Macroeconomic Environment and Productivity

Despite Mali’s record of sustained growth and important improvements in its business environment during the 1990s and early 2000s (including price liberalization, simplification of the tax system, reform of the labor code, creation of a Presidential Investor’s Advisory Council, and a major tariff reform), structural deficiencies still remain that hinder its current and potential growth, including a vulnerability to climatic shocks and a strong concentration of export revenues on a few commodities. Such vulnerabilities lead foreign investors to have mixed views about the country—views that are further influenced by the negative economic impact of the current crisis in Cote d’Ivoire, one of Mali’s main trading partners. According to data from the World Economic Forum and Institutional Investor, Mali remains in the last quarter of the rankings in 2003 (Table 1).

Such mixed perceptions among investors can also partially be explained by the productivity levels in Mali, which, while still higher than those in eastern Africa, have declined since the 1980s. Research shows that labor productivity in Mali was halved between 1980 and 2002, while labor productivity in most Asian countries increased rapidly over the same period.

Nevertheless, as of 2002/2003 and in spite of such a decline, firms in Mali remain relatively productive by African standards (albeit less than in Senegal), with a relatively high labor and capital productivity and strong capacity utilization levels (about 73 percent). This high level of factory-floor productivity, combined with the current low wages, implies a low unit labor cost indicator (that is, wages adjusted for productivity levels). So, as shown in Figure 1, although Mali is in a better position

Figure 1. Unit Labor Costs in Mali and Other Countries
than many countries, it still faces difficulties with respect to countries like China, which have similar labor costs but are more productive.

**Key Investment Climate Constraints**

Another element that sheds light on investor confidence in Mali is the importance of the remaining investment climate constraints. Investment climate constraints in Mali, by order of intensity, are related to corruption, infrastructure, factor markets, and regulations and largely contribute to reduce the advantage the country might have in terms of factory-floor productivity.

**Corruption remains a serious impediment to entrepreneurs.** Almost half of entrepreneurs in the manufacturing sector consider corruption as a major issue. The cost is non-negligible, on average almost three and a half percent of firms’ annual turnover disappears into “informal payments.” Mali finds itself among the countries that consider the issue to be the most severe constraint to their investment climates (Figure 2). Such results are consistent with the findings of other organizations working in this area.

**Significant infrastructure deficiencies constrain firm efficiency.** Three distinct types of infrastructure services in Mali are perceived as low quality by the surveyed manufacturing firms, with industrial waste disposal topping the list. Sixty percent of firms consider it a major constraint because it engenders critical environmental, health, and storage issues. Rail-bound transport and the road network are also regarded as significant problems by the surveyed firms (45 and 43 percent, respectively). In addition, electricity supply remained a serious issue in 2004.

**Regulations and their enforcement are yet another serious cause of concern and uncertainty for investors.** Typi-
cally, entrepreneurs have a relatively low confidence in the enforcement of regulations and the ability of the judiciary. About 35 percent of manufacturers consider that officials’ enforcement of regulations remains inconsistent, and 33 percent of them do not trust the judiciary to enforce their property rights.

Constraints in the factor market include issues related to financial, labor, and land markets. Access to bank finance is a real barrier to firm growth in Mali. Bank loans are not the main source of firms’ working capital and investment financing. About 42 percent of the sample firms have never asked for a bank loan despite their financing needs. Small and medium enterprises (SMEs) have even less access to bank financing because enterprise size is a key criterion for loan approval. The availability of audited accounts and access to export markets are also positively correlated to the probability of obtaining bank loans. Furthermore, the required collateral is high; it amounts on average to 136 percent of the value of a loan.

The formal labor market in Mali suffers from several weaknesses as well. The workforce has a relatively low level of qualification. In addition, the training provided does not always match the needs. Absenteeism resulting from health issues (malaria) remains non-negligible.

Access to industrial land remains a serious issue in Mali, with 38 percent of manufacturing firms and 45 percent of tourism firms perceiving access to land as a severe constraint. This problem discourages firms from initial establishment or expansion and prevents them from being able to provide collateral to obtain loans. Compared with other countries where surveys have been conducted, Mali does not fare well in this area (Figure 3).

Policy Options

Despite numerous important reforms carried out during the last fifteen years, Mali’s investment climate still suffers from several weaknesses that hinder private investment, productivity, and growth. Further reforms and measures are therefore necessary to enable a more competitive business environment. These reforms should aim at fighting corruption, improving infrastructures, reducing the regulatory burden, and improving the working of factor markets. Priority should be given to reforms in the following areas:

Corruption
- Strengthen the government’s internal and external control mechanisms.
- Provide proper financing/staffing and guarantee complete autonomy to the newly created Office of the General Auditor.
- Implement microeconomic measures such as limiting employment duration for selected sensitive positions and reinforcing and effectively enforcing a corruption punishment system with high penalties.

Infrastructure
- Ensure an adequate industrial waste disposal service.
- Develop and maintain an efficient railway connection between Dakar and Bamako.
- Renovate and better maintain the existing road network and ensure timely completion of existing projects.

Regulatory Framework
- Improve and simplify the fiscal system, disseminate fiscal information to firms more widely, and enhance the capacity of the Internal Revenue Service.
- Reduce the weight of regulations by limiting the number of agencies dealing with firms and cutting costs related to firm creation and closing procedures.
- Improve the judicial system through completely implementing the Legal Reform Action Plan and promoting and developing commercial courts.

Labor Market
- Improve dissemination of labor market-related information.
- Step up the fight against malaria to reduce absenteeism.
• Increase the output of the education system and professional training organizations to improve the overall level of qualification of the workforce.

Financial Market
• Improve firm access to bank financing by promoting the establishment of stable financial statements by SMEs, reviewing the rules of the auditor/accountant professions, and ensuring the effective enactment of the current legislation.

Land Market
• Improve access to land by upgrading the current procedures to the world's best practices, as defined by the doing business indicators, and by creating urban/mining land registers.