourism purposes, and includes 1.2 million hectares of irrigable arable land along the Niger river.

The macro-environment was described by interviewees as very supportive of foreign investors. Both the tax concessions and the freedom to repatriate profits are listed as positive features. Not one of the companies interviewed listed political uncertainty, property rights or a volatile currency as problems.

In addition, labour is plentiful and affordable, although mostly unskilled. Among the companies surveyed, more than 80% of the staff they employ is Malian. The minimum wage for unskilled workers is $33 a month. In agriculture it is even lower at $30, but includes a daily meal. Skilled workers earn a minimum of $50 a month. The lowest monthly wage for office workers has been set at CFCA 28,460 or $57 since June 2004.[155] Although labour is considered cheap in Mali, costs have gone

[154] *Doing Business*, World Bank. See www.doingbusiness.org
[155] CFCA500 = US$1. See: www.ifz.net

up by 45% in the past two years as a result of both the strengthening of the euro by 35% against the US dollar and annual wage increases.

Lastly, firms identified Mali's central geographic position, sharing borders with seven neighbours, as a potential advantage. They believed that it could be turned into a regional hub for trade with other WAEMU countries, providing access to a market of 70 million people, but only if the country addressed the backlog in hard and soft infrastructure. The companies also suggested that Mali could be a good base for firms working in Côte d'Ivoire, Guinea and Togo.

The main constraints facing South African companies in Mali

South African companies listed a number of problems that hinder their operations in Mali. There was remarkable unanimity between them regarding the main constraints. These are a complicated tax, customs and duties collection formula; a weak judicial system; poor infrastructure; its landlocked position; the high cost of productive factors; an unskilled work force; outdated labour laws; corruption; a lack of local financing and partners; difficulties in being paid for goods and services; the absence of a direct flight between Bamako and Johannesburg; a different language and culture, especially business culture; malaria; and inhospitable living conditions. The first three posed the biggest challenges to South African investors operating in Mali.

The tax system

Although Mali's tax concessions for investors are competitive in comparison with those of other countries in the region, the administration and implementation of the tax system at a micro-level raises a series of problems. A recent study on the promotion of the agro-industrial sector in Mali reported that 'investors are more concerned about operating within a simple and stable tax system than in the size of tax concessions'.[156]

Despite a number of recent reforms, Mali's tax system remains complex, diverse and unclear. Even more important, it is out of touch with the requirements of a free market and private enterprise. The application of taxes is open to interpretation, depending on the official involved, resulting in 'arbitrary interpretation, rulings and enforcements', according to one company executive interviewed. The system gives officials great latitude in interpretation, and the power to obstruct businesses. The problem is exacerbated by the fact that officials in the provinces, where some companies operate, exercise considerable authority, while complaints must be addressed to higher-order government representatives in the capital.

Inspectors have a 'perverse incentive' to apply fines.

Inspectors have a 'perverse incentive' to apply fines and penalties because they get a share of these. Fines are negotiable. According to one company executive who managed to reduce a penalty his firm considered unfair from CFCA 6 billion to CFCA 800,000: 'We negotiated for three days from 14:00 to 22:00 and the leading question was "how much are you prepared to pay?" The penalty was not grounded on regulations but on self-interest.'

Any failure in a foreign firm to meet Mali's complex tax requirements results in an immediate 100% penalty. All fines and penalties must be paid before an appeal can be made.

[156] A study by Cabinet Yiriwa Conseil, cited in *Feasibility study concerning the creation of a national investment fund* by *Groupement Phenix* for the Ministry of Economy and Finances of Mali, November 2004, Bamako, p. 20.

When an improper penalty is reversed, reimbursement is tardy. No interest is paid, even when the amount owed runs into millions of dollars.

Control inspections are frequent, unannounced and often unwarranted. An inspector has the power to close an office during a dispute, as one South African company found out in 2004, when it contested the tax assessment it was given for 2001/02.

Several experts interviewed spoke of a perception among mid-level administration officials in Mali that the state negotiates contracts with foreign investors from a position of weakness, granting too many advantages and tax exemptions, and that the administration is thus justified in extracting extra revenue from companies.

According to a legal adviser at the Ministry of Mines, Energy and Water, tax and customs officials are accustomed to dealing with informal traders, who operate on the margins of the law. They do not recognise the difference between the latter and companies in the private sector; are unfamiliar with the mining code, which overwrites some tax regulations; and do not understand the requirements of high-risk, long-term mining. Also, the average citizen has very scant knowledge of how gold mining operates, and that creates mistrust.

At the same time, the state is under pressure from the World Bank and the IMF to increase tax revenue and to spread tax collection more evenly, since 92% of all taxes are currently paid by 10% of the population.[157]

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[157] MIGA Benchmarking Country Analysis 2005, World Bank, 2006. (unpublished)

According to a report by the Moderator for Mediation between the state and the private sector: [158]

> 'Overzealous officials are accused of trying to detect problems in order to apply penalties and create opportunities for fruitful transactions instead of educating and helping those who try to bring more transparency into their affairs by improving their accounting and management.'

Another complaint made by both foreign and national businesses is the difference in taxation for the formal and informal sectors. Informal operators pay considerably less tax, which means they have little inducement to convert to the formal sector. This works against the government's long-term aim to expand the private sector.

Customs and duties

Another troubled area is customs, although there have been some improvements, brought about by the mandatory alignment of Mali's practice with WAEMU standards. The donor community has also helped to modernise the system. The Customs Authority is installing a new version of integrated customs software with assistance from the French government. This should streamline the process and, by cutting down on the volume of 'paper handling', reduce demands for facilitation fees from officials.

All the South African companies interviewed contract clearing agents to deal with customs formalities. The customs problems experienced in Mali are similar to those in many other African countries. These are unpredictability, corruption and lack of transparency, all of which add costs to the movement of goods across borders.

[158] *Programme of Action*, Bureau for Concertation, Ministry for the Promotion of Investment and Small and Medium Enterprises, July 2004, p .6.

According to a study assessing the impact of transport and logistics on Mali's trade competitiveness, custom officers charge 'facilitation fees' that range from $2 to $20 per transaction.[159] The logistics study also found that customs officers interpret and enforce rulings or laws as they choose. There is also no uniformity in the enforcement of export laws and regulations, with the exception of the country's formal gold exports. As in the case of tax inspections, improper penalties are imposed without adequate cause, and fines (which must be paid before they can be challenged) are exacted.

Because Mali is landlocked, it is also vulnerable to customs problems experienced by its neighbours. In Ghana, for example, the progress of goods through customs is often slow because of port congestion and delays in processing documentation. However, the procurement officer of one mining company that buys 70% of its goods in South Africa and moves most of them through Ghana has noted an improvement in the performance of the Ghanaian customs service since January 2005.

An additional problem is the complexity of exemptions. A Diagnostic Trade Integration Study conducted by USAID has found that the lack of clarity on exemptions have become 'a source of confusion between operators and the state'.[160] At present, the customs authorities lack the capacity to handle 14 categories of duty exemptions derived from multiple legal instruments, such as the Investment Code, the Mining Code, NGO benefits, and the health policy governing medical supplies.

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159 *Impact of Transport & Logistics on Mali's Trade Competitiveness*, USAID, 2004, p. 8.

160 *Diagnostic Trade Integration Study*, USAID, 2004.

For mining companies in particular, the exemptions on imported equipment vary greatly depending on the phase of an operation, whether initial exploration or exploitation. However, because of the elastic timeframe of such phases, it is often difficult for the customs administration to determine which rules apply. The logistics study recommends the adoption of a more flexible approach towards the mining sector.

Another bone of contention is the recovery from the state of fuel duties and VAT duties, which are set at 18%. Mining companies are exempted from these duties, but are required to pay them and then apply for reimbursement. Repayment is slow and open to manipulation between the CFCA and dollar exchange rate. As of February 2005, the state owed one mine more than $30 million in VAT and fuel duties. However, the government has offered to put $12 million in a treasury account as credit against future taxes for this particular mine.

One mining executive noted that all of the hidden costs discussed in this section make it very onerous for companies to operate in Mali.

The legal system

A common saying in Mali is: 'A bad out-of-court settlement is preferable to a good court ruling'. Malians use courts as a last resort, partly because the legal system is slow and not trusted, and partly because they have developed traditional methods of solving problems through networks of relatives, ethnic groups and clients.

Mali's legal system is based on French law (the Napoleonic Code), which is very different from Anglo-Saxon law. The companies interviewed by SAIIA described the judicial system as slow, inefficient, cumbersome and lacking in transparency.

Both foreign and domestic business communities complain that judges and lawyers are biased against investors, in cahoots with complainants and corruptible. Moreover, the perception (stemming from 30 years of Marxist government) that foreign companies extract the wealth of the land and, therefore, should be – and are – able to pay, is pervasive in the judiciary.

Generally, Malian judges are not conversant with commercial law, and often fail to apply it fairly. As a result, debts are not repaid, creating near-bankrupt enterprises. According to the World Bank's *Doing Business 2005*, enforcing a commercial contract takes 28 procedures and 340 days from the moment the plaintiff files a lawsuit until the amount owing is paid. The cost in time, court and attorney fees is 34.6% of the debt's value, below the regional average of 41.6 % but above the OECD average of 10.9%.[161] This extreme tardiness is compounded by the time it takes to wind up failed enterprises. On average, 3.6 years are required to resolve bankruptcies, at a cost of 18% of the estate and with a recovery rate of 6.4 cents to the dollar.[162]

However, there has been some improvement in the situation. An independent Commercial Court was established in November 1991, staffed by professional magistrates who are assisted by elected representatives of the local chambers of commerce and industry. Its purpose is to speed up business litigations. Teams comprising one magistrate and one representative of each chamber conduct the hearings. The magistrate ensures that decisions are enforceable under the law and that they follow the relevant commercial laws, including internationally recognised bankruptcy laws. To date,

161 *Doing Business*, World Bank, 2005.
162 *Ibid.*

the Commercial Court has handled a number of cases involving foreign companies.[163]

Skills

Companies remarked that the Malian work force is enthusiastic, well-disposed and quick to learn, but lacks skills at all levels. The adult illiteracy rate in Mali is 40%. Unfortunately, Mali's underdeveloped industrial and manufacturing sector does not offer many opportunities for on-the-job technical training. Nor can it help Malians to learn about global supply chains and world markets. Whereas lawyers and accountants abound, managers, engineers, professionals and technicians are scarce. This situation is compounded by a brain drain, as competent Malians emigrate to Europe and other countries in West Africa.

Foreign firms are often forced (at considerable cost) to appoint expatriates with technical and operational skills, especially in mining. Although good geologists can be found, there are many gaps at every other level of expertise, from people able to operate big machinery to chemical analysts. To overcome these gaps, South African mining companies conduct on-the-job training and engage in skills transfers with expatriates from South Africa, India and the Philippines. They have also sent 10 young Malian employees to study mining in South Africa, as noted earlier.

Labour laws and trade unions

Many of Mali's labour laws and practices mirror the country's Marxist background and the centrally planned economic system it adopted after independence in 1960. The Labour Code was last updated in 1992, when Mali began to liberalise the economy and the state started to withdraw from the

[163] See www.w3.usa.org.ml/guide/html.

productive sector. However, the expectations of workers continue to reflect decades of paternalistic state employment. An example is the assumption that they are entitled to generous paid leave to care for a newborn, or a sick relative, or to attend a funeral. Given that each Malian worker has an average of 10 dependants, is probably polygamous and that on average each woman has six children, this adds up to a lot of leave. South African managers pointed out that the extended family structures in Mali make many demands on workers, and that these affect productivity levels.

Whereas the 1992 Labour Code has gone some way towards simplifying the hiring and firing of staff, it still reflects some aspects of a state-controlled economy, such as privileging security of employment, seniority and social criteria over those that are productivity-based. This creates particular problems for the practical operations of many companies. In the construction and mining sector, companies often require staff to work extra shifts at very short notice. However, according to the regulations a labour inspector must approve in advance every request to work overtime, at any level, in any sector. Yet it can take days to locate a labour inspector and obtain approval, especially in the provinces.

In the private sector, notification of a strike is not mandatory, although mediation usually precedes a strike. However, an upcoming MIGA business survey found that companies complained that the Ministry of Labour was party to the signing of private labour contracts between workers and employers, instead of maintaining a proper distance.[164]

Mining is one sector where the new exigencies of a market-based economy clash with the old labour laws. The Collective Convention for Mines was drafted in 1985, when Mali had only

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164 MIGA Benchmarking Country Analysis 2005, World Bank, 2006. (unpublished)

one state-run underground industrial gold mine, Kalana. As previously mentioned, the opening of the mining sector to foreign investors in 1991 through the adoption of the new Mining Code resulted in the entry of several firms. Mali now has three large, open-pit gold mines operated by the private sector, and others are in the pipeline.

Each mine negotiates a separate convention with the government, which may clash with the 1985 Collective Convention. Not surprisingly, the only serious conflict that has arisen in the mining sector stemmed from a lack of clarity in the legislation. In 2002, a gold mine struck an exceptionally rich seam that more than tripled its production for several months. In 2003, the mine workers demanded a productivity bonus of CFCA1,500 million for the extraordinary level of gold production. In their view, this bonus payment was warranted in terms of the 1985 Collective Convention. The mine management disagreed.[165] Negotiations continued in 2003, and in February 2004 the matter went to national arbitration. The ruling granted the workers a bonus payment, but was unclear as to the amount owed to the workers. More negotiations followed. In June 2004 the mining section (SECNAMI) of the National Union of Malian Workers called for a three-day work stoppage at the mine, although it remained operational. The dispute was settled and a $1 million bonus, or one-third of the original demand, was paid to the workers in November.

[165] The law is unclear on productivity bonuses, according to a senior official at the Ministry of Mines, Energy and Water. Interview in Mali, May 2005.

The state and mining

The state remains a dominant player in the mining sector, despite various reforms to encourage more foreign and local participation in the industry. To support local participation, the government has simplified the procedures required to open small mines, eased access to funding, and supported partnerships with foreign firms. However, all the country's mineral resources belong to the state, and all companies are obliged to enter into joint ventures with the state and these are governed by the Mining Code of 1991. The Mining Code regulates the prospecting, exploitation, transport, processing and trading of all mineral substances.

At the moment, only gold is exploited on a large scale, but other minerals, such as uranium, diamonds, manganese, bauxite, phosphates, iron and marble, offer substantial opportunities for investors. The Code guarantees duty-free importation of capital equipment, tax benefits and repatriation of capital and profits.[166] In 1999, the government revised the Mining Code in an attempt to increase the state's income from mining. It abolished most of the tax and customs concessions that were provided during the operating phase, and instead focused on guaranteeing the payment to the state of a priority royalty. However, the incentives granted during the exploration and prospect phases remained intact. The holders of mining permits also received guarantees that the tax and customs regime governing their concessions would remain stable for the duration of their permits.[167] The Mining Code of 1999 also has tighter, updated provisions on environmental protection, hygiene and workers' safety, which reflect growing awareness of international standards.[168]

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166 Holders of mining titles may freely transfer capital and net profits (after distribution to those entitled in Mali), as well as income and salaries for foreign natural or legal persons. Such sums are subject to the foreign exchange regulations which, inter alia, require the repatriation of earnings from exports to countries outside WAEMU and their conversion into CFA francs. *Trade Policy Review Mali*, WTO, p. 63.
167 *Trade Policy Review Mali*, WTO, 2004, pp. 62–64.
168 However, a report by the NGO Oxfam notes there is no procedure for monitoring the implementation and application of the legislation, no mechanism to involve local authorities and administration to ensure a wide diffusion of information related to mining activities, and

Under current legislation, the state earns revenue from the gold mines in a number of ways:[169]

- 3% of the mine's annual turnover for the supply of services;
- 35% tax on industrial and commercial profits;
- taxes on behalf of the employees and supplementary taxes;
- 10% of shares as mandatory royalty, with an option to increase this share to 20%; and
- dividends for shareholders, including the state.

Some analysts believe that the new regulations might be perceived by investors as increasing the cost of mining in Mali.[170]

One mining executive remarked that 'it's a learning process to go from a socialist economy with little competition to a free market.' There is, thus, a clear need to provide Malians with training on industry risks, variations in production, modern mining codes, the concept of overtime, and the regulation of strikes.[171] The National Union of Mineworkers (NUM) of South Africa is carrying out a three-year programme of visits and

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no instrument for regular monitoring of environmental activities in the field. Furthermore, Oxfam notes that environmental reports by mining companies are often available only in English, and only to the company and mining authorities. *A Tarnished Legacy: A Social and Environmental Analysis of the Syama Gold Mine*, February 2004. See www.oxfamamerica.org/newsandpublications.

[169] The state earned $200 million from gold in 2001. *Trade Policy Review*, WTO, 2004, p. 63. In 2004, Sadiola, Morila and Yatela paid CFCA 42.4bn in taxes to the state. *Direction Nationale de Geologie*, 2004.

[170] See *www.globalinsight.com*

[171] Mali's overall rigidity of employment index, which measures the difficulty of hiring and firing, inflexibility of hours and firing costs, is 66, compared with the regional average of 53.1 and an OECD average of 34.4. *Doing Business*, World Bank, 2005.

training courses with its Malian counterpart. All of the participants agree that this will be beneficial to the mining sector. NUM representatives visited SECNAMI three times in 2004.

Differences in language and culture

South African companies flagged a sound knowledge of French as a prerequisite for operating effectively in Mali. Competence in French is essential for dealing with government officials and complying with the law. Marketing and company literature also has to be produced in French. However, while the latter is the official language of business, Bambara is the most frequently spoken African language. Unskilled rural workers speak Bambara and other African languages, and a little French.

It is noticeable that a new kind of *fanagalo* (a language that includes words from languages spoken by workers and managers which evolved in the South African mines) is developing in the gold mines, with words from Afrikaans, English, French and Bambara creeping into daily conversation.

'Everything I knew in South Africa doesn't apply here.'

South African firms have learnt how important it is to employ French-speaking staff. Trade unionists interviewed during the survey complained that incompetent French–English translators in the gold mines hamper labour relations and add to cultural misunderstandings. Indeed, they believe that all the biggest problems between foreign companies and local employees have stemmed from differences in language and culture. The South African firms acknowledge that there are big differences in culture. One mining executive who was responsible for setting his company's operations three years before pointed out that one is 'always out of your comfort zone in Mali', and added that 'everything I knew in South Africa doesn't apply here'. His advice to South African investors is: 'It is costly to try to learn as you come into Mali. Bring people with experience and [who speak] French. There is good business to be made, but you can't learn from the books, you have to be here to know.'

South African companies can learn from the Chinese investors, who learn French and Bambara before coming to Mali, according to one mining manager. Most South African companies have taken this advice seriously. Whereas three years ago, only two among Eskom's 25-strong South African staff spoke French, today Eskom has six expatriates, who are all conversant in the language.

Malian culture is Muslim and West African, with a strong French influence. Protocol and courtesy are important, and business negotiations must be preceded by an exchange of ceremonial greetings. Age and seniority are respected. Malians take their time during discussions and are often late for appointments. They may be absent from the office for several days because of a funeral. For example, with customs or bank officials, personal contacts are very important and pave the way for business dealings.[172] Conversely, many foreign business people have been duped by locals who promised high-level contacts and did not provide them.

Among Malians, South Africans are sometimes perceived as arrogant or as racist. Many South Africans who entered Mali in the first wave of investment did not speak French, and lacked experience in working in West Africa, or in a Muslim country, or out of the home country. A Malian executive working for a South African company expressed the opinion that South

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[172] Interview in Mali with a consultant for the donor community, May 2005.

Africans do not always feel comfortable with the language and the culture of Mali. However, the situation is slowly changing as South African staff members learn French and as more Malians are trained and appointed into managerial and mid-level positions in South African firms. Trade unionists in particular have noted an improvement in the treatment of local staff in recent years. This takes the form of less strict behaviour from managers, and more social mixing after hours.

Despite these improvements, South African firms have to deal with a very different business culture. Malians are traders by tradition, are risk-averse and looking for short-term gain. South African managers remarked that Malians have a different understanding of timetables, timekeeping, productivity, quality control and deadlines. However, they also believed that with the right attitude and incentives, it is possible to build a different corporate culture within companies.

The high cost of productive factors

South Africans companies identified the high cost of electricity, water and telecoms as an obstacle to investment. Mali's utility costs are similar to those in other WAEMU countries, but have higher electricity and telecoms tariffs. However, petroleum products, which are mostly transported by road from the refinery in Tema, Ghana, are expensive. As of June 2005, ordinary fuel cost slightly more than $1/litre, gas oil just under $1/litre and fuel oil about 50 cents/litre.

The government is making a serious effort to improve the transport network, extend the power supply grid and open up the telecoms sector to private companies. Despite these efforts, brownouts and blackouts happen frequently, especially during the hottest months between March and July. Power oscillations at night are frequent. The consequences for industry are serious. They include spoilage of goods; damage to equipment; and costly reprogramming. For example, after a blackout, it can take up to two hours to reset a textile mill for production. Mali's electricity deficit was estimated to be 40MW in 2004. Plans to fill the gap include opening a new hydroelectric central plant in Kenie (56MW) in 2006 and to import power (80MW) from Ghana and Cote d'Ivoire. In the remote areas where the gold mines are located, mining companies supply their own power, water and sanitation. This is also the case with the Sukala sugar mill near Ségou.

Cellular phone coverage is growing and becoming cheaper every year. The cellphone network reached the Sadiola and Morila mines in 2005, and is much cheaper than satellite phones, which cost $7 a minute.

Infrastructure

The transport network in Mali remains one of the weakest in West Africa, although it improved significantly after the eruption of civil war in Côte d'Ivoire in 2003, which forced Mali to explore alternative trade routes. Loans from donors have been used to improve the roads to ports in Senegal, Mauritania, Togo and Guinea and to upgrade the two-lane paved roads between the main towns in Mali.

Although 2.5 times the size of France, Mali has only 3,000 kilometres of paved primary roads, mostly in the southern part of the country. They are reasonably well maintained but narrow. Secondary and tertiary roads are made of packed earth and cannot carry large trucks. These roads are impassable in the rainy season.

An example of the logistical difficulties created by weak infrastructure is that, even though Eskom's power plant in Manantali lies only 320km to the west of Bamako, the road is so poor that it takes six hours in the dry season to complete the journey. In the rainy season it can take up to eight hours, but only if the road is usable. In contrast, a chartered aircraft takes one hour and twenty minutes and costs R2,000 each way. According to one study, transportation costs in Mali, as a percentage of the market value of goods, are among the highest in the world.[173] In addition, there is insufficient trucking capacity; an inadequate cold chain; and a lack of cold storage facilities. This especially affects imports and exports of perishable food. Although the cost of transporting gold by air from the mines via Bamako and Dakar to Johannesburg is high, it is less than one per cent of the gold's market value, and therefore cheaper than any of the alternatives.

The only rail link to international shipping lanes is the Dakar–Bamako railway, which is over 1,228 kilometres long. In 2003, the Canadian company Transrail SA, won a bi-national concession to run the route and began to rehabilitate the lines. However, because the process is still underway, the journey by rail is unpredictable, and may take up to 19 days to complete. The situation is compounded by the congestion at the Dakar port and problems with customs. Nevertheless, rail shipment to Dakar is much cheaper than transport by road to Lomé and Tema. After the rehabilitation of the line has been completed, rail shipment via Dakar will be the most cost-effective method of transporting bulk exports such as cotton to Europe and Brazil.

Landlocked position

All goods for Mali or from Mali must be shipped through foreign ports, and are, therefore, subject to their efficiency and capacity constraints. The logistics of supplying the gold mines, which are located in remote areas, are complicated by Mali's

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[173] *Impact of Transport & Logistics on Mali's Trade Competitiveness*, USAID, 2004, p. 4.

landlocked situation and poor roads, and made worse by the number of heavy trucks using them. The scale of supplying the gold mines is huge: for example, on any given day Morila mine has about 20 fuel tankers on the road to and from Ghana.

Key Transport Corridors

Road/Rail	***Length (km)***	***Comments***
Abidjan–Bamako road	1,195	479km in Mali, paved, operating under a military escort convoy system
Abidjan–Ferke rail & Ferke–Bamako road	1,177	608km by rail and 569km by road
Dakar–Bamako rail	1,228	757km in Senegal and 461 km in Mali
Dakar–Bamako road	1,249	607km in Mali, now being rehabilitated
Nouakchott–Bamako road through Kayes	1,390	638km in Mali. Impractical because sand dunes invade portions of the road in Mauritania.
Tema–Bamako road	1,973	5–6 days of transit time. In Ghana, clearing customs in English and driving on left side of the road are a problem for Malian truck drivers.
Lomé–Bamako road	1,967	667km in Togo, 780km in Burkina Faso and 490km in Mali. Dangerous long and narrow road, two border crossings.
Conakry–Bamako road	980	126km in Mali. Conakry is a secondary port with limited capacity, but this corridor could be developed.

Source: Impact of Transport and Logistics on Mali's Trade Competitiveness, Carana Corporation/USAID, August 2004.

Lack of direct flights between Johannesburg and Bamako

All companies interviewed pointed to the need for direct flight connections between Johannesburg and Bamako. Even though South African Airways has been investigating the possibility of a direct flight to Mali for the past two years, at the time of writing all commercial flights out of Mali to South Africa had to be made via Dakar or Abidjan. There are poor connections at these airports, which entail an overnight stop in Dakar or a wait of up to eight hours in Abidjan. Travel via the latter has also become difficult because of the internal security situation in the country.

Direct air links are particularly important because South African companies procure between 50% to 80% of their supplies and materials from South Africa. A direct flight would simplify this process and boost trade between the two countries. At present, the only direct flight is operated by the mining companies, which arrange a weekly chartered flight that serves the South African business community.

There is only one daily direct flight to Europe via Paris with Air France, (which offered four flights in 1996). This poses a problem for one South African company which has about 10 staff members flying to and from Europe every week.

Banking and local financing

There was general agreement amongst the companies interviewed that the existing banking system acts as a brake rather than as a support to business. Although the country has 10 commercial banks, none of them are very efficient. Money transfers are slow and are delayed even further by the requirement that foreign currency should be changed first into euros and then into rands or US dollars, thereby adding cost and time to financial transactions.

Insufficient commercial bank credit hampers the ability of foreign investors to find local partners for joint ventures; for locals to start service companies to supply foreign investors; and for investment in productive activities and trade. The banks also face constraints including the high level of non-performing loans; problems in recovering overdue loans; high operating costs; the concentration of bank services in urban areas; and the limitation of lending to short-term trade finance. According to a recent USAID study, banks are wary of extending long-term credit for investment 'because of the paucity of bankable projects, the high proportion of short-term deposits and inadequate legal and judicial protection against delinquent debtors'.[174] The cost of finance is high, and interest rates hover between 9–14%.

Payment difficulties

Generally, enforcing contracts is tricky in Mali. Two companies reported that local firms have unrealistic expectations of South African firms. For example, they expect payment on the same day that goods are delivered. One company deplored the methods used for so-called debt collection, namely harassment, extortion and thuggery by the police and sheriffs, who act on complaints from local firms without sufficient verification as to whether payment is actually owed by the companies targeted. As mentioned earlier, recovering fuel duties and VAT refunds from government was also a problem mentioned by a number of the business people approached during the survey.

The double accounting system

Companies operating in Mali are obliged by law to use the French accounting system CYSCOA, in addition to the

[174] *Diagnostic Trade Integration Study*, USAID, 2004, p. 43.

International Accounting System used by South African firms. This dual requirement doubles accounting and audit costs. It is also difficult to get both systems into any kind of synchronicity. To overcome this problem firms must invest in software 'translators' between the two systems, and are well advised to seek sound legal council in Mali.

Living costs

Most companies indicated that their foreign staff had little difficulty in obtaining work permits and visas. However, the cost of living is high. Comfortable housing is hard to find and expensive to rent. Rentals have risen by more than 50% since 1997, owing to the influx of expatriates, mostly in the mining sector. A four-bedroom town house in Bamako can be rented for about $2,000 a month, and its monthly electricity bill could be as high as $700. To cut costs, some firms house their staff in accommodation that is also used as the company's office. In one case, this translates into a monthly electricity bill of $2,000.

However, having to solve domestic problems such as poor plumbing, inadequate water supplies and frequent brownouts detracts from staff productivity. The quality of medical and dental care in Mali is poor. The climate is extreme, and heat and dust are a constant problem.

South Africans wishing to relocate to Mali with their families encounter difficulties in finding appropriate schools. The lack of a good English language international school affects families with teenage children in particular.

Malaria and HIV/Aids

All the companies surveyed mentioned that chloroquine-resistant malaria affects both the domestic and foreign work force during the rainy season (from August to November). This results in absences related to illness of up to 30% of its entire work force between July and September for one company. Another firm confirmed that all its foreign workers fall victim to malaria at least once a year. Companies would like to see the government take more positive action to control malaria.

Sleeping sickness, which is carried by tsetse flies, is also a threat in some of the far-flung areas in which companies operate. Interestingly HIV/Aids was not flagged as a major problem by those interviewed. One South African executive pointed out that 'on an average 18-month building site employing 500 men in South Africa we lose 50 to Aids. Here I may lose one worker to malaria.' This finding correlated with the low overall HIV prevalence of 1.9% among the population aged 15–49 in Mali. The incidence of HIV is higher in the villages near the gold mines because the disposable income in the pockets of mine workers attracts sex workers. However, strong prevention programmes are implemented in these villages by the mines, NGOs and local authorities, assisted by donors.

Impact of the South African Business Presence in Mali

Concentrated as it is in the mining and energy sectors, South African investment in Mali has made a considerable impression on the economy. These effects have been both positive and negative. The consequences on economic growth, the balance of payments, state revenue, job creation, private sector development and skills transfer have generally been positive and benevolent.

- **Increased volume of gold production and contribution to GDP:** The most visible effect of South African investment has been to raise the volume of gold production dramatically. The increase is a direct result of the development of three new mines by South African companies, since artisanal gold panning has remained stable through the years at an annual production level of 2.2 to 2.4 tonnes since 1996. In 1997, national gold production tripled after the opening of Sadiola mine, which produced 11.9 tonnes in its first year. This was followed soon after by the start-up of the Morila mine in 2000, which yielded 4.5 tonnes in its first year, and in 2001, the Yatela mine, with an output of 4.7 tonnes. Overall, gold production has grown almost eightfold in less than a decade, from 6.6 tonnes in 1996 to 51.6 tonnes in 2003. As a result, the contribution of gold to real GDP has doubled every four years, from 2.25% in 1992 to 6% in 1998 to 14% in 2002.[175] Increased gold production has enabled the country to record an average rate of growth of about 5.2% between 1999–2002. It also created a surplus in

[175] *Trade Policy Review*, WTO 2004, p. 64.

Mali's trade balance in 2002, owing to exceptional gold production that year. [176]

Gold production, 1996–2003 (Tonnes)								
	1996	***1997***	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***
Industrial production	0.0	16.3	20.5	23.1	26.0	46.3	63.7	51.6
- Yatéla	0.0	0.0	0.0	0.0	0.0	4.7	8.6	7.2
- Morila	0.0	0.0	0.0	0.0	4.5	19.6	38.9	28.6
- Syama	4.4	4.1	4.8	6.1	5.7	2.1	0.0	0.0
- Sadiola	0.0	11.9	15.7	16.9	19.0	16.7	16.2	15.7
- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gold panning	2.2	2.2	2.3	2.3	2.3	2.4	2.4	N/A
Exports	6.6	18.5	22.8	25.3	28.3	53.7	66.1	51.6
***Source**: Malian authorities. Published in Trade Policy Review Mali, WTO May 2004.*								

- **Increased state revenues:** The increase in production has also resulted in a surge in government revenues derived from gold. In 2001, the state received about $200 million from gold exploitation.[177] According to the WTO, royalties paid out by enterprises in the gold sector amounted to 1.3% of GDP in 2002.[178] In addition, mining activities by South African companies have also bolstered tax and customs revenue, and added to payroll and social security charges paid to the government by South African companies. Gold exports brought in $525.6 million in export earnings in 2001, while cotton, the second-largest export, earned $101.5 million.[179]

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[176] *Ibid*, p. ix.
[177] *Diagnostic Trade Integration Study*, USAID, 2004, p. 68.
[178] *Trade Policy Review*, WTO, May 2004, p. 9.
[179] See www.globalinsight.com.

- **Upstream and downstream business created:** The activities of mining companies have also affected both downstream and upstream businesses that service the mines. These effects are felt both at the national and provincial level, and include the instatement of regular chartered flights (the consequent demand for logistical services) and the provision of job opportunities for the owners of bus companies, taxis, plumbers, electricians and other artisans. All of these boost the local economy. They have also had a significant impact on housing, discussed at greater length under local procurement. Villages around the mines, in particular, have grown into active business nodes through direct and indirect job creation.
- **Support for local community development:** All of the mines have set up liaison structures with local communities, and have developed extensive outreach programmes. For example, the SEMOS Community Development Foundation, established by the Sadiola and Yatela mines, supports macro-projects in education, agriculture and water supply; provides micro-credit for small businesses; and invests in capacity-building through training in literacy, numeracy, basic planning, business management skills and HIV/Aids prevention. The Foundation has built classrooms and crèches, has contributed half of the costs of a health centre in Kouroketo, which serves six villages close to the mine, and is actively involved, through the clinic, in the fight against malaria and bilharzia.
- **Increased job creation:** The industrial gold mines, both South African and others, employ about 5,000 workers and also create thousands of indirect jobs. This represents a significant boost to the formal economy.
- **Higher wage levels:** The mining sector pays good salaries that are easily three times higher than the national private

sector average. For example, a driver employed by one of the mines said that he earns CFCA280,000 a month, or just over $500, which is linked to a productivity bonus. In his previous job as a driver with an international corporation he earned $150 a month.

- **Improved working conditions:** The effect of South African companies on the economy has been improved working conditions in the private sector. Specifically, for their employees and their dependants it has led to better health benefits, compliance with social security requirements, HIV/Aids prevention programmes, and the provision of appropriate working garments such as uniforms, hard hats, special boots and protective clothing.
- **Introduction of best practice in security and safety:** This improvement in levels of personal safety within the mines at all levels has been noticeable. South African companies are applying the accredited South African standards in their operations. Companies hold regular workshops on industrial safety and social security for the trade unions, and the trade union leaders interviewed during the survey have given high marks to South African firms for workplace safety. In addition, the companies have introduced good medical evacuation mechanisms and adequate health care.
- **Transfer of world-class technology:** The opening of the mines and the activities of ESKOM in the energy sector have meant that world-class technology in mining and electricity has been made available to Malians.
- **Increased skills levels:** Companies have taken special measures to introduce on-the-job training in new skills such as operating specialised heavy machinery and dealing with logistics. Increasingly, more Malians are being trained and appointed as managers.

- **More local procurement of goods:** The local economy's steady growth and increasing sophistication have made it possible for more South African firms to purchase goods and materials in Mali. For example, one construction company buys 56% of its goods locally, compared to only 10% a decade ago. These local purchases include computers, fridges, vehicle spares, furniture, food, stationery, bricks, stone and pipes. However, certain supplies are obtained abroad. The procurement officer at one gold mine explained that the mine buys 70% of its goods in South Africa. Although this introduces a three-week transport delay, the company concerned believes that the advantages offered by a reliable supply for standardised goods and stable prices are considerable. The remaining 30% of goods bought by the same company locally include cars, spares, computers, stationery, some electrical and machinery items, medicines and food.

However, as in many other countries where South African companies are operating, there are also less positive effects.

- **Limited linkages with local business**: South African companies have very few linkages with local business partners. This is partly attributable to: the specialised nature of South African investment, which is capital-intensive by nature and entails high-tech mining activities; the complexities and difficulties of operating in Mali because of language and cultural differences; and the lack of domestic investment capacity. Both Malian officials and mining executives believe that small and medium-scale mining operations (defined as producing between 1–10 tonnes a year) could be developed through training and joint ventures with support from the South African government, academics and the private sector.

- **Higher rates of HIV/Aids near the gold mines**: In spite of HIV/Aids prevention programmes run by the mining companies, NGOs and local authorities, the prevalence of HIV positive people is slightly higher near the mines than the average of 1.9% for the 15–49 age group published by UNAIDS in 2005, although it is still within the parameters of the regional average. Sex workers from neighbouring countries flock to the villages near the mines because there is a concentration of men who have cash to spend.
- **Economic dominance of SA firms:** The economic power of South Africans companies is creating some resentment amongst certain sectors of the population. As mentioned elsewhere, the average citizen in Mali has little understanding of how mining revenue is shared between the state and the companies. A common perception is that Mali, lacking technology and capital to exploit its gold, has had to surrender control of this national resource.
- **The need for properly planned exit strategies:** As can be gleaned from the above, South African firms are making a significant impression on the socio-economic landscape in Mali. It is for this reason that it is critically important for mining companies to prepare appropriate exit strategies, given that the country's known deposits are expected to be exhausted in about 15 years. The government realises that gold mining will not bring long-term sustainable growth and poverty alleviation. As shown in the case study below, the closure of a mine can have a devastating effect on economic growth, job creation, sustainability of livelihoods, and so on. Although this is the case in most countries, the consequences are more deeply felt in economically vulnerable Mali.

Lessons learnt from the closure of the Syama Gold Mine

As the first open-pit industrial mine built at the beginning of Mali's gold boom, Syama initiated the government's learning to interact with the private sector. The only precedent to this process was the Kalana underground mine, which had been operated by the state with Soviet Union support.

Syama is located in an extremely arid and dry region 300km south of Bamako. It is close to the country's borders with Burkina Faso and Côte d'Ivoire. The government and the Australian-based multinational BHP (Broken Hill Proprietary) signed an agreement to explore and develop the Syama deposits in 1987. A mining company, *Societe d'Exploitation des Mines de Syama* (SOMISY) was formed in December 1988, with a shareholding of 65% by BHP and 35% by government.[180] The mine became fully operational in April 1990.

In 1996, financial losses led BHP to sell its stake to the South African company Randgold Resources, which assumed management in October that year. The ownership structure changed to Randgold (75%), the government (20%) and the International Finance Corporation (5%). By 1998 the mine had 1,211 employees. According to Randgold, between 1995–2000 Syama contributed $110 million in taxes, salaries, benefits and local procurement to the Malian economy. However, as a result of poor performance and a fall in the price of gold on the global market, Syama became unprofitable and closed in 2001. All mining activities had ceased by March 2001, and gold processing ended in December that year.

An analysis of the mine's imprint on surrounding communities and the environment by two NGOs, Oxfam America and the Foundation for the Development of the Sahel,[181] found that the opening of the Syama mine in 1990 under the dictatorship of Moussa Traoré was accompanied by 'very little meaningful environmental monitoring or oversight' by the government. To a large extent the company engaged in self-

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180 The IFC became a partner in 1991 with a shareholding of 5%, but sold these shares in 2002 after the mine's closure.

181 *Tarnished Legacy: A social and environmental analysis of Mali's Syama Goldmine*, Oxfam America, February 2004. www. Oxfamamerica.org/newsand publications

regulation. An analysis of the environmental impact assessments commissioned by the mine operators during this period[182] and the authors' own studies found that mine operations led to ground water and air contamination and probably degraded the quality of local soils. The Oxfam America report points out that both the International Finance Corporation (IFC) and the government were minority financial partners in Syama. Despite their involvement, they displayed a reluctance to enforce environmental guidelines aggressively.

The lack of oversight was blamed on the inexperience of several government departments and their officials. Mali lacks a laboratory capable of performing reliable cyanide or trace metal analyses in water samples. In fact, the technical capacity to track several chemical elements is absent in the whole of West Africa.

The closure of the mine had a substantial effect on the local community. The economic and social benefits for workers ended as soon as the mine closed. Infrastructure built by the mine, such as schools, clinics and water pumps, lay idle or in disrepair because of a lack of technical support and funds. Refuse collection in villages ceased, along with electricity and water supplies.

The results of the report were presented at a workshop attended by representatives of mining companies, authorities and local communities in November 2004. The main finding was that the mining activities engaged in by the mine had both positive and negative consequences for the surrounding communities.

On the one hand, the nearest town, Sikasso, became an active business and trading centre. At the same time the mining operations led to an increase in tax revenues, and direct funding from the mine allowed for improvements to the regional hospital, roads and bridges, schools and sports facilities.

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182 The authors thanked Randgold for their contribution and co-operation in the study.

Lessons learnt from the closure of the Syama Gold Mine (continued

Additional funding was allocated to ensure access to safe drinking water; vaccinations and HIV screening; the training of local leaders in conflict management and administrative functions; community development projects; rice-growing schemes; improvement of local housing, sewerage and refuse collection; development of a trade and business ethic; and improvement in mining techniques.

On the other hand, there was an increase in cultural conflicts because of the large influx of migrant workers (mostly single men) into a remote community. This led to a rise in prostitution, alcoholism, criminality, HIV/Aids and sexually transmitted diseases, as well as a loss of parental authority and family cohesion. Food prices were inflated and income dispersion increased because both a culture of savings and any mechanism to accumulate savings were absent. The location of mine facilities on pasture land and the housing of mine workers on collective land also caused conflict.

Upon the closure of the mine some of these negative effects were compounded. Apart from the drop in regional revenue, the loss of purchasing power and the fall in the standard of living of the communities in the villages near the mine, there was an overall degradation of the infrastructure. Families were disrupted when workers scattered, looking for new jobs, and conflict over land use increased when retrenched mine workers tried to find alternative livelihoods, such as farming in the area. The affected communities lost their trust in both the government and the mining sector.

The report makes a number of recommendations, to the government, the mining sector and the communities.

- The government should develop a specific national environmental code for large-scale mining projects. It should carry enforceable provisions and penalties for environmental degradation.
- The government and the IFC should seek to reduce the conflict of interest entailed in being financial partners and overseers of environmental responsibility at the same time.
- The government should devise mechanisms for community participation and improve community knowledge of what mining entails.

- The government should establish a mechanism to distribute some of the revenues earned from mining to the communities in the mining area.
- The government should instil a culture of, and mechanisms for, savings.
- Mining companies should post bonds prior to engaging in mining activities, to cover the rehabilitation and restoration of mined areas when operations have ceased.
- All new mines should prepare an Environmental Impact Assessment (EIA) conforming to international standards. It should be published and reviewed by an independent party prior to the government's granting approval of that mining project.

A dialogue involving civil society, the communities affected, the government and the mining companies is proposed to ensure that the above recommendations are implemented. The report concludes by stating that the need of a poor country like Mali for jobs and revenue must be reconciled with the need to develop neighbouring communities and to minimise the negative effects on the environment.

Recommendations

South African companies, academics, donor agencies and other stakeholders outlined a number of recommendations for policy changes that would improve the investment and business climate in Mali.

The following recommendations were made to the Malian government.

- There is an urgent need for government to review, simplify and modernise Mali's tax system to instil and maintain confidence in local and foreign investors. Knowing what the regulatory regime entails is critical for any company. Thus, it is important to spell out tax and other compliance directives clearly, in language that is easily accessible and understandable. In addition, it is also imperative that officials stick to these rules once they have been adopted.
- Legislation should be adapted to allow foreign businesses to use international accounting system standards so as to avoid duplication and uncertainty when their companies submit returns. A connected requirement is the prompt and reliable repayment of VAT and fuel duties to companies. Delays in reimbursement push up operating costs for companies.
- Mali's labour laws require a structural overhaul to align the country's legislation with the requirements of a modern mining sector and a free market environment. Complementarity with existing legislation in other sectors is also desirable. The strengthening and reform of the judicial system would bolster stronger business confidence.

- Related to the above is the importance of training tax and customs officials and bureaucrats, and raising their awareness of the requirements of the modern mining sector. The administration and handling of business dossiers should also be speeded up.
- The government should ensure that debt collection is carried out through lawful means. Incidents of thuggery and intimidation, carried out with the apparent approval of the police, are viewed extremely negatively by companies.
- The mining companies suggest that a Mining School should be established. This could train technicians at all levels and improve the level of technical and science skills needed in the mining sector. A dialogue between the private sector and vocational schools and universities should also be encouraged, to ensure greater appreciation in these training institutions of the types of skills that graduates require to increase their employability.
- The government should invest more effort in the improvement of the country's roads, railways, telecoms and power supply to raise productivity within the private sector. Related to this is a reduction in the cost of utilities, where feasible.
- The government should educate the general public, the press and the NGOs about the risks associated with, and the special needs of, the mining sector. This should include reaching consensus on what constitutes reasonable corporate social responsibility within a developing world context. The government should also plan in advance for the eventual closure of the mines to limit undesirable consequences. This would require a dialogue with companies about their exit strategies.

- It is important that the government introduce reforms and liberalise the banking sector because the difficulty in obtaining access to finance in Mali for local and foreign businesses and the inefficiency of this sector is a serious constraint on investment. Improvement in the financial institutions would ensure that South African companies find it easier to link up with local partners with access to credit. A South African bank should be encouraged to operate in Mali.
- The government should do more to combat and control outbreaks of malaria because absences attributable to malaria are deleterious to company operations.

Various recommendations were also made to the South African government. These were intended to improve the business relationship between the two countries.

- A double taxation agreement should be concluded between South Africa and Mali to ensure consistency in tax treatment.
- The establishment of a direct air link between South Africa and Mali would strengthen business ties between the two countries. In the meantime, it is critical to establish a cargo terminal dedicated to South African freight at the Dakar seaport, to ensure prompt clearance of goods.
- The South African government should appoint a trade attaché at the South African Embassy in Bamako, which was opened in 2004, to promote and protect South African investment and investors. Because of the language and cultural barriers and the difficult operating environment in Mali, trade missions that visited the country briefly could not do as much as a dedicated trade attaché, who could assist companies to identify competent and honest tax and legal advisers and

potential joint venture partners; guide South African investors more effectively; and assist in smoothing out problems. Diplomatic representatives of countries such as France, China and Canada take a far more pro-active and aggressive approach to supporting and protecting investors from their countries than those of SA at present.

- The South African government could make an invaluable contribution by offering to assist the Malian government to establish a good mining school. This would improve technical skills throughout the economy.
- The government should investigate the possibility of introducing various exchange programmes between the two countries, to transfer technical skills and create a better understanding of the operating environment. Additional training of Malian tax and customs officials, in particular, would be very beneficial.
- The government should sensitise South African firms that are moving into Mali to the demand for local empowerment, and encourage them to develop partnerships with Malian entrepreneurs.
- A partnership should be agreed between COSATU/NUMSA and Malian trade unions. This would expose Malian workers and unions to the nature of labour relations within a modern mining industry.

CONCLUSION

The experience of South African firms in Mali offers valuable lessons for prospective investors, both local and foreign. It also suggests ways in which the South African and Malian governments can improve the business environment in Mali and foster the bilateral economic relationship between the two countries.

The Malian government should be commended for the significant economic and political reforms it has introduced since 1992 in order to modernise the economy and make the business climate more attractive to investors. It has made good progress in this direction, considering the constraints imposed by its landlocked position, the widespread poverty of the population and harsh climate. Successive governments have moved closer towards a market economy, implemented effective macroeconomic reforms and privatised a number of public enterprises. The government's economic policy encourages the growth of the private sector, while the various investment codes offer investors attractive incentives.

However, adopting sound policies and offering generous tax concessions is but a first step if the Malian government wishes to attract investment. Good policies must also translate into good practice. If the government at ministerial level says all the right things but the customs inspectors at the border crossing delay the processing of goods or demand facilitation fees, or tax inspectors exact revenue in unpredictable ways, this undermines the government's policy and deters investors. There are a number of steps that, if taken, would make Mali more business-friendly. Among these are moves to eliminate corruption and red tape; overhaul the judicial system; update the labour laws; streamline customs procedures and regularise the exaction of duties. These measures would also reduce opportunities for rent-seeking on the part of petty officials.

It is also clear that foreign firms cannot be expected to propel economic growth forward on their own. It is important that the government should play a stronger role in promoting the local business sector. This includes providing better access to financial and other assistance to domestic enterprises, especially medium and small ones, and the strengthening of the commercial legal system. The government should also introduce more focused measures to lower the cost of utilities such as power, water and telecommunications for businesses. Mali has taken steps in this direction, such as negotiating a temporary freezing of electricity tariffs with EDM in 2004. However, more could be done to improve roads and other types of hard infrastructure. The government should address the problems presented by the vast distances, poor roads and the fragmented market in Mali. These supportive measures would boost the confidence of investors and enable local entrepreneurs and firms to become more involved in investing in the country’s economic growth.

It is clear that the current context of widespread poverty, low disposable income and a massive informal sector, combined with a ‘foreign’ business culture, have impeded the entry of South African companies outside the mining sector. Both retailers and representatives of the services industry have been daunted by the scale of these problems. If the Malian government wishes to attract these types of investments, it needs to broaden the country's revenue base, build a middle class and integrate the massive informal sector into the formal economy. These are all long-term projects. However, in the medium- to short-term, tourism and recreation offer many openings for investment, but require much better marketing and exploitation. The same applies to taking commercial advantage of Mali's rich cultural heritage, world-famous music and exquisite crafts.

Lastly, South African firms should be more sensitive to the requirements of operating in a country with such a distinct and different business culture. Companies could overcome these obstacles by appointing more French-speaking and local staff, and encouraging employees to learn Bambara, especially if they operate in the rural areas. Showing respect for, and an ability to adapt to, the local culture are also very important. However, South African firms are clearly on a learning curve as they begin to make inroads into French-speaking West Africa, whether it be Nando's in Dakar or gold and bauxite mining in Guinea. The experience gained in Mali is proving very useful for companies working in the rest of West and Central Africa.

Despite the many real problems that face investors in Mali, it also offers many opportunities. Companies from France, Canada and China, among others, have shown that they can carry out lucrative projects in telecommunications, textiles, road and railway rehabilitation. The axiom that where there are great needs, there are also potentially great markets, is applicable in the case of Mali. The rapid growth of cellular services is a case in point. There is also more room for growth in construction, agribusiness and, as mentioned previously, tourism.

The government of Mali has shown its seriousness, willingness and commitment to leading the country along on the path to modernisation and development, although against many odds. It now needs to take the reforms further and address the practical problems for foreign firms attendant on investing in Mali, especially if it wishes to develop a platform for more diversified and sustainable economic development.

South Africa, in turn, has a wealth of experience to share, particularly in terms of the transfer of technical skills, best practice in workplace safety, the know-how necessary to operate in a modern economy. Working together with South Africa to build a better investment climate will bring substantial benefits to Mali. These include sustainable economic growth, poverty reduction, increased revenues and a healthy economy.

Appendix 1

Bilateral Investment Treaties (BITs) signed by Mali	
Country	**Year**
Algeria	1996
Benin	2001
Cameroon	2001
Chad	2001
Comoros	2001
Democratic People's Republic of Korea	1999
Egypt	1998
France	1994
Germany	1977
Guinea	2001
Japan	1964
Malaysia	1990
Netherlands	2003
South Africa	1995
Switzerland	1978
Tunisia	1986
Source: *UNCTAD, BIT/DDT database; www.unctad.org/fdistatistics and Mali Investment Guide UN/ICC 2004*	

Appendix 2

Double Taxation Treaties	
Country	**Year**
Algeria	1999
France	1972
Russia	1996
Tunisia	2000
Source: Mali Investment Guide, UN/ICC, March 2004	

Appendix 3

Breakdown of customs duties, rates actually applied and final bound rates for Mali, October 2003 (Percentage)

		Tariff		
		Customs duty	**Rate actually applied**	**Uruguay Round[a]**
1.	Tariff lines bound (as a percentage of all tariff lines)	42.0	42.0	42.0
2.	Tariff lines eligible for duty-free entry (as a percentage of all tariff lines)	1.2	0.0	0.5
3.	Duties other than ad valorem (as a percentage of all tariff lines)	0.0	0.0	0.0
4.	Tariff quotas (as a percentage of all tariff lines)	0.0	0.0	0.0
5.	Duties other than ad valorem, without any ad valorem equivalent (as a percentage of all tariff lines)	0.0	0.0	0.0
6.	Simple arithmetic average	12.1	14.6	29.6
	Agricultural products (HS 01-24)	15.0	17.5	57.5
	Non-agricultural products (HS 25-97)	11.6	14.1	16.9
	WTO agricultural products[b]	14.2	16.7	58.8
	WTO non-agricultural products[c]	11.8	14.3	14.5
7.	Domestic tariff 'peaks' (as a percentage of all tariff lines)[d]	0.0	0.0	0.0
8.	International tariff 'peaks' (as a percentage of all tariff lines)[e]	41.2	41.2	49.2
9.	Standard variation in rates applied	6.9	6.9	24.9
10.	`Nuisance' rates applied (as a percentage of all tariff lines)[f]	0.0	0.0	0.0

a Undertakings by Mali during the Uruguay Round and by France on behalf of Mali.

b WTO Agreement on Agriculture.

c Excluding petroleum products.

d The domestic tariff `peaks' correspond to duties that are higher than three times the simple arithmetical average of the rates applied (indicator 6).

e The international tariff `peaks' correspond to duties that exceed 15%.

[f] The 'nuisance' rates are rates that exceed 0 but are equal to or less than 2%.

Note: Indicators 1 to 5 are calculated on the basis of 5 492 tariff lines in 2003. The other indicators are based on the 2 307 bound lines.

Source*: WTO Secretariat calculations based on data provided by the Malian authorities; WTO, Consolidated Tariff Schedules (CTS) Database. Published in Trade Policy Review, World Trade Organisation, May 2004.*

Appendix 4

Mali's Exports and Imports

Destination of Mali's exports, 1997–2002
(Percentage)

	1998	*1999*	*2000*	*2001*
América	17.6	19.8	26.9	35.7
Europe	39.5	34.1	34.0	25.4
European Union	38.3	31.3	30.1	21.9
- Italy	21.0	12.5	7.5	5.6
- France	1.8	2.0	5.1	5.1
Asia and Middle East	30.0	34.2	23.3	25.0
Africa	12.0	7.9	10.3	11.8
Sub-Saharan Africa	6.3	4.4	7.2	9.1
- Ghana	0.0	0.0	1.2	4.7

Note: Statistics in this table have been drawn up on the basis of imports of Malian origin into other countries.

Source: *UNSD Comtrade database. Published in Trade Policy Review, World Trade Organisation, May 2004.*

Principal imports by Mali, 1997–2002

Section		1997	1998	1999	2000	2001	2002
		(US$ millions)					
	Total	682.6	811.7	823.3	805.5	989.0	927.9
		(Percentage)					
II	Plant products	4.8	8.1	6.4	4.3	3.9	6.4
IV	Food industry products; beverages, alcohol and vinegar; tobacco and manufactured tobacco substitutes	7.1	8.5	7.6	6.7	8.0	9.4
V	Mineral products	22.2	18.2	17.1	25.4	24.4	23.3
VI	Products of the chemical or related industries	15.2	15.2	14.4	11.8	10.5	16.5
VII	Plastics and articles of plastic; rubber and articles of rubber	2.2	3.3	3.4	3.0	3.6	3.8
XV	Base metals and articles of base metal	6.7	8.5	9.1	7.6	7.3	6.3
XVI	Machinery and appliances, electrical equipment	17.5	16.2	18.0	19.4	22.5	14.4
XVII	Transport equipment	12.2	9.6	12.5	11.9	9.1	9.7
	Other	12.1	12.4	11.5	9.9	10.7	10.2

Source: *Malian authorities. Published in Trade Policy Review, World Trade Organisation, May 2004.*

Origin of Mali's imports, 1997–2002
(Percentage)

	1998	*1999*	*2000*	*2001*	*2002*
Americas	9.6	8.8	9.0	11.3	9.6
United States	5.2	5.9	4.6	8.0	5.4
Europe	35.8	39.4	44.2	35.0	38.1
European Union	32.9	37.1	41.0	32.3	36.6
- France	20.9	21.2	23.6	17.5	18.7
- Belgium	3.1	4.2	4.2	3.3	3.9
- Luxembourg					
Asia and Middle East	13.3	13.9	13.4	12.7	11.6
- China	3.2	4.2	3.9	4.5	2.7
- Japan	6.3	4.3	4.4	4.1	4.1
Africa	41.2	37.0	31.4	39.2	40.1
Sub-Saharan Africa	38.9	34.4	28.4	35.2	35.1
- Côte d'Ivoire	29.1	26.5	22.1	24.8	23.1
- Senegal	6.0	6.7	4.7	6.3	6.4

Source: Malian authorities. Published in Trade Policy Review, World Trade Organisation, May 2004.

Appendix 5

Tax concessions and guarantees for approved investment projects under Mali's Investment Code

Enterprises of a purely commercial nature, and petroleum and mining exploration and exploitation enterprises are excluded from approval under the Code; their activities are governed by the Mining Code. Since 2002 tourism enterprises have been able to benefit from the Tourism and Hotel Investment Code, Clause 28.

The Investment Code provides for three regimes: regime A for small and medium enterprises (SMEs); regime B for large enterprises; and the free-zone regime (C). Enterprises are given exemption from tax on industrial and commercial profits, from business tax for five and eight years under regimes A and B, respectively; from the tax on income from property and the tax on mortmain assets, for new buildings, for five years for real estate development companies, and staggered payment, over three years, of registration fees for acts creating enterprises, with exemption from these if the capital is increased (regimes A and B). Enterprises approved under regimes A, B or C may also obtain exemptions from, or reductions of, duties and taxes on imports of goods needed for their activities, subject to the submission of an application to the Ministry of Industry and Trade. These are dealt with on a case-by-case basis.

Enterprises mainly engaged in export (over 80% of their production) may be approved under the free-zone regime (free enterprises). These enterprises are granted total exemption from duties and taxes (including import duties) for all items related to their export activities for 30–31 years.

Foreign investors are given the same guarantees as Malians. The most important are:

(i) the right to transfer capital and income for investments financed by contributions in foreign currency in the currency transferred at the time of the investment;

(ii) the right to settlement of disputes, initially amicable settlement or under bilateral agreements and thereafter by the International Centre for Settlement of Investment Disputes (ICSID), if the former are not successful. Mali has been a member of the treaty establishing the Multilateral Investment Guarantee Agency (MIGA) since October 1990.

An application for approval must be submitted to the CNPI and include a feasibility study. There is no minimum threshold for investment; the only essential provision is value added of 35% or more. After the application for approval has been granted by an interministerial commission, approval is given in the form of an order by the Minister responsible for that industry within a period of 30 days. There is no appeals procedure if approval is refused, and the Malian authorities indicate that the CNPI accepts only complete applications. An authorisation to engage in the activity is also required in many fields: industry, construction and public works, real estate, architect use, consulting engineering, culture, tourism, public transport of passengers or goods, and operations classified as hazardous, unhealthy or difficult.

Source: *Trade Policy Review May 2004, World Trade Organisation, WT/TPR/133*

Tax and customs concessions under the Mining Code (1999)

Holders of exploration permits or prospection authorisations are exempt from all duties and taxes (including VAT) on the domestic market, and on the importation of the machinery and materials needed for their activities (with the exception of petroleum products). Throughout the period of validity of the permit, they benefit from the temporary admission regime in terms of which machinery that is to be re-exported is imported free of charge. They are exempt from tax on industrial and commercial profits (BIC), the tax on income from securities, the tax on revenue from land, the business tax and related contributions.

During the operational phase, holders of operating permits and authorisations to exploit small mines benefit from the temporary admission regime free of charge for equipment and vehicles included in the Mining List until production commences. After that the regime becomes subject to payment. Until production commences, holders are also granted: (i) full exemption from duties and taxes on tools, chemicals, petroleum products and other materials, needed for their activities; and (ii) exemption from all duties and taxes for the goods and personal effects of personnel and the equipment used during the operational phase when leaving the country. Holders of mining titles are exempt from VAT until the end of the third year following the commencement of mining. Holders are also fully exempt from duties and taxes (with the exception of community levies) on the petroleum products needed for their activities, including installations for workers, throughout the operational phase.

Source: *Ordinance No. 99-032/P-RM of 19 August 1999. Published in Trade Policy Review May 2004, World Trade Organisation, WT/TPR/133*

Appendix 6

The View from the Private Sector

The following summarises what 40 business people from local and foreign companies, meeting at a workshop in Bamako in November 2003, said about operating in Mali.

Advantages

- political security and economic stability;
- low criminality, no problems with radical religious tendencies;
- government commitment to assuring peace;
- good economic growth rates;
- recent and significant improvements in the investment climate;
- central position in the region that in theory could provide access to the WAEMU market;
- vast natural resources;
- the entrepreneurial disposition of Malians;
- willingness to learn and discipline among workers; and
- non-confrontational labour relations.

Constraints

Three areas need urgent government attention.

- **Taxes**: The problem is not heavy taxation because taxes are competitive in comparison with those in neighbouring countries. Rather the issue is the way the authorities apply laws and regulations. Business people complain about the lack of clarity on some rules and of frequent unannounced and unwarranted visits by tax inspectors. The formal and informal sectors are treated differently because operators in the latter pay less tax on their earnings.

- **Human resources**: The labour force has a low level of skills and there is a shortage of trained personnel, which forces companies to hire expensive expatriate staff. Various companies have provided training programmes to fill the gap, with positive results. The public sector should follow up on these efforts.

- **Infrastructure and basic services**: Great improvements have been made, especially with the arrival of private sector operators in telecoms, air transport, airports, roads and railways. However, these advances are concentrated in the capital and bigger towns, where access to reliable basic services is no longer a problem. The cost of services, especially for electricity, is very high. The state and relevant administrations should adopt concrete measures to reduce these costs.

Source: *Guide de l'Investissement au Mali: Opportunités et Conditions (Mali Investment Guide: Opportunities and Conditions) by UNCTAD and International Chamber of Commerce, March 2004.*

Appendix 7

Mali's Trade Arrangements and Membership of other International Bodies

Mali is generally viewed by the West as a stable, democratic country that seeks integration into the global economy. This view has been strengthened by Mali's economic reforms and its entry into a number of agreements that have resulted in a surge in exports and better links with the world economy.

Preferential trade agreements with Mali

Mali benefits from a number of preferential trade agreements, which include the following:

ACP–EU Partnership: This aid and trade agreement between 76 African, Caribbean and Pacific countries and the European Union was signed in 2000. The agreement offers tariff- and quota-free access to the EU for its members until 2007. This includes 100% tariff-free access to industrial products and 80% tariff-free access to agricultural products, with separate concessions on certain of the latter. For example, coffee and cocoa enjoy free access, but cut flowers require payment of a low tariff.

EU–EBA (Everything but Arms) Agreement: This agreement offers duty- and quota-free access to all products originating from least developed countries after 2001, with the exception of arms and ammunition. Bananas, rice and sugar fall under a special restrictive regime until 2009. In practice, all Malian exports enjoy duty-free access to the EU.

African Growth and Opportunity Act (AGOA): AGOA offers duty-and quota-free access to the US market until 2008 for 6,400 items and for five types of textile and apparel products. Mali qualified for duty- and quota-free exports of clothing and textile products in December 2003, yet its landlocked position makes exports to the US very expensive. One study suggests that Mali's area of comparative advantage under AGOA lies in traditional handicrafts.

Mali is also a member of the African Organisation for the Harmonisation of Business Law (OHADA). As a member, Mali has engaged in judicial and commercial regulatory reform aimed at ensuring the security of private property and efficient protection of intellectual property rights and brands. The regime ensures that litigation between foreign and domestic companies and the government can be tried in an appeal court outside Mali. In addition, Mali is a member of the World Bank Multilateral Investment Guarantee Agency (MIGA); the Centre for the Settlement of Investment Disputes, also known as the Washington Convention; and has signed the 1958 New York Convention on the recognition and enforcement of foreign arbitrage rulings. It is also a member of the African Intellectual Property Organisation (AIPO) and the World Organisation for Intellectual Property (WIPO).[183] The *Centre Malien de Promotion de la Propriete Intellectuelle* or Malian Centre for the Protection of Intellectual Property (CEMAPI) is charged with implementing the rules derived from these agreements for patents, product brands and services, and commercial names. The protection is valid in all WAEMU countries.[184]

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183 *Country Commercial Guide.* See www.w3.usa.org.ml/guide.html.
184 However, in spite of these agreements, pirated CDs and music and video tapes are prominently displayed in the country's many markets.