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Economic Reforms and the Malian Economy

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Abstract: In the late 1980s Mali embarked on a comprehensive programme of economic reforms. Reform policy has been successful in dismantling some components of the patronage system put in place in the country after independence, in curbing the worst macroeconomic imbalances, and in reorienting public expenditures in favour of the social sectors and longer-term growth. The devaluation of the CFA franc, the deepening of the integration process in West Africa, and the HIPC initiative contributed, to various extents, in improving the economic situation and growth performance in Mali. In order to make growth more sustained and better balanced, reform policy needs to put greater emphasis on measures that improve incentives for private investment and human capital accumulation. This is necessary so that the relatively high growth that was experienced by Mali during the second half of the 1990s becomes more than just a short-lived episode.

Résumé Le Mali s'est engagé, à la fin des années 1980, dans un programme de réformes économiques d'ensemble. Cette politique de réforme a réussi à démanteler certaines dispositions du système mis en place tout juste après l'indépendance du pays, réduisant du coup, les pires déséquilibres macroéconomiques. C'est ainsi que cette option a permis de réorienter les dépenses publiques vers les secteurs sociaux et la croissance à long terme. Les effets combinés de la dévaluation du Franc CFA, de l'approfondissement du processus d'intégration des pays de l'Afrique de l'Ouest et de l'initiative HIPC ont contribué, pour une grande part, à améliorer la situation économique du Mali et sa performance en termes de croissance. Pour une croissance économique durable et équilibrée, la politique de réforme doit davantage mettre l'accent sur des mesures plus incitatives en direction de l'investissement privé et du développement des ressources humaines. Ces mesures sont indispensables pour prolonger l'expérience de relativement forte croissance connue par le Mali dans la deuxième moitié des années 1990.

Introduction

Mali is a landlocked tropical country between the Sahara and sub-Saharan Africa. It is among the ten least-developed countries in the world with a GNP per capita of US$ 210 in 2001. Some three fourths of the population live below the poverty line. Mali is subject to severe ecological and climatic constraints (shortage of water and fertile land,

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irregular rainfall, recurrent droughts, desertification) that put severe limits on the structure and performance of the economy. From time to time, conflicts between the Saharan and other peoples have added to these constraints and contributed to hampering a balanced economic development of the country. About a decade ago, Mali initiated a process of reforms with the objective of accelerating economic growth and improving the standards of living of the population. The reform policy has been accompanied by a democratisation of the political system with three parliamentary elections and three presidential elections held since 1992.

The purpose of this paper is twofold. First, it is to analyse reform policy in Mali and assess its economic outcome. Then it aims to illustrate the limits of reform policy and the bottlenecks of more structural and institutional character that prevent the Malian economy from embarking on a more rapid growth path.

Macroeconomic Policy Straitjacket and Slow Implementation of Structural Reforms

Reform policy in Mali can hardly be understood without having in mind the kind of economic policy and development strategy that was implemented after independence from France in 1960. The whole post-independence period can be divided into three broad sub-periods. The first stretched from independence to the early 1980s. A socialist line inspired this first sub-period with pervasive state intervention in many areas: nationalisation of enterprises and banks, creation of state-owned enterprises in several sectors, a public monopoly on foreign trade, all-encompassing price controls, etc. The strong inward-oriented development strategy was, however, somewhat moderated after 1968 and the military *coup d'état* that overthrew Modibo Keita, the country's first president after independence. In economic terms, the 1968 change was a move from a Soviet-type economic model towards a more market-oriented socialist model.[1]

The second sub-period stretched over the 1980s. A driving factor behind the change of economic policy in the early 1980s was the recognised failure of the socialist line, as illustrated by the severe macroeconomic imbalances and the poor growth performance. Emphasis during this second sub-period was put on regaining control

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1 For a long-term evaluation of economic policy in Mali, see Chambas *et al.* (2000).

over budgetary policy, more particularly public expenditure, with the help of the multilateral donor community, mainly the IMF and the World Bank, and some bilateral donors. Another external factor that contributed to shaping economic policy (and limiting the country's room for manoeuvre) during this time was the decision by Mali to re-enter the West African Monetary Union (WAMU) in 1984 (Mali had already rejoined the franc zone in 1968). Only limited structural reforms were, however, introduced during the second sub-period.

The third sub-period started in the late 1980s and is still going on. It consists of a large number of reforms and measures aiming at achieving a more rapid economic growth. This objective requires the development of a market economy open to international trade and the breaking up of the elements of socialist economy introduced during the first two decades following independence. It also requires a more rigorous macroeconomic stance and a reorientation of public spending in favour of growth-promoting expenditures. The start of the third sub-period reform policy can be dated back to the late 1980s, under the military regime of Moussa Traoré. Most of the measures included in reform policy at that time reflected conditionalities in the programmes (stand-by agreements and structural adjustment programmes) imposed by the World Bank and the IMF. The advent of democracy in 1991 contributed to reinforcing the policy-makers' commitment to reform policy and resulted in new systemic reforms, especially during the first half of the 1990s. It also resulted in a better regional balance in public expenditure. The democratisation of the political regime and the implementation of the HIPC initiatives in the late 1990s and early 2000s interacted to redistribute public expenditure in favour of the social sectors and rural areas.[2]

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[2] Mali belongs to the heavily indebted poor countries (HIPC) that are eligible for the HIPC initiatives. The country qualified for the first HIPC initiative (the so-called HIPC1) during the fall of 1998 and benefited from debt relief at the completion point in July 2000. Debt relief is granted under the condition that the country adheres to policy commitments in the economic and social areas. It permits the maintenance of a sustainable level for the external debt (defined as a net present value of 200 percent of exports). In July 2000, Mali reached the completion point of HIPC1 and qualified for further debt relief under HIPC2. HIPC2 aims at reducing the net present value of external debt to a maximum of 150 percent of exports. On Mali and HIPC1 and HIPC2, see IMF (1998), (2000b), (2001) and (2003).

Table 1: Summary of the Reform Programme in Mali

Policy area	Date of introduction	Implementation
A - Stabilisation Policy		
Fiscal policy		
Public expenditures	1988-93	30% reduction in the number of civil servants
	1994-95	Decreased real wages for civil servants
	mid-1990s	Some reorientation of public expenditure in favour of primary education and health sector
Tax reform	1989	Strengthening of tax administration, reduction of ad hoc exemptions
	1991	Introduction of VAT, rationalisation of customs duties
	1995	Reduction in the number of goods exempted from VAT or subject to the reduced rate
	1995	Measures to reduce tax evasion, creation of a large taxpayer's unit
	1999-	Modernisation of direct and indirect taxes (single-rate VAT at 18%), strengthening of tax collection agencies
B - Trade and Exchange Rate Policy		
Trade liberalization		
Quantitative export restrictions	1988-91	Eliminated
Quantitative import restrictions	1990	Eliminated
Import tariffs	1991-	Simplification and reduction
Export taxes	1990	Abolished
Regional liberalisation, UEMOA	1994-2000	Tariffs on WAEMU-trade removed and introduction of a common external tariff; completed in 2000
Multilateral liberalization	1995-	WTO member since May 1995
Exchange rate policy - CFA devaluation	1994	50 % in January 1994

Table 1 (contd.): Summary of the Reform Programme in Mali

Policy area	Date of introduction	Implementation
C - Systemic Reforms		
Good markets	1982-97	Liberalisation of the cereals market
Agricultural sector	1984-95	Deregulation of rice sector and abolishment of the marketing monopoly of the Office du Niger
	1989-	Restructuring and liberalisation of the cotton sector
Price controls	1986-92	Removed except for water, electricity and telecommunications
Factor markets		
Private investment	1992	Liberalised procedures for creation of new private enterprises
Foreign investment	1991-	Liberalised with Investment Code granting tax and customs benefits, and profit and capital repatriation; enterprises that export more than 80 % of their production enjoy exemption from fiscal and customs duties and taxes
	1991	New Mining Code including tax and customs advantages
Labour market	1991-92	Labour law revised with greater flexibility, less constraining hiring and dismissal legislation
Public enterprises		
Privatisation	1988-95	65 public enterprises privatised (or liquidated) in services, manufacturing, agricultural production and processing, and trade
Banking and financial sector		
Financial liberalisation	1988-	Slow implementation; restructuring and partial privatisation of the state-owned banks
	1991-	Banking supervision in the WAEMU: introduction of prudential guidelines
Governance and legal institutions		
	1992-	Democratisation and institutional reforms
	1996	End of civil war, "ethnic" reconciliation
	1992-	Weak implementation of legal reforms, updating of commercial laws, harmonisation of business laws in WAEMU
	1999	Creation of a commission for the investigation of financial wrongdoings in public enterprises and agencies

Table 1 summarises reform policy and the measures included in the third sub-period. The reform policy is divided into three main policy areas: stabilisation policy, trade and exchange rate policy, and systemic reforms. By and large the presentation in Table 1 follows a chronological order. Macroeconomic stabilisation had already been intensified in the 1980s, trade liberalisation was concentrated between the late 1980s and the mid-1990s, and systemic reforms stretched over the whole period examined, but with a focus on the first half of the 1990s. The programme has been relatively slow since the whole reform package stretches over more than a decade. The core of the reform programme, however, was concentrated over a shorter period, from the late 1980s to the mid-1990s. Evolving reform commitment, political economy considerations and to some extent donor priorities lie behind the sequencing of the reform programme and the differences in speed that can be observed between the various components of the reform programme.[3]

Increasing International Fiscal Monitoring

Macro-stabilisation was intensified during the 1980s and the early 1990s with the help of the IMF and, to a lesser extent, the World Bank. Between 1982 and 1992 Mali benefited from no less than six IMF adjustment loans, four standby agreements and two adjustment facilities (one Structural Adjustment Facility, SAF, and one Enhanced Structural Adjustment Facility, ESAF). One more ESAF was accorded to Mali in 1996. The volume of IMF adjustment loans disbursed over the whole 1982-1996 period amounted to 352.6 million US dollars. Further, in August 1999, the Malian government entered into a PRGF (Poverty Reduction and Growth Facility) arrangement with the IMF.[4] The new programme, which included a facility of 58.8 million US dollars, was to expire in August 2002 but, in July 2001, the period was extended to August 2003 and the resources committed under the programme increased by 5.9 million US dollars. The country has also benefited from financial assistance from the World Bank, mainly in the

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3 For an analysis of the role of foreign aid (from both multilateral and bilateral donors) and political considerations in the pace of reform in Mali, see Guillaumont *et al.* (2001), pp. 241-268.

4 In 1999, the PRGF replaced the EASF and the purpose of the new facility was redefined to better fit country-owned poverty reduction strategy.

form of sector adjustment credits.[5] Strong emphasis during the 1980s and early 1990s was put on the control of public expenditures, in particular the civil service wage bill and the subsidies to state-owned enterprises. In a second stage, once the control over public expenditure was tightened, a tax reform was launched with the objective of broadening the tax base. As illustrated in Table 1, the tax system has been subject to several reforms since the late 1980s. This extended reform path reflects the difficulties met in increasing tax revenue in a country with a dominant agricultural sector and a large informal sector as well as a deficient tax administration and widespread tax evasion practices.

The process of regional integration in West Africa exercises another strong disciplinary influence on Mali's fiscal policy. Since 1996, fiscal policy in Mali has been monitored by the WAEMU (West African Economic and Monetary Union). In the aftermath of the CFA franc devaluation, the WAEMU members established a system of mutual fiscal surveillance aimed at underpinning the common currency through the convergence of fiscal policies.[6] The four convergence criteria initially adopted concern both the level and the distribution of public expenditure. First, the level of the civil service wage bill was not to exceed 50 percent of tax revenue. This was lowered to 40 percent from January 1998. Second, the level of public investment financed by domestic resources was to be at least 15 percent of tax revenue. Third, the primary fiscal surplus, that is total revenue minus total expenditure excluding interest expenditures on both domestic and foreign debts, was to be at least 15 percent of tax revenue. Fourth, internal and external arrears were to decrease or be unchanged.

A new system of fiscal monitoring, the WAEMU's Convergence, Stability, Growth and Solidarity Pact was adopted in late 1999 and began to be implemented in 2000.[7] The new system, with a set of primary and secondary criteria, is more constraining than the former

[5] For a list of all the World Bank adjustment credits to Mali between 1983 and 2000, see Guillaumont *et al.* (2001), p. 280, IMF (2000a), p. 56, and IMF (2001), p 70.

[6] For a presentation of WAEMU fiscal surveillance, see UEOMA (2000), Banque de France (2000), ch. 2.1, and Doré and Nachega (2000), pp. 3-6.

[7] For a comprehensive introduction to the new system, Doré and Nachega (2000), p. 4.

system. As suggested by the nomenclature, the primary criteria are considered more important than the secondary ones for economic convergence. But both criteria are considered essential for monitoring fiscal stabilisation efforts. There are four primary criteria of which one, basic fiscal balance (0 percent of GDP), is considered a key criterion. The three other primary criteria are inflation (no more than 3 percent a year), domestic and foreign debt (no more than 70 percent of GDP), and internal and external arrears (unchanged or decreasing). The secondary criteria concern the civil service wage bill (no more than 35 percent of tax revenue), domestically financed public investment (at least 20 percent of tax revenue), the external deficit excluding grants (at most 5 percent of GDP) and tax revenue (at least 17 percent of GDP). The WAEMU pact also contains provisions to monitor the member countries' convergence programmes and a mechanism of sanctions for those countries that fail to comply with the convergence programme when it comes to the key criterion.

Trade Liberalisation and Deepening Regional Integration

During the two decades following independence, Mali implemented an inward-oriented development strategy and relied on a very restricted trade policy with trade monopolies, quantitative restrictions on import and export, high import tariffs and high export taxes. This trade policy regime set up incentives to smuggle goods through illegal channels and contributed greatly to the multiplication of international tax evasion, frauds and rent-seeking activities. Reform of foreign trade started in late 1980s and was to a large extent driven by the multilateral institutions, in particular the IMF, and some bilateral donors, like USAID, for the removal of the export tax. The different steps of the reform of the foreign trade regime are summarised in Table 1. Most quantitative restrictions on import and export were lifted between 1988 and 1991. Further, in 1991 the tariff structure was simplified with fewer tariff headings and the reduction of tariff rates.

A new impulse for trade liberalisation was provided by the deepening of the regional integration process in West Africa in the aftermath of the devaluation of the CFA in January 1994. Eight countries reached an agreement on a regional integration scheme, the West African Economic and Monetary Union (WAEMU). The scope of WAEMU is larger than its predecessor WAMU (West African

Monetary Union); in addition to monetary co-operation it includes the creation of a common market for goods, services and production factors, and also, as mentioned above, the multilateral monitoring of budgetary policies in member countries. A main component of WAEMU is the creation of a customs union with the removal of tariffs on intra-regional trade and a common external tariff on imports from non-member countries. The integration scheme is expected to foster trade among WAEMU-members and hence to improve economic welfare. The gradual dismantling of internal tariffs started in the mid-1990s and was terminated in January 2000. The setting-up of the common external tariff started in 1998 and was completed in January 2000, with a common tariff structure consisting of four rates, 0, 5, 10 and 20 percent. WAEMU can be regarded as a form of 'open regionalism scheme', because the removal of internal tariffs has ran parallel with a significant reduction of tariffs imposed on non-member countries. Improved access for non-members to the WAEMU-market minimises the risks for trade diversion, that is a shift in the source of import from lower-cost non-member countries to higher-cost partner countries, which in most cases is negative from an economic welfare point of view. Although the free movement of goods and services in WAEMU is formally secured, there remain, however, numerous non-tariff barriers and practices inherited from the restricted trade policy conducted previously.

Systemic Reforms: Steps Forwards

The third reform policy area that is relevant to reform policy is systemic and institutional reforms. Systemic reforms are measures that are aimed at reforming or transforming the economic system and are concerned with the role and functioning of markets and competition, the structure of ownership and incentives and the network of institutions that governs the behaviour of economic agents. Such measures determine how the scarce resources of the economy are used and they influence production and economic growth through their impact on consumption, saving and investment decisions. Table 1 summarises the systemic reforms that have been introduced in Mali during the past one and a half decades.

The systemic reforms stretched over the whole 1990s and many of them are still afoot. This timing is not that surprising because by their very nature many systemic reforms – like privatisation or institutional changes – take a long time to design, implement and monitor. The core of the systemic reforms is, however, concentrated in the first half of the 1990s (see Table 1). This concerns, for example, the liberalisation of agricultural markets and the removal of most price controls. It also involves the liberalisation of factor markets and the encouragement given to foreign direct investment. The great majority of former state-owned enterprises were also privatised (or liquidated) during the first half of the 1990s. Thereafter, privatisation has continued at a slower pace, reflecting delayed structural reforms in sectors like energy, transport and communications, and cotton. About ten state-owned enterprises are in the process of being privatised while eighteen non-bank enterprises, mostly in services and utilities, will remain state owned (totally or partially).[8]

Another area for systemic reforms concerns the financial sector. Such reforms are critical for the outcome of reform policy, because of the importance of financial development for economic growth. Reforms in the financial sector in Mali consisted firstly in the restructuring and privatisation of state-owned banks. This had already started in the late 1980s with the assistance of multilateral donors.[9] Further reforms were introduced during the 1990s at the regional (WAEMU) level in the form of prudential regulations and strengthened bank supervision. All these reforms have contributed to improving the financial situation and the viability of the banking system and of the financial sector as a whole. This is supported by a comparative study of financial development in Sub-Saharan Africa, which shows that overall financial development in Mali went from minimally developed in 1987 to somewhat developed in 1997.[10] The same study indicates that Mali's financial development indicator went from under the average for Sub-Saharan countries in 1987 to above the average in 1997. It was in the areas of competition between banks, financial liberalisation, institutional environment, financial openness and monetary policy

[8] For a presentation of the public enterprise sector and the restructuring programme 1999-2002, see IMF (2000a), p. 36, IMF (2001), p. 38, and IMF (2003), pp. 9-11.

[9] For an analysis of the financial sector, see IMF(1999), pp. 23-30, and Banque de France (2001), pp. 281-282.

[10] Gelbard and Leite (1999).

instruments that the country achieved the most progress. Notwithstanding, little progress was achieved in the availability of financial products to the public. Additional measures concerned with the development of the financial sector have been taken at both the regional level and national level (partial privatisation of remaining state-owned banks) since 1997, providing further evidence of the progress towards financial deepening in Mali.

An area where the pace of reform has been partial and somewhat erratic, is the cotton sector. The performance of this sector is critical for the outcome of systemic changes because of its large role in the economy (half of total export revenues and the livelihood of some 3 million people) and the strong comparative advantage of Mali in cotton production (second African producer after Egypt). A parastatal, the CMDT (*Compagnie Malienne pour le Développement du Textile*), occupies a virtually monopsonistic and monopolistic situation in the cotton sector with the mandate of processing seed cotton into cotton fibre and of the export of cotton fibre.[11] The CMDT is owned by the Malian state (60 percent) and the French company, CFDT (*Compagnie Française des Textiles*) renamed DAGRIS in 2001. DAGRIS is in turn majority-owned by the French State (64 percent). The 1989 reform had three main components: 1) a minimum producer price for cotton producers; 2) a stabilisation fund so as to grant this minimum producer price; and 3) financial autonomy for the CMDT. Additional points included in the 1989 reform involved guidelines for the evaluation of CMDT operating expenses, the rule establishing the repartition of profits between the stabilisation fund, the CMDT, the government and the cotton producers (the so-called 'ristourne' or rebate from profit sharing) and the conditions required to lower the price paid to producers. The structure of cotton production, processing and export has been the subject of harsh discussion within Mali and between the World Bank and some bilateral donors, especially France, over the past half decade. During the second half of the 1990s, the cotton sector experienced an upswing that to a non-negligible extent originated in the devaluation of the CFA in 1994. This has presumably contributed to postponing the restructuring of the cotton sector. But production

[11] On the organisation of the cotton sector, see Chambas *et al.* (2000), pp. 120-125, and Bourdet (2003).

was almost halved in 2000-2001 as a result of a decrease in the world market price and producer price, and management weaknesses and financial wrongdoings at the CMDT.

In order to cope with this emergency situation the government organised a participatory forum (*états généraux*) in April 2001, gathering the representatives of cotton farmers, the CMDT, the Malian government and the donor community. The forum gave rise to a lively debate on the future of the cotton sector, eventually resulting in a comprehensive reform programme designed by the government of Mali in close collaboration with the World Bank.[12] The reform programme consists of four main elements: 1) a financial restructuring programme for the CMDT with a repayment plan involving the Malian State in the 30 billion CFAF owed by the CMDT to the domestic banks. 2) refocusing the CMDT operations on its core activities, ginning and marketing, and the transfer of the other activities to the private sector (transportation of seed cotton and distribution of inputs) and to local government agencies (road maintenance and extension services). 3) opening up of the capital of the CMDT to producers and a broader involvement of producers in the management of the sector. 4) gradual liberalisation of the cotton sector that should affect both producer price, which should better reflect movements in international prices, and entry conditions, with the opening up of new areas for cotton production to private actors. The medium-term objective of the government is the complete liberalisation of the cotton sector and the privatisation of the CMDT by 2005.

The last area covered by Table 1 is concerned with governance. Two decades of socialist rule combined with one-party or military rule encouraged the multiplication of rent-seeking activities, widespread corruption and the development of a patronage system that benefited some interest groups and part of the urban elite. The end of the civil war, the advent of democratic institutions, the strengthening of the civil society and legal reforms, all contributed to improving governance in Mali during the 1990s. The creation of a specific commission for the investigation of financial wrongdoing in public enterprises and agencies in 1999 suggests, however, that there are still problems with

[12] For a presentation of the cotton sector reform programme, see République du Mali (2001a) and (2001b), IMF (2001), pp. 47-49, and Bourdet (2003).

corruption and rent-creating practices.[13] This is further illustrated by the weak implementation of legal reforms with courts that often fail to enforce properly and promptly contracts and property rights.

Lessons from Reform Policy

A few lessons can be drawn from the experience of economic reforms in Mali. A first is that economic reforms in Mali have often been a response to emergency situations. For example it is the poor outcome and eventual collapse of socialist policies which lay behind the radical change of economic policy in the early 1980s. A second is that the IMF and the World Bank, and in some cases also bilateral donors, have been a driving factor behind the comprehensiveness and timing of reform policy and that their role has grown over time. A third lesson is that the improvement of the economic situation, as experienced by the rapid economic growth after the CFA devaluation of 1994 and the improved macroeconomic balances, seemed to have relaxed the emergency constraints and allowed policy-makers to postpone (or at least delay) some structural reforms. An overall conclusion that emerges from these three lessons is that the commitment of policy-makers to reform policy is half-hearted, albeit increasing over time.[14] Not surprisingly this growing commitment is running parallel with the democratisation of the political system and the obligation to take into consideration the needs and aspirations of the whole population and not only those of the urban elite. It is likely that the ongoing decentralisation process with greater prerogatives given to the communes will further strengthen the role of regional voice in the design of reform policy.[15]

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[13] Two publicised examples are the financial wrongdoings and the suspected misappropriation of funds at the CMDT and at the customs office, both referred to the judicial authorities. More than 10 percent of the cases examined by the commission have been referred to the judicial authorities. See also Serra (1999), pp. 20-21, and République du Mali (2002).

[14] For an illustration concerned with anti-poverty policies, see Serra (1999).

[15] Serra (2001) provides a more qualified assessment of the decentralisation reform and its political outcome. According to her, insufficient financial and institutional resources at lower administrative levels put serious constraints on the political representation of the communes and limit their ability to influence economic and social reforms.

Macroeconomic Outcome

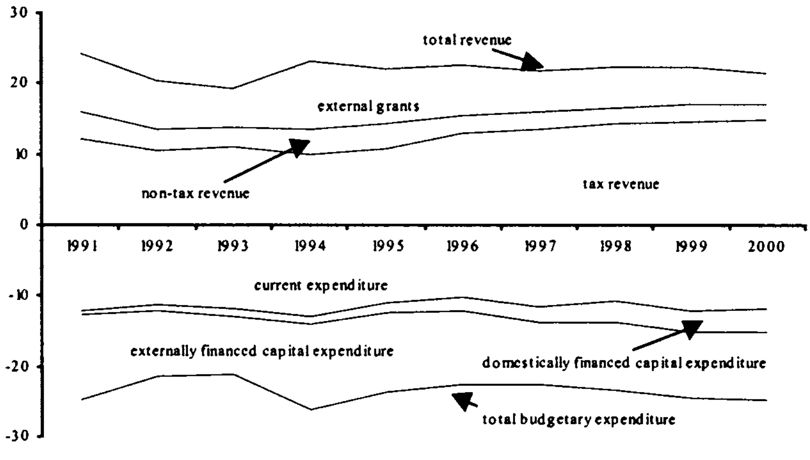
Reform policy in Mali contains most of the components of reform programmes of countries that have aimed at dismantling a sort of socialist economic system and developing a market economy open to international competition. Its scope is rather similar to others, but its sequencing and timing differ with the strong emphasis put on macroeconomic stabilisation during the first phase of the reform process and systemic reforms that stretch over a relatively long period, more than a decade. Another significant difference between Mali and Third World socialist countries is the different economic structure with a strong dependency on a few export crops, of which cotton clearly dominates, and a relatively under-developed industrial sector. It is this interaction between such specific features of reform policy and Mali's economic structure that, to a large extent, determines the macroeconomic outcome of reform policy. A major aim of economic reforms in Mali at the outset was to curb macroeconomic imbalances and regain control over fiscal policy. This was particularly true during the 1980s and the early 1990s. Another major aim of reform policy in a second stage has been to boost economic growth and hence to improve the living standards of the population. To what extent reform policy has achieved (and will achieve) these two objectives is (will be) critical for the political support for reform policy and for the consolidation of the democratic transition in Mali.

Slowly Improving but Fragile Fiscal Stance

Deficient control over fiscal policy, large fiscal imbalances and a rise in indebtedness plagued macroeconomic development in Mali prior to the start of the reform process. To a large extent, this outcome could be ascribed to the rapid - and from time to time uncontrolled - expansion of public expenditure, which was a direct consequence of the patronage system put in place in the country after independence. To put an end to fiscal deterioration and regain control over fiscal policy was thus considered a first major objective of reform policy. As indicated above, this improvement of the fiscal stance was expected to be achieved by better control over budgetary expenditure, in particular current expenditures, but also eventually by reforms of the tax system.

Figure 1 suggests that the effect of the contraction of public expenditure on the development of current expenditure (wages, scholarships, etc.) is rather limited when current expenditure is related to GDP. Still more, the decrease observed in current expenditure during the first half of the 1990s came to an end in 1996 and current expenditure started growing again thereafter. The main factor behind the latter upward trend is increased expenditure for personnel wages. Another interesting finding of Figure 1 is the steadily increasing share of development expenditure that is domestically financed, in particular since the mid-1990s.

Figure 1: Government Revenue and Expenditure, 1991–2000 (in % of GDP)



Source of data: Malian authorities and IMF estimates for 2000.

Figure 1 shows that the various tax reforms contributed to increasing tax revenue as a share of GDP in particular after 1995. The decrease in non-tax revenue has been more than outweighed by the increase in tax revenue. The increase in tax revenue also outweighed the decrease in the share of revenue covered by external grants; the latter reflects an increase in GDP larger than the increase in the volume of external grants since the mid-1990s. Taxes on international trade, income and profits, and goods and services together account for the largest share of tax revenue, between 90 and 95 percent. And their cumulated share of tax revenue has increased over time at the expense of other tax revenue. Two reasons are the simplification of the tax system with the suppression of some 'other taxes' and the strengthening of the tax and customs administrations concerned with the collection of the main taxes. Taxes on international trade account for more than half of total tax revenue and this share has increased somewhat, from 55 percent in the early 1990s to 57-58 percent in the late 1990s. Taxes on income and profits show a similar pattern while taxes on goods and services have by and large preserved a similar share over time.

The relative increase in taxes on international trade is at first sight surprising because of the tariff cuts following the process of trade liberalisation at both the multilateral and regional level. Likely reasons are the increased trade volumes during the 1990s, the improved customs collection following the strengthening of customs administration, and the existence of a compensatory scheme that compensates Mali for shortfalls in import tariff revenue during a transitory period.[16]

Not surprisingly, these limited changes in budgetary revenue and expenditure have only resulted in a limited improvement of the fiscal deficit over the whole period studied (see Figure 2). The most striking deterioration occurred in 1994-1995 and can be ascribed to the huge devaluation of the CFA franc in January 1994 (50 percent). A slight deterioration of the fiscal stance has taken place since 1997, principally as a result of a decrease in the volume of external grants. Figure 2 also illustrates the lack of a relation between domestic fiscal imbalance and inflation. Inflation in Mali is mostly determined by the policy of the common central bank, BCEAO (*Banque Centrale des États de l'Afrique de l'Ouest*), which is in charge of the conduct of monetary policy at the WAEMU level. Figure 2 shows that the rate of inflation increased markedly in 1994 and 1995, following the devaluation of the CFA franc.[17]

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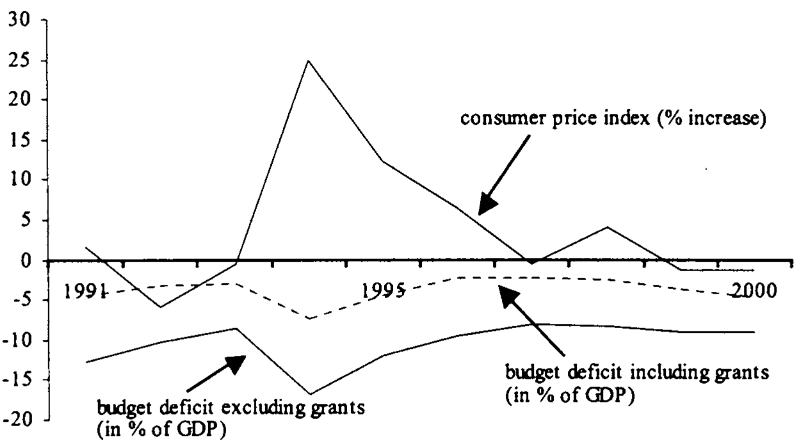
16 The compensation scheme will end in 2005. Compensation is total during the first three years but decreases gradually in the following three years to 80, 60 and 30 percent of the tariff shortfalls. The system is financed through the duties imposed on imports from non-member countries. Between 1999 and June 2001, Mali received some 6.2 billion CFA francs from the compensation scheme.

17 The price index in Figure 2 tends to overestimate the impact of the devaluation on domestic prices and inflation in Mali because it only covers Bamako, where import items account for a larger share of household budgets.

Two issues related to fiscal balance are worth further scrutiny. One concerns the relative role of changes in revenue and changes in expenditure in the development of the fiscal balance. Figure 1 suggests that the improvement in the fiscal stance over the 1990s was more the result of a broadened tax base and improved tax collection than of better control over budgetary expenditure, in particular current expenditure. But the increase in tax revenue was larger than the improvement in the fiscal deficit, in particular during the second half of the 1990s (see Figures 1 and 2). Part of the increase in tax revenue was thus used to finance expanded public expenditure. This result confirms the finding of an econometric study showing that, in the case of Mali, the long-run causality between public revenue and public expenditure is bi-directional, that is that changes in taxes both lead to and originate in changes in government spending. An implication of this study for the design of policy to correct fiscal imbalance in Mali is that spending cuts and revenue increases should not be considered independently of each other.[18]

Figure 2: Fiscal Balance and Inflation, 1991–2000



Sources of data: Malian authorities and IMF estimates for 2000.

[18] Doré and Nachega (2000). The findings of the study should be considered with care because the period studied, 1976-1998, saw significant political changes that altered the relation between the revenue and expenditure sides of the budget in Mali.

Another related fiscal issue concerns the role of the WAEMU surveillance mechanism in the improvement of the fiscal stance. Mali adhered in 1998 and 1999 to all the four convergence criteria included in the system of fiscal surveillance: a public wage bill lower than 40 percent of tax revenue, a volume of domestically financed capital expenditures superior to 20 percent of tax revenue, a primary fiscal surplus superior to 15 percent of tax revenue and no increase in internal and external arrears. The WAEMU Council of Ministers adopted a new convergence programme in 1999 for the period 2000-2002 with more stringent convergence criteria (see above). In 2000 Mali adhered to all the primary criteria with the exception of the basic fiscal balance and indebtedness criteria, and to all the secondary criteria with the exception of the external deficit and fiscal revenue criteria. The implementation of the convergence programme has contributed to improving fiscal discipline in Mali. This is clear regarding the non-increase in internal and external arrears and the increase in the volume of domestically financed capital expenditures during the second half of the 1990s. It is less clear when it comes to other aspects of fiscal policy because Mali adhered to some convergence criteria at the outset. The role of the surveillance mechanism is more to prevent a deterioration of the fiscal stance and to act as an agency of restraint for fiscal policy. It is the expression of a regional commitment to fiscal and monetary stability and to an economic policy that is less dependent on foreign aid. In the early 2000s, the fiscal situation deteriorated again mainly because of the decline in growth.

Increasing Trade Integration?

A critical component of reform policy is the opening up of the Malian economy to international trade and competition. As illustrated in Table 1 most unilateral trade liberalisation measures were introduced in the late 1980s and during the first half of the 1990s, while regional trade liberalisation took place during the second half of the 1990s and, as far as tariffs were concerned, was completed in January 2000. The main objective of trade liberalisation measures is the integration of the Malian economy into the world economy, in particular the West African economy, and its specialisation according to comparative advantages.[19] Regional integration for Mali has two dimensions: first, membership in ECOWAS (Economic Community of West African State) and second, membership in WAEMU. ECOWAS is composed of sixteen countries of which eight also belong to WAEMU. ECOWAS aims at liberalising intra-regional trade, at setting up a common external tariff, at encouraging free labour movement and at promoting fiscal and monetary co-operation. ECOWAS has failed to achieve these pre-established aims and the integration process among member countries has fallen short of expectations. A certain number of historical, economic and political reasons used to be advanced to explain this failure.[20] Integration among WAEMU members has gone faster and been deeper, with significant steps taken during the past half decade. An illustration of this deeper integration concerns the common currency shared by the WAEMU countries. A common currency should contribute to trade creation by eliminating transaction costs associated with the exchanging of national moneys and exchange rate uncertainty. This second aspect is most important for West African countries with poorly developed financial markets and limited hedging possibilities. Other measures associated with deeper regional integration, such as the harmonisation of business laws, are likely to have similar trade creating effects.

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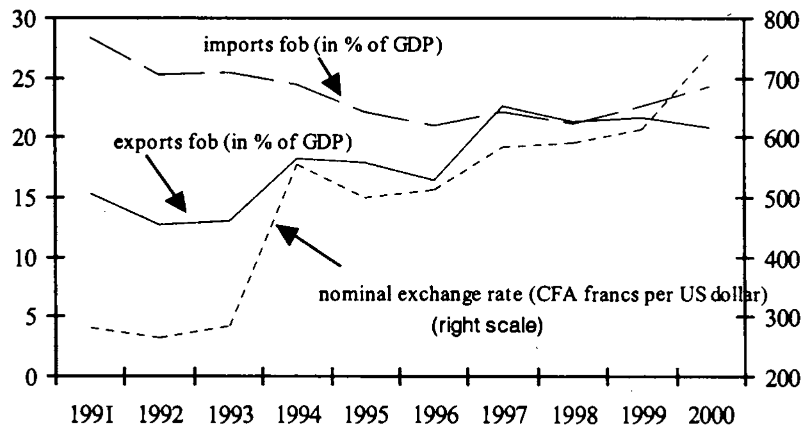
[19] According to a recent study by Subramanian and Tamirisa (2001) French-speaking Africa's trade with other regions (North and other South) is significantly less important than corresponding trade for other regions, after controlling for economic size, distance and other trade explanatory factors. On the other hand, French-speaking Africa's trade with itself is not different from the average developing region's trade with itself. The same study suggests further that French-speaking Africa's under-trade tends to increase over time. Two tentative explanations behind these findings are CFA misalignment prior to 1994 and greater inefficiencies in key infrastructure services (and hence higher transaction costs). These results should be, however, considered with some care because only six French-speaking countries were included in the econometric sample (but not Mali) and two of them, Congo, DRC and Congo, Rep., experienced extended civil wars and political instability during the period studied.

[20] See e.g. Foroutan (1993).

Figure 3: Trade Situation and Exchange Rate, 1989–2000



Source of data: Malian authorities. Estimates for 2000.

How trade liberalisation has affected the degree of openness of the Malian economy is examined in Figure 3. Several periods stand out. The first period between the late 1980s and 1993 provides evidence of trade disintegration with a substantial decrease of both imports and exports relative to GDP. A likely explanation for this finding may be the misalignment and overvaluation of the CFA prior to its devaluation in January 1994. The second period stretches from the year of the devaluation until 1997. During this period one can notice a rapid increase in export performance, with the ratio between exports and GDP jumping from 13 to 23 percent, while imports continued to decrease, albeit rather slowly, dropping from 25 to 21-22 percent of GDP. The huge devaluation of the CFA in early 1994 explains both the rapid expansion of exports and the contraction of imports. The limited decrease in imports is somewhat startling because of the magnitude of the devaluation (50 percent). A likely explanatory factor is low demand elasticity for imports due to the limited availability of import-substitute goods in Mali. The third period from 1997 onwards exhibits a slight decrease in exports and a slight increase in imports. Both ran parallel with a sharp depreciation of the CFA as a result of its peg to the French franc (and indirectly to the Euro) and the rapid depreciation of the Euro relative to the US dollar.

A main conclusion from the patterns observed in Figure 3 is that exchange rate movements matter more than trade liberalisation measures in explaining changes in aggregate trade figures over time. A main feature of Mali's geographical trade structure is the difference in inter and intra-continental trade between exports and imports. African countries account for some 10 percent of exports from Mali but some 50 percent of imports.[21] As compared to WAEMU (and other ECOWAS) countries, Mali shows the same export patterns with a concentration of export to North but a much higher dependency on import from African countries. An implication of Mali's trade structure is that the process of regional integration affects import and export differently by being more import-creating than export-creating. This is illustrated by the fact that the import share for Africa expanded from some 44 to 50 percent during the second half of the 1990s, while the share of export to Africa decreased somewhat. Both the integration process within WAEMU and the devaluation of the CFA, which made products from non-African countries less competitive, explain this outcome. On the export side, the devaluation of the CFA boosted Mali's exports to non-CFA countries and contributed to shrinking the export share for African countries.

To a large extent, changes in trade patterns can be ascribed to the product composition of trade and the international specialisation of the Malian economy. More than 90 percent of total exports is made up of products from the primary sector. Further, two of the products, namely cotton and gold, account for no less than 85 percent of total exports, making the country highly vulnerable to trade shocks. The two latter products are intended for the world markets and exports to industrial and Asian countries. Gold exports rose tremendously after 1996 and now account for more than 40 percent of exports (approximately the same share as cotton).[22] On the other hand, livestock exports

[21] Part of the difference between Mali's trade with African countries and non-African countries can be ascribed to informal trade that is thought to be considerable and likely to affect intra-regional trade more than inter-continental trade. Informal trade reflects efforts to avoid trade taxes and restrictions and is thus more likely to affect official import than official export figures. The bias in trade statistics originating in underreporting trade is likely to diminish following the removal of customs duties on intra-regional trade.

[22] For an analysis of gold mining in Mali and its impact on the economy, see IMF (2000), pp. 8-18.

decreased during the past few years.[23] The import structure is more diversified and over time less volatile than that of exports. Import shares have only been slightly altered by regional integration and the devaluation of the CFA. A reason is that about two thirds of imports is made up of investment and intermediary goods that are not exposed to competition from import-substitute goods in Mali.

Erratic and Unevenly Distributed Growth

Increasing growth is the ultimate objective of reform policy and the only way to improve, on a sustained basis, the standards of living of the population. It is also the best way to significantly reduce poverty, especially if growth is evenly distributed geographically. Many of the systemic measures contained in the reform programme aim at improving the structure of incentives and at encouraging private production. The liberalisation of prices, the privatisation of state-owned enterprises, the promotion of foreign investments, financial liberalisation measures, and improved market institutions are the kind of measures likely to boost private sector growth. To achieve their full positive effects on growth, these measures should be combined with a stricter stabilisation policy and a more liberal trade policy. A better disciplined fiscal policy, both on the revenue and expenditure sides of the budget, means less public borrowing to finance fiscal deficits and less risk that such borrowing will crowd out investments in the private sector and slow down the rate of economic growth. By the same token, the integration of Mali into the international economy should permit the country to enhance growth by reaping the benefits of specialisation according to comparative advantages, and the more dynamic gains associated with technology transfer embodied in imported capital goods.

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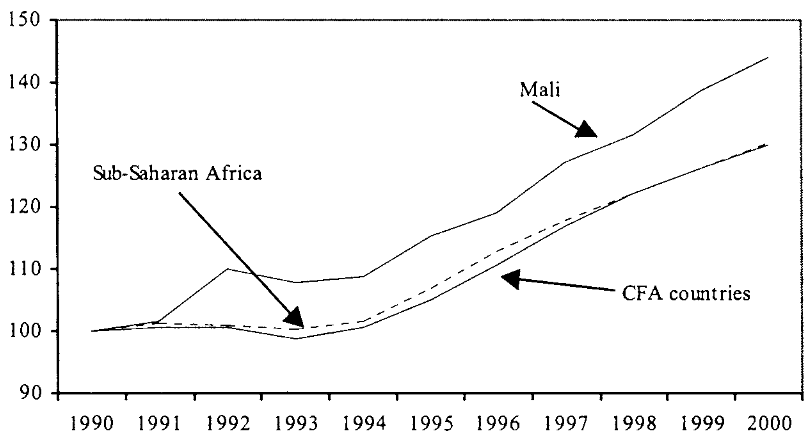
[23] Livestock exports declined in percent of total exports but also in value and volume. This is somewhat surprising because the prospects for livestock exports to coastal countries, like Côte d'Ivoire and Senegal, were good in the mid-1990s, following the comparative advantage of Mali in land-intensive products, the devaluation of the CFA and the decrease of meat imports from world markets in these countries. The decline in livestock export was not compensated by the export of red meat despite the removal of an export tax on meat export and the simplification of export procedures in the early 1990. Poor infrastructure for trading red meat with coastal Africa and remaining trade restrictions on meat exports from Mali explain the latter result. For a more complete analysis, see Metzel *et al.* (1998), Ch. V.

Figure 4 portrays GDP growth in Mali, in the countries that belong to the CFA zone and in the whole Sub-Saharan Africa. Mali performed better than neighbouring countries during the 1990s with an average growth rate of 3.7 percent to be compared to 2.7 for CFA and Sub-Saharan countries. The performance of Mali is, however, rather modest in absolute terms. A 3.7 percent growth rate associated with a rate of population growth of 2.9 percent means that income per capita only increased by 0.8 percent on an annual average during the 1990s. A second finding of Figure 4 is that growth in Mali is rather erratic with high growth episodes every two to three years, followed by much lower and, from time to time, even negative growth. A main reason for this erratic growth profile is the high dependence of the Malian economy on the climate and irregular rainfall. It is also be due to the high dependency on a few export products, in particular cotton and gold, and the large fluctuations over time in the demand for these products on the world market.

Figure 4: Real GDP Growth, 1990–2000 (1990=100)



Notes: CFA countries: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Congo, Equatorial Guinea, Gabon, Mali, Niger, Senegal, and Togo. Guinea-Bissau joined the CFA zone in 1997. Growth figures for Sub-Saharan Africa exclude South Africa and Nigeria. Source of data: World Bank (2001) and IMF and WAEMU estimates for 2000.

A main feature of the Malian economy is the dominant role of the primary sector, which accounts for between 45 and 50 percent of GDP. Not surprisingly, the share of food crops dominates primary production, some 20 percent, and has changed little over time whereas that of livestock decreased appreciably, presumably as a result of the relative decline in exports after 1994. The large share of the primary sector implies that aggregate growth in Mali in the main reflects the growth of the primary sector. An illustration of this is the high growth in 1992 (see Figure 4), which could be ascribed to an upsurge in the production of some food crops (rice, millet, sorghum and maize), presumably as a result of more favourable climatic conditions and the liberalisation of agricultural markets. Part of the extra agricultural growth in 1992 can be attributed to activities that were no longer hidden and became 'visible' in official statistics after the liberalisation of agricultural markets. On the other hand, the relative size of the secondary sector expanded rapidly, as a result of the expansion of gold mining, and that of the tertiary sector shrank. To a large extent the growth differential between Mali and neighbouring countries after 1996 can be ascribed to the secondary sector, mainly mining (gold), whose share of GDP jumped from 2.2 percent to 6.1 percent between 1995 and 1999. Industrial crops, of which cotton accounts for 85 percent, also contributed to the more rapid growth in Mali but only between 1996 and 1998. The dominant role of gold and cotton in Mali's recent high growth implies a rather uneven distribution of growth across space with the south being the main beneficiary. Both gold and cotton contribute greatly to tax revenue and therefore other regions also benefited from the growth episode, but to a much lesser extent.

CFA Devaluation and Growth Rebound

A main motivation for devaluation is better resource allocation and faster economic growth. Faster growth is expected to originate in increased production of tradable, that is of import-substitute and export products. The transfer of resources to the tradable sector is expected to stretch over time and beyond the year immediately following the devaluation, because it takes some time for production resources to be moved from sectors producing non-tradables toward those producing tradables. The latter is particularly true in industry, which explains why its reaction to devaluation and changes in relative prices and economic conditions is generally slower than that of the agricultural sector. The longer-term effects of devaluation are also dependent upon the development of prices and costs after the devaluation. In the case of Mali, the devaluation of the CFA in January 1994 was followed by the liberalisation of regional trade during the second half of the 1990s, which should also have altered relative prices and the relative production of the tradable and non-tradable sectors. Another necessary refinement when examining the impact of the CFA devaluation on economic activities is the difference of treatment between regional (WAEMU) and non-regional trade. The devaluation of the CFA has a direct influence on the latter form of trade by affecting relative prices between WAEMU and non-WAEMU-products. On the other hand, the devaluation of the CFA has no direct effect on relative prices between WAEMU-products and its impact on regional trade is only indirect.

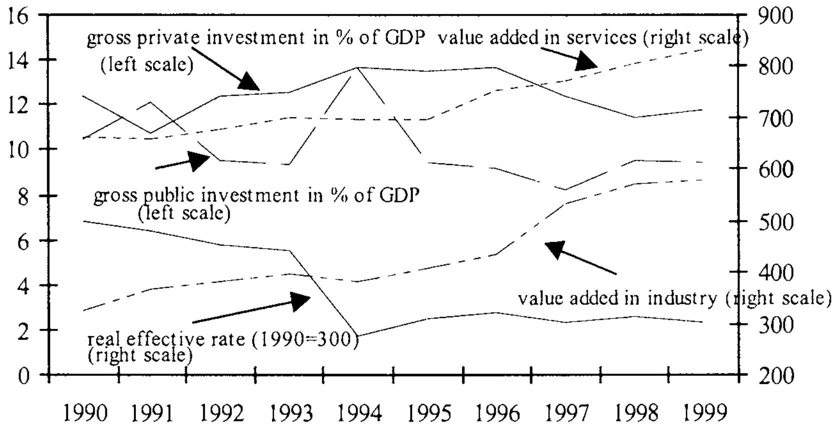
In order to see how the devaluation of the CFA has affected Mali's competitiveness, Figure 5 portrays the evolution of the real exchange rate between 1990 and 1999. The real exchange rate is a measure of the country's competitiveness because it captures nominal changes in a country's exchange rate, but also changes in relative inflation rates (Mali versus its trading partners). A main finding of Figure 5 is that the CFA devaluation by 50 percent in January 1994 improved Mali's competitiveness significantly and for a long time relative to its main trading partners. But higher inflation in the footsteps of the devaluation ate up some 10 percent of these competitiveness gains and the country's competitiveness, therefore, may be said to have improved by some 40 percent between the early and late 1990s.

As expected, in view of the prominence given to private sector activities by the reform policy and the emphasis put on the control of public expenditure, the improvement of Mali's competitiveness during the first half of the 1990s led to an upsurge of private investment and a decrease of public investment. This is illustrated in Figure 5. The increase in private investment came to an end in 1997 and declined thereafter, but remained significantly higher than public investment.[24]

[24] Foreign investment contributed greatly to the boost in private investment in the mid-1990s. Net foreign investment increased from negative in the early 1990s to 128 million US dollars during 1994-1996. Gold mining attracted the lion's share of foreign

The rapid growth in industry, which is dominated by tradables, can be ascribed to this increase in private investment. This is illustrated by the rapid growth in industry value added, that almost doubled in constant prices between 1990 and 1999 (see Figure 5). The growth in value added in services, which is dominated by non-tradables, was much less pronounced over the period considered.

Figure 5: Real Exchange Rate, Investment and Value Added, 1990–1999



Notes: Value added is in millions of US dollars, constant 1995 prices. The IMF calculated the real effective exchange rate on the basis of trade weights reflecting the relative importance of Mali's trading partners.

Source of data: World Bank (2001) and IMF.

The relative decline in private and to a lesser extent public investment in the late 1990s suggests that the speeding up of growth following the CFA devaluation is fading away, and that Mali is returning to a more modest growth path.[25] The structure of Mali's foreign trade (and Mali's international specialisation) played a critical role in the short-lived growth rebound. Exports are concentrated on a couple of primary

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investment. Thereafter, net foreign investment decreased and amounted to 18 million US dollars in 1997-1999.

25 A rather similar pattern can be observed in the other CFA countries, see e.g. Hugon (1999), pp. 140-142.

commodities, of which cotton experienced a 30 percent price decline on the world market in the late 1990s. And imports are concentrated on products from CFA countries (some half of total imports) and on products from industrial countries without domestic substitutes.

CFA Devaluation and the cotton sector

Because of its large role in the Malian economy, the response of the cotton sector to the devaluation of the CFA and to the various measures included in the reform policy is critical for the outcome of the whole reform process. Malian policy makers can influence the organisation, structure and entry conditions of the cotton sector. They cannot, however, affect the international market price for cotton, which is determined on the world market where Mali is a price taker. Figure 6 illustrates the decrease in the cotton price (lint) expressed in CFA francs until 1994 and eventually its huge increase in the mid-1990s, as a result of the devaluation of the CFA but also as a result of an increase in cotton prices on the world market. The increase in world cotton prices in the mid-1990s contributed to a temporary improvement of Mali's terms of trade, which experienced a decreasing trend during the 1990s. The decline in world cotton prices by some 30 percent, combined with a rise in the price of petroleum products, explains the deterioration of the terms of trade in the late 1990s.

The increase in cotton prices in CFA-francs following the devaluation was to a limited extent passed through to producer prices. While the cotton price more than doubled in local currency, the producer price only increased by some 50 percent, and some 60 percent if we take into account the rebate from profit sharing. The pricing response to the CFA devaluation increased the gap between world market prices and producer prices. Note that this gap was already very large in Mali when compared with other cotton producer countries.[26] Producer prices are the outcome of a bargaining process involving the CMDT, the government and the representatives of the cotton farmers.

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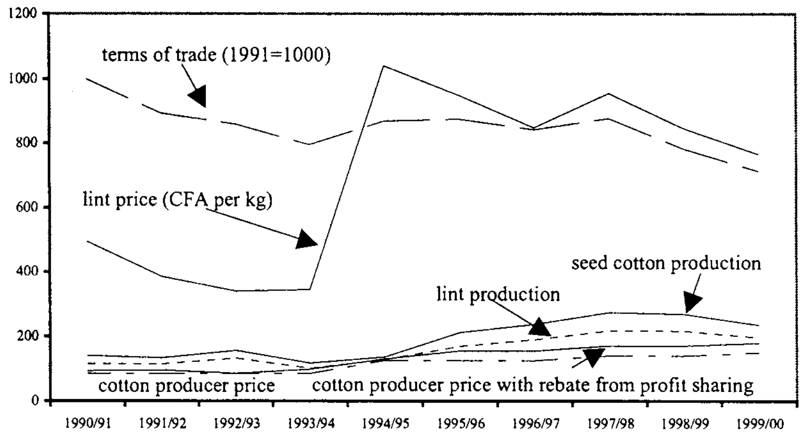
[26] According to a World Bank study, the ratio between seed cotton producer prices (in lint equivalent) and international prices amounted to 35 percent in Mali in 1994-1997. Before the CFA devaluation the same ratio amounted to 52 percent. See World Bank (1999) and (2000). The decrease in world cotton price after 1997 was not passed through into lower producer prices and the ratio between producer price and world price increased again and peaked at 63 percent in 1998/1999 (IMF (2001), p. 8).

The virtually monopolistic and monopsonistic structure of the cotton sector, with almost total control by the CMDT over ginning and commercial activities, and some responsibility for rural development imposed on the CMDT by the government, have contributed to maintaining a large gap between producer prices and world market prices. Between 1994 and 1997 the large devaluation gains were used to increase the capital of the CMDT, finance hazardous capital expenditures, and pay tax arrears and government debt.[27] Many of the windfall gains of the CFA devaluation accrued thus to the government. Some of the gains were also eaten up by inflated production and transport costs.

Figure 6: Cotton Prices (CFA per kg) and Production (000' tons), 1990–2000



Sources of data: CMDT (1999), Traore and Tall (2000), Ministère de l'Économie et des Finances (2001), and World Bank (2001).

Cotton production increased significantly following the devaluation of the CFA and the increase in producer prices. Seed production increased by some 50 percent between the pre-devaluation and the post devaluation period.[28] Extended cultivated areas rather than increased

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[27] Between May 1995 and December 1996, the contribution of the CMDT to the national budget amounted to 35.6 billions of CFA francs (Kébé *et al.* (1998), p. 7). On an annual basis, this represents more than 10 percent of government revenue.

[28] For an analysis of the impact of the CFA devaluation on the cost structures of seed

productivity lay behind the increase in seed production. The growth of lint production was, however, less pronounced, as illustrated by Figure 6. The disparity between seed and lint growth could be ascribed to the difficulties met in increasing ginning capacities in the short run. It could also be due to the fact that ginning profitability increased less than seed profitability, following the CFA devaluation, because of the greater role of imported inputs in ginning. Cotton production of both seed and lint has decreased in recent years while producer prices have remained largely unchanged. Poorer yields rather than lower producer prices explain the drop in cotton production in 1999 and 2000.[29] Another factor is increased food crop prices, increased profitability of food crop as compared to cotton and increased production of food crops, especially maize.

Cotton production dropped further and much more dramatically in 2001. Seed production in 2001 was halved as compared to 2000. Conflicts between representatives of farmers and the CMDT on the price paid to farmers explain the drop in seed cotton production in 2001.[30] This resulted in a trade shock that had a severe impact on exports, government tax revenue (the drop in revenue was estimated at one billion CFA francs) and poverty through its impact on rural incomes in cotton areas. It also negatively affected growth.

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cotton and related products, see Kébé *et al.* (1998).

29 Seed cotton yields in Mali decreased from some 12-13 thousand hectograms per hectare in early 1990s to 10-11 thousand in the late 1990s. Poorer soil fertility most often caused by the extension of cultivated areas explains this deterioration of cotton yields.

30 Producer price was lowered by some 19 percent in 1999/2000. At the outset of the 2000/2001 season the CMDT announced a low producer price, which gave rise to strong protest from a large number of farmers. Eventual and lengthy negotiations between the CMDT, the government and the farmer representatives resulted in an agreement on a higher producer price in July 2000. But the agreement came too late in the rainy season to carry on planting, which explains why cotton production almost halved in 2001.

In Search of Growth and Diversification

Mali suffers from a certain number of adverse structural and ecological constraints that have made it prone to 'tropical underdevelopment'. According to Jeffrey Sachs, tropical underdevelopment is the result of two main problems, weak agricultural technology and poor public health.[31] These two problems are specific to the tropical ecosystems and technological progress in developed countries is often of little help in tackling them in tropical countries. The two problems interact to slow down demographic transition from high to lower fertility, and contribute to the persistence of a considerable per capita income gap between tropical and other countries. The paramount role of these two factors in tropical Africa can be discussed but their adverse impact on growth can hardly be denied.[32] Other factors as well can be advanced to bring to light Africa's slow growth.[33] In the case of Mali there are also country-specific factors that have amplified the adverse role of low agricultural productivity and poor public health on economic growth and development. One is the landlocked and wide nature of the country combined with its poor transport and communication infrastructure. Another is the legacy of the socialist inward-oriented strategy that the country embarked on after independence, as illustrated by the development of inefficient state-owned enterprises and a deep-rooted and widespread patronage system. A third is the ethnic fragmentation of the country and its potentially biased impact on the system of redistribution among groups and across space.[34] These factors contributed to biased public spending in favour of urban areas and at the expense of expenditures and investments on education and health, which are crucial for a more sustainable growth over time and a more balanced growth across space.

Reform policy in Mali addresses some of the development constraints and problems faced by the country. One concerns the role of the state and its impact on the allocation of production resources and on the accumulation of physical and human capital. The choice

[31] For a presentation and discussion of tropical underdevelopment, see Sachs (2001).

[32] For a criticism of geo-climatic determinism, see Hernández-Catá (2000), pp. 4-5.

[33] See e.g. World Bank (2000), pp. 23-28.

[34] For an analysis of the economic, political and historical dimensions of the north-south conflict in Mali, see Maïga (1997) and Azam and Morrisson (1999), pp. 40-41.

of Mali's policy makers during the first three decades following independence was of relatively high remuneration for public employees, relatively few public employees and relatively low expenditures on education and health. As in other countries embarked on a similar economic strategy, Mali experienced social unrest, rural discontent, limited legitimacy and political instability, less rapid human capital accumulation and poorer long-run growth performance. Reform policy conducted in Mali since the late 1980s has moved away from this strategy and put greater emphasis on the control of current expenditures (that is mainly public wages and salaries) and on the reorientation of public expenditures towards education, principally primary education, and health. The latter move was amplified by the eligibility of Mali for the HIPC initiative in the late 1990s.

The policy shift is illustrated in Figure 7. The ratio between public and private wages (as approximated by average GDP per capita) decreased rapidly until 1996, dropping from 11 to 7, but increased again thereafter, albeit moderately. A similar trend can be observed for the number of civil servants and other public employees. The increase in the mid-1990s was, however, earlier than for relative wages and more pronounced for total public employment, which included contractual employees in the education and health sectors. Reform policy has attached more importance to investment in human capital. Public expenditures on education and health increased most during the first half of the 1990s when they increased from 3 to more than 4 percent of GDP.[35] They increased again in the late 1990s presumably as a result of the HIPC initiative. Public investments in education increased most in the mid-1990s (see Figure 7). The big increase noticed in 1994 is an exchange rate (devaluation) effect that reflects the fact that the bulk of investments in education and health are financed by foreign donors. Note also that military spending remained more or less constant during the 1990s at some 2 percent of GDP. This is lower than during the 1980s when military expenditure amounted to some 2.4 percent of GDP.[36]

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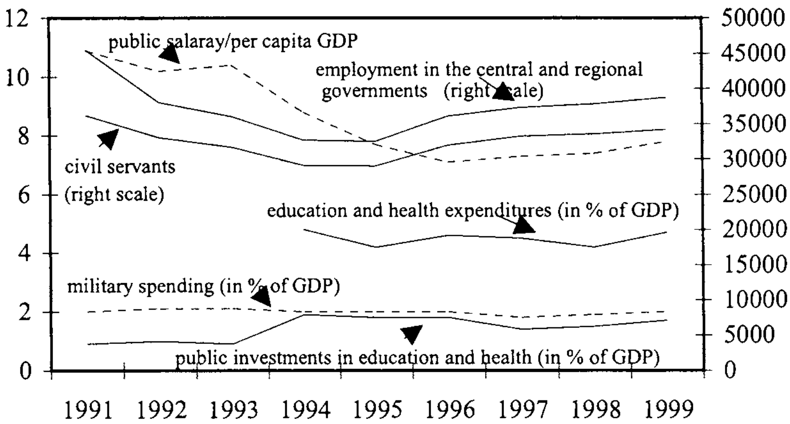
[35] Figure 7 only provides information on education and health expenditures after 1994. For an analysis of corresponding expenditures during the 1980s and the early 1990s, see Azam and Morrisson (1999), pp. 37-39.

[36] On the development of military expenditures in Mali during the 1980s, see Azam and Morrisson (1999), p. 38.

Figure 7: Public Expenditures on Education and Health, Relative Public Salary, Public Employment and Military Spending, 1991–1999



Notes: The number of civil servants and employment in the central and regional governments are measured on the right scale. Public salary, education and health expenditures, public investments in education and health and military spending are measured on the left scale. Public salary refers to grade 316. Sources of data: Malian authorities and IMF statistics.

The democratisation of the political system in Mali in the early 1990s resulted in an improvement of the macroeconomic stance. This is illustrated in Figure 7. This improvement was accompanied by an acceleration of economic growth. The CFA devaluation in 1994 markedly improved the economic situation, but slowed down the improvement of the macroeconomic stance. Not surprisingly, therefore, economic growth has decelerated in the last few years. Two factors related to reform policy, the crisis in the cotton sector and lower private investments, contributed to this outcome. In addition, Mali has been hit by external shocks, such as the political crisis in Côte d'Ivoire, a huge increase in petroleum prices and a further deterioration of its terms of trade.

A factor that has fallen short of expectations when it comes to its impact on growth in Mali is regional integration. Deepening integration in WAEMU has only marginally been trade-creating. This was potentially damaging because rapidly increasing trade integration could have sustained growth and prolonged the growth rebound following the CFA devaluation. It could also have spurred economic and export diversification, which is critical for longer-term growth.[37] The reasons behind the limited effects of regional integration on trade and diversification remain something of a puzzle.[38] More needs to be known about the obstacles of both formal and informal character that have prevented Mali from better exploiting the potential of opening up trade, in particular regional trade in West Africa.

An obstacle to the deepening of regional integration in West Africa has to do with the numerous market imperfections and the non-competitive practices that put serious limits on the volume of trade created and hence on its positive welfare effects. This is particularly important in West Africa because of the small size of the national markets, the limited number of enterprises in most non-rural activities, the burgeoning rent-seeking activities and the deep-rooted tradition of granting monopoly and monopsony privileges in exchange for contributions to the national budget. Promoting competition and competitive market structures should therefore be a priority for regional integration in West Africa and a way for integration to act as an engine of growth. This remains to be done, however, since WAEMU has not addressed the role of market imperfections and non-competitive market structures and practices in the integration process. Hence, the more dynamic gains of integration in terms of lowered barriers to entry in many sectors, amplified competition, better exploitation of economies of scale and scope, and more rapid diffusion of innovation and technical spillovers have not materialised yet. Another related aspect of regional integration where a better understanding is required to grasp its trade and growth consequences for Mali is the impact of WAEMU on industrial agglomeration and the localisation of economic activities across space.

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[37] For the role of diversification in African growth episodes, see Berthélemy and Söderling (2001).

[38] Several studies in the second half of the 1990s pointed out the potential (not yet materialised) for increased exports of land and labour-intensive products from Mali following the CFA devaluation. See e.g. Mariko *et al.* (1999), Metzel *et al.* (1998), Barry *et al.* (1999), Kergna and Dembélé (1998), and Cockburn *et al.* (1998).

Concluding Remarks

Mali embarked on an ambitious programme of economic reforms in the late 1980s. Emphasis at the beginning was placed on macroeconomic policy and control over public expenditures. The democratisation of the political system in early 1992 gave a new lease of life to reform policy and new measures were introduced to accelerate the withdrawal of the state from several sectors and encourage the growth of private activities. The devaluation of the CFA franc in 1994 substantially improved the competitiveness of the Malian economy. It also gave reform policy a critical impulse that made it easier to achieve more rapid growth and to improve macroeconomic and fiscal balances. On the other hand, the gains from the CFA devaluation relaxed the emergency constraint on reform policy and gave the Malian government a respite in its reform work. Not surprisingly, therefore, the respite was used to postpone much needed structural reforms concerned with state-owned enterprises and the cotton sector. The fact that the windfall gains of the CFA devaluation in the cotton sector had mainly benefited the urban elite introduced a political economy constraint on the design of reform of the cotton sector. Nonetheless, the severe crisis that hit the cotton sector in 2001, with production almost halved, greatly facilitated the adoption of a comprehensive liberalisation programme aimed at improving its long-run competitiveness. As often before in Mali, emergency situations turned out to be the best friend of economic reforms.

Foreign assistance has played a critical role since the start of reform policy, not least because of its size (some 20 percent of GDP). Foreign assistance has also had a decisive and more direct influence on the articulation and implementation of the reform agenda. On the other hand, opposing views among donors have contributed to postponing or slowing down economic reforms. Illustrative examples concern the cotton sector but also the ministerial responsibility for the National Strategy for the Fight against Poverty. Policymakers' commitment to reform policy has varied over time, but increased over the 1990s following political democratisation. Strengthening the civil society's commitment to reform policy, market economy and high growth is necessary to assure the sustainability of reform policy. This can be encouraged through various projects with foreign assistance.

Stronger civil society commitment to high growth is actually required in order to significantly reduce the poverty that affects some 60-70 percent of the population. It can also secure the reorientation of public expenditures in favour of education and health, which only in the longer run can contribute to raising the rate and distribution of economic growth in Mali.

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