BUSINESS PLAN

FOR

BANK OF AFRICA - MALI

Prepared by:

EQUATOR ADVISORY SERVICES LIMITED
111 Charter Oak Avenue
Hartford, CT 06103

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EXECUTIVE SUMMARY

* Bank of Africa-Mali is a 100% private African owned bank and the most recent entrant in the Malian banking system. The bank has performed well in its first sixteen months of operations, and would benefit from an appropriately-structured USAID support program. Based on an analysis of the Malian banking environment and BAM's competitive prospects, the Business Plan develops a recommended core business strategy for the bank and proposes the establishment of a joint BAM-AID medium-term loan fund.

* Mali's recent admission to the West African Monetary Union has had an immediate impact on the structure of the money supply and outstanding credit. However, despite the current high liquidity of the banking system and serious ongoing reforms in the Malian public and parastatal sectors, these changes will not necessarily lead to an increased provision of credit, particularly medium-term credit, to Mali's private sector. Bank strategies have thus far focused almost exclusively on the marketing of short-term products, while a high interbank (money market) rate encourages them to hold idle balances with the Central Bank as security for fee-generating off-balance sheet transactions.

* BAM has already succeeded in establishing itself as a competitor to Mali's two major commercial banks, generating a significant level of deposits from both individual and corporate sources and providing nearly the full range of credit and guarantee products currently being offered in Mali. Its small aftertax loss during the nine-month 1984 fiscal year is attributable to the developmental nature of its early months of activity.

* BAM should continue to aggressively compete for both demand and time deposits through the introduction of new funding products, an expansion of the deposit-gathering network and further improvement of its already high quality customer service operations. Ideally, time and savings deposits should constitute approximately 25% of BAM's resources by 1990, in order to increase the bank's capacity to meet unsatisfied demands for longer-term credit.

* BAM can build upon its competitive strengths by developing new credit products (such as medium-term and residential housing loans), strengthening its marketing force, broadening the geographical scope of its activities, and searching for appropriate ways to successfully serve the traditional market to which it has unusual access. In order to achieve the growth targets suggested in the financial projections (9 billion CFA francs in assets by 1990), BAM will have to strengthen its middle management capacity by providing appropriate training.

* AID support for the establishment of a medium-term lending facility for small and medium size businesses would provide BAM with additional resources which could help increase the bank's exposure to a broader clientele, while filling an important gap in Mali's credit market. Such a facility could be established through the implementation of a combined program involving a $1.0 million loan from USAID (to be matched by a $333,000 BAM contribution), a $250,000 technical assistance grant, and a $250,000 grant to establish a feasibility study funding pool. While this service may not yield the same returns as BAM's other products, it should be self-sustaining and generate more profitable ancillary business.

INTRODUCTION

Bank of Africa-Mali (BAM) is the first bank in the Sahel to be 100% owned by private African shareholders. BAM was established at an auspicious moment - just prior to Mali's entry into the West African Monetary Union (UMOA), and in the middle of a period of serious reform initiatives in the public and parastatal sectors. The bank has had the support of the Malian Government since its inception and has performed well in its first 16 months of operation.

The United States Agency for International Development (AID) has developed a program proposal which recommends consideration of the prospects of using BAM as a vehicle for onlending funds to meet unsatisfied, developmental needs of potential borrowers in Mali. This support could involve a combination of grants, loans and technical assistance to the bank, in exchange for the delivery of strategic financial services and a directed use of the technical support provided.

The overall objectives of this Business Plan are to 1) analyze the Malian banking environment and BAM's competitive prospects and 2) identify and project a likely and desirable course for BAM's development. The Plan is organized as follows:

1) Chapter I examines the impact of Mali's admission to UMOA on economic policy and banking regulations.

2) Chapter II assesses the current business climate for banking in Mali.

3) Chapter III analyzes the performance and competitive position of Mali's banks.

3) Chapter IV evaluates BAM's performance to date and identifies its major strengths and weaknesses as a market force.

5) Chapter V develops core business strategy recommendations for BAM and projects a likely course of development in BAM's financial performance.

6) Chapter VI designs a project structure for a potential AID support program.

BAM is the most recent entrant in Mali's financial sector, which is in a critical and active phase of its development. The bank has already succeeded in becoming a serious competitor to the two leading commercial banks. The recommended financial support could assist the bank in achieving greater market coverage and diversification by filling an existing gap in the credit market. The proposed program requires that the funds be used for medium term loans to productive (non-service) industry investors, and provides for a two-year technical assistance budget.

MALI - COUNTRY PROFILE*

POPULATION

Total Population:	7.5 million (19% urban)
Major Urban Areas:	Bamako (over 500,000) Mopti (over 100,000) Segou (over 100,000) Kayes (over 100,000) Sikasso (over 100,000)
Expatriate Population:	Over 500,000

ECONOMY

Labor Force:	4 million (80% primary sector)
Wage Sector Employment:	Private companies (80,000) Government & Military (70,000) State enterprises (14,000)
GDP:	370 Billion CFA
Four Largest Sectors:	Commerce (110 billion FCFA) Livestock (60 billion FCFA) Transport (53 billion FCFA) Traditional Agriculture (45 billion FCFA)
Government Share Of GDP:	22-25%

POLITICS

Mali has been ruled by President (Brigadier General) Moussa Traore since 1967. The Union Democratique du Peuple Malien (UDPM) is the sole legal party, established in 1979. Discussions are currently being held as to the adoption of an amendment to the 1974 Constitution which would allow President Traore to run for a second five-year term. Elections scheduled for 1985 have not yet been announced.

* 1983 Data

I. The Regulatory Framework

Mali recently joined the West African Monetary Union (UMOA), thereby adopting an entirely new framework for both the formulation of monetary and credit policy and the regulation of domestic financial institutions. The UMOA system provides for the partial integration of national and regional decision- making authority, with the West African Central Bank (BCEAO) playing a major role in setting and enforcing regulatory policies in each member country. Since the UMOA framework is quite unique from an international perspective, it is appropriate to begin our analysis by reviewing its characteristics and the likely impact this change will have on the Malian financial sector.

A. Historical Background

Mali was an original signatory of the treaty which established UMOA in 1962, but refused to ratify the agreement, adopted the Malian franc as its currency, and left the franc zone to which it had belonged during the colonial era. Mali resumed its relationship with France in 1967 under an arrangement similar to that enjoyed by the UMOA countries, whereby the convertibility of the Malian franc was guaranteed at a fixed parity with the French franc. A French Treasury Operations Account was established to manage Mali's foreign exchange reserves and to provide short-term budgetary support through overdraft facilities.

The rediscount mechanism was the principal credit policy instrument used by the Banque Centrale du Mali (BCM). A distinction was made between discountable and non-discountable loans, and banks exceeding annual growth targets for non-discountable loans were obligated to keep interest-free balances with the BCM. A ceiling on rediscountable loans was set for both the banks (as a certain proportion of their deposits) and individual borrowers. Special rediscount facilities were occasionally established to facilitate major procurement operations of key state enterprises. The BCM also set annual ceilings applicable to all banks on the growth in non-seasonal short-term credits, although no ceiling was imposed on growth in medium and long-term lending. Deposit and lending interest rates were fixed by the BCM and gradually brought closer in line with UMOA rates.

These policies were ineffective in controlling credit expansion, as Mali increasingly relied on the overdraft facility to refinance loans made to state enterprises. By 1977, the overdraft had reached alarming proportions. A new bilateral agreement was signed in an attempt to restrict recourse to the Operations Account. In particular, the BCM was to exercize greater restraint in its rediscounting operations. As part of continued efforts to tighten control over the financial sector, a new banking law was adopted in 1979, which for the first time applied

minimum authorized capital (500 million MF), special reserve fund (10% of net profits) and liquidity requirements on the commercial banks, and established stricter reporting requirements. Although rediscounted obligations accounted for 48% of the BCM's domestic assets in 1979 and continued to increase in absolute terms during the 1980s, the Malian government and the state enterprise sector embarked upon a period of reform which has gained considerable momentum in the past two years.

The bilateral relationship between France and Mali was an uneasy one: much of the past decade was spent preparing for the ultimate re-entry of Mali into UMOA. France threatened to curtail the budgetary support made available through the Operations Account, but it also worked with the IMF, UMOA members and other multilateral and bilateral actors to provide incentives for the achievement of the reforms required for Mali's admission. As part of the final negotiations, and since Mali's debt to France was of major concern to UMOA members, the French Treasury agreed to refinance both the Operations Account overdraft (some 54 billion MF) and Malian Central Bank claims on state enterprises (some 74.3 billion MF), as part of a 30-year refinancing on concessional terms of 150 billion MF.

B. Current framework

The Malian banking system came under the jurisdiction of UMOA and the West African Central Bank (BCEAO) in June, 1984. Monetary and credit policy is established and implemented by the UMOA Council of Ministers, the Board of Directors of the BCEAO, BCEAO's headquarters and branches, and the National Credit Committee and Control Commission of each member state. UMOA members share a common currency which is issued by the BCEAO's Service de l'Emisssion through its agencies (the franc of the African Financial Community, or CFA franc), and is freely transferable within the Union. With the exception of working balances, member state financial institutions (government and private institutions alike) must place all of their foreign exchange holdings with the BCEAO, which in turn is required to place 65% of these holdings with the French Treasury in an Operations Account (individual balances are kept for each country). In exchange, France guarantees the convertibility of the CFA franc at a fixed parity with the French franc. There are no exchange controls on transactions with countries outside of UMOA, and the remaining 35% of the BCEAO's foreign exchange holdings may be held in currencies other than the French franc.

The regulatory system is coordinated through interlocking memberships: the UMOA Council of Ministers is comprised of two Ministers from each member state (typically the Ministers of Finance and Planning). Two representatives of each state and from France sit on the BCEAO Board of Directors (with France having one vote on the Board). Major reforms in 1975 decentralized and reinforced the policy-making and regulatory framework in order to

i) expand the role of the National Credit Committees (chaired by the country's Minister of Finance) in the recommendation and application of annual money and credit expansion targets, and ii) enable BCEAO branches to adjust liquidity and finance priority sectors more easily within member states. The principal policy instruments used by UMOA's regulatory institutions are summarized below.

1) Annual credit budgets

The BCEAO board is responsible for setting BCEAO credit expansion limits for the UMOA system as a whole and for approving rediscount ceilings proposed for each member state by the National Credit Committees. The overall UMOA ceiling is designed to ensure that at least 20% of BCEAO's monetary obligations are covered by official foreign exchange holdings, and to prevent an accumulation of excess reserves, given the UMOA objective of minimizing the cost of pooled resources.

Credit ceilings are set annually for individual countries as a function of i) money supply growth targets calculated by the BCEAO, and ii) an appraisal of local requirements by the National Credit Committees. The ceiling applies not only to BCEAO advances, purchases of government securities and other forms of credit to government, but also to all (rediscount) credit extended to the banking system. Certain forms of seasonal lending are excluded from the ceilings, primarily crop marketing credit.

While there are limits on the amount of credit extended by the BCEAO to member country governments and banks, both are free to borrow from external sources as long as the money supply growth guidelines are respected. The National Credit Committee is empowered to determine how the BCEAO will allocate available credit between government and financial institutions, and among the various sectors of the economy, after a review of projected investments and output and related credit requirements. BCEAO credit to government cannot exceed 20% of the previous year's fiscal receipts. As in all UMOA countries, Malian banks are not informed of their individual credit growth limits, and are expected to exercize self-restraint on credit expansion. In any event, BCEAO rediscounts cannot exceed 35% of a bank's total use of funds.

Sectoral lending coefficients (which can include, for example, minimum lending requirements to Malian nationals, or credit ceilings to a given business sector) are the principal Credit Committee guidelines used to influence the distribution of credit, and therefore represent an important development policy tool for national authorities. Mali's first set of sectoral lending guidelines are expected to be announced during the second quarter of 1985, and will reportedly favor agricultural and industrial lending.

2) Rediscounting

Rediscounting was initially a major source of funding for banks in all UMOA countries. The setting and enforcement of rediscount ceilings on banks and certain borrowers therefore constituted the strongest credit control mechanism at BCEAO's disposal. Generic distinctions were made between discountable and non-discountable loans (now abolished), and preferential rates (still in force) were used to direct credit with varying degrees of effectiveness to priority sectors. As member state banking systems matured and deposit-based liquidity increased, a more restrictive and sophisticated set of instruments became necessary to control and direct credit expansion. The rediscount rates were raised (8% for preferential loans and 10.5% for ordinary loans). A maximum annual rediscount ceiling per bank of 35% of all uses of funds was introduced and tighter control was exercized, on a case by case basis, over the eligibility for rediscounting of loans to particular enterprises. The maximum level of refinancing of 35% is not automatically granted to individual banks, but seasonal loans (as defined and classified by UMOA) are excluded from this ceiling. However, restrictions on access to rediscount facilities are now used as a sanction against banks violating sectoral lending requirements and other banking regulations.

3) Required approvals

The National Credit Committees are empowered to pre-approve loans over a certain amount on a discretionary basis, a function routinely delegated to the BCEAO branch director. This includes loans which increase the total liabilities of an individual borrower above the prescribed ceiling. The ceiling varies from state to state, and has been set at 30 billion FCFA for Mali. Approvals can be withheld as a sanction against violation of specific regulations as well as for excessive use by individual banks of foreign sources of funding. However, this authorization cannot be withheld as a means to indirectly restrict borrowing within the franc zone.

4) Other regulatory measures

A dominant feature of the UMOA system is the fact that interest rates for all deposit and credit instruments are fixed at the regional level and are uniform among the member states. Upon recommendation of the BCEAO Board, the Council of Ministers periodically sets minimum deposit rates, and minimum and maximum lending rates. Banks are free to set their own schedules within these guidelines. The rate schedules are modified only periodically and thus do not fluctuate directly with Eurodollar and other international market rates. The Malian banking law of June 22, 1984 and related statutes incorporate this regional structure and provide for minimum authorized capital requirements for banks, a special reserve fund to which 15% of net profits must be allocated, and specific procedures for financial reporting, mergers, dissolutions, the opening of new branches, staffing and other special issues. The laws spell out with some specificity what penalties can be assessed against banks for violating

regulatory requirements. A Control Commission made up of representatives of key Malian government institutions is responsible for assisting the BCEAO branch in monitoring compliance.

C. Implications for the Malian financial sector

Membership in UMOA and the establishment of BCEAO control over the Malian banking system could have far-reaching implications for the Malian economy and financial sector. For example, if UMOA credit expansion guidelines are respected, the new regime could bring about a radical decrease in government borrowing from the Central Bank. Table 1 below presents an illustration of potential credit expansion in Mali in 1985, based on 1984 end-year figures which were projected on the basis of average Central Bank credit growth rates over the 1980-83 period. The overall credit expansion ceiling for Mali in FY1985 is 7%, which must be allocated between the government and the banks. Since BCEAO lending to government cannot exceed 20% of the previous year's tax receipts (i.e. 9 billion FCFA), new government borrowing would fall by some 50%, as illustrated in Table 1. The remaining 2.7 billion FCFA in budgeted BCEAO credit would therefore be available for rediscounting operations, for a potential growth of 29% in BCEAO credit to the banks. Since the banking system has recently experienced a boom in deposits, it is unlikely that this amount of credit would be required to maintain an appropriate level of liquidity (see discussion in Chapters II and IV). Moreover, recent reforms have set the stage for a potential reduction in the demand for credit in the parastatal sector and thus a corresponding decrease in Central Bank rediscount operations.

Table 1 - Central Bank Credit Expansion in Mali
(billions of FCFA)

	1980	1981	1982	1983	1984	1985
Central Bank Claims on Govt.	55.3	60.8	78.3	93.0	111.6	120.6
- net change	-	5.5	17.5	14.7	18.6	9.0
- % change	-	10.0	29.0	19.0	20.0	-50.0
Central Bank Claims on Banks	48.4	50.0	54.1	54.3	56.4	59.1
- net change	-	1.6	4.1	0.2	2.1	2.7
- % change	-	3.3	8.2	0.3	3.9	29.0
Govt. Tax Receipts	29.2	35.3	37.0	40.5	45.0	-
- net change	-	6.1	1.7	3.5	4.5	-
- % change		20.0	5.0	9.5	11.0	-

Since France has refinanced much of the outstanding government and parastatal debt, actual end-1984 figures show that Central Bank claims on government have been reduced to some 40 billion FCFA, and on banks to some 10 billion FCFA.. We were not able to determine how UMOA and Malian authorities have treated this major adjustment in the level of outstanding Central Bank credit in setting 1985 credit expansion guidelines and allocating the budgeted additional resources. However, if respected, the BCEAO guidelines will result in a contraction of government borrowing. It is possible that external institutions could meet the shortfall, since UMOA does not limit government borrowing abroad. However, official lenders supply nearly all external funding in Mali (see Table 2), and it is unlikely that these institutions would be willing to provide funding for discretionary onlending to non-performing state enterprises.

Table 2 - External Debt Disbursed and Outstanding
(US$ Millions)

	1980	1981	1982	1983
Bilateral	452	468	504	540
Multilateral	198	246	287	327
Suppliers	8	7	6	5
Financial lenders	10	8	9	9

If the credit available to government is tightened, its ability to finance state enterprises directly will decrease. There will therefore be increased pressure on domestic commercial and development banks to meet these credit needs. Although the BCEAO will enforce ceilings on individual bank lending and individual enterprise borrowing, all of Mali's banks do lend to the parastatal sector and can be expected to continue to do so when appropriate opportunities arise, rather than focus their attention primarily on the private sector.

On the other hand, a combination of i) a conservative BCEAO rediscount policy, ii) progress in ongoing donor-supported programs to rationalize parastatal activities, and iii) cautious commercial bank credit policies may prove to be an effective formula for reducing the demand for credit among state enterprises, thereby freeing resources for private sector borrowing. An additional possibility is that the new regulatory framework and ongoing reforms will increase the confidence of foreign private lenders. If the latter were to expand their activities in Mali, even if only for short-term transactions, this would bring additional resources to the economy and ease the pressures created by reduced government borrowing.

The other set of highly significant changes brought about by the admission to UMOA is the revised interest rate structure on deposits, loans and rediscounts. Table 3 presents a comparison of rates under the two systems. The UMOA rate structure implies a higher cost of funds for banks (although the minimum interest rates on demand deposits were recently removed), lower lending rates and a less attractive rediscount rate. All of these changes tend to restrict the profitability of traditional lending activities, while an interbank rate of 11.5% provides a strong incentive to hold idle funds with the BCEAO branch. In effect, this interest rate policy appears to encourage an increased conservatism in bank lending and greater competition within the banking system for non-funded, off-balance sheet transactions.

Table 3 - Comparative Interest Rate Structures

	BCM	BCEAO
DEPOSIT RATES		
Demand	2-3% (min 1.25 MM FCFA)	formerly 3.5%-4% (min 1.0 MM FCFA) currently 0%
Time	4-6%	6.25-9.5%
Savings	5%	8.5%
LENDING RATES		
Seasonal	7.5-9.5%	9-10%
State enterprises	9.5%	n/a
Private sector		
- preferred	10-18%	n/a
- ordinary	18%	n/a
Preferred rate	n/a	9-11%
Ordinary rate	n/a	10.5-15.5%
REDISCOUNT RATES		
Ordinary	6%	10.5%
Preferred	2.5-3.5%	8%

The greater spread between demand and non-demand deposit rates has encouraged an increase in time and savings deposits, which may create a sounder basis for increased term lending. However, the recent elimination of mandatory interest on demand deposits could counterbalance this recent improvement in the structure of the deposit base and cause an outflow of funds to foreign accounts.

Any added disincentive to saving and term lending would have a serious impact on Mali's economic development prospects. Table 4 shows that consumption has consistently exceeded GDP and that the resource gap has nearly equalled total investment. Most of the financing which has been provided by the banking system has taken the form of seasonal and short-term lending, meeting working capital and production financing needs rather than helping to develop Mali's productive capacity.

Table 4 - Structure of GDP
(billions of current FCFA)

	1979	1980	1981	1982	1983
GDP	260	275	297	338	371
Consumption	262	291	314	347	379
Gross domestic savings	-3	-16	-16	-9	-7
Investment	48	51	51	57	64
Resource gap	-51	-67	-67	-66	-71

D. Summary

Mali's admission to UMOA can be expected to be have a broad impact on the regulation and performance of the banking system. Major factors to be considered are as follows:

o A stronger currency should help spur a higher level of activity in the organized financial sector.

o The integration of national and regional decision-making functions increases discipline in Central Bank management and in the financial sector as a whole through a number of regulatory control and support mechanisms.

o The restructuring of outstanding Central Bank claims on government and on banks, coupled with the revision of BDM's role as financier of the parastatal sector, sets the stage for a more even development of the financial sector and credit market. However, reduced government borrowing and regionally-defined restrictions on the level of refinancing available for BDM operations could create pressure on the commercial banks to meet unsatisfied demand for credit within the parastatal sector.

o The new interest rate structure should have a mixed impact on the Malian financial sector. While higher time and and savings deposit rates may improve the maturity structure of bank resources and thereby encourage term lending, the attractive interbank rate encourages banks to maintain high liquidity. The recent elimination of interest on demand deposits could also prove to be a disincentive to potential depositors.

II. Business Climate

A. Overview of the banking environment

Financial institutions play a key role in any developing economy, since they are the principal mechanism for mobilizing savings and transferring them to productive investments. Economic development is therefore influenced by the efficiency of commercial and development banks as financial intermediaries. Although Mali's banking system has grown considerably in the past few years, with i) the entry of four new banks since 1980, ii) a recent boom in deposits, and iii) steady growth in credit to the economy, structural and attitudinal constraints continue to restrict both the size and scope of the market for banking services. The new institutions and the additional resources generated have brought only modest development and diversification in the system's financial intermediation capacity.

1. Funding

Until recently, Malians have held twice as much currency outside of the banking system as they have in deposits (comparable ratios in the United States and Ivory Coast are 1:10 and 1:2, respectively). Long-standing disincentives to saving included a lack of confidence in the Malian franc, a banking infrastructure which was insufficiently developed to attract widely dispersed surpluses and, to a lesser extent, low administered interest rates on deposits. In addition, the Malian economy is not fully monetized, given the country's poverty and the prominence of the traditional sector.

Whereas deposits grew at negligible rates between 1979 and 1982, total deposits doubled in the 1983-84 period. A growing branch network and increased competition within the banking system can be credited for the initial phase of this process. However, the real boom in deposits coincided with the announcement of Mali's admission to UMOA in December, 1983 (see Table 5). Many depositors were reacting to the prospective currency conversion, believing it prudent or even necessary to hold bank balances in order to convert their holdings to the CFA franc. Others may have been anticipating the more attractive interest rates provided under the UMOA system, particularly with respect to time and savings deposits.

The money supply also showed a temporarily sharp increase during this transitional period, attributable in part to the repatriation of Malian francs from neighbouring countries. Despite this expansion in the money supply, the ratio of money in circulation to deposits fell to nearly 1:1. By the end of 1984, deposits stood at 52 billion FCFA and currency outside banks at 50 billion FCFA.

Table 5 - Structure of the Money Supply
(billions of FCFA)

	1980	1981	1982	1983	1984(1Q)	5/84	6/84	12/84
Money supply	62.8	64.7	72.2	87.2	95.2	88.4	—	102.0
Total deposits	21.8	23.3	26.9	36.7	45.4	43.8	52.8	52.0
demand	18.5	18.9	22.9	30.7	39.5	36.8	45.8	—
time	3.3	4.4	4.0	6.0	5.9	7.2	8.3	10.0
Currency outside banks	40.6	40.9	45.0	50.0	50.4	44.0	—	50.0

Official observers believe that the continued high level of deposits represents a permanent adjustment in the stucture of the money supply, and not a temporary consequence of the currency conversion exercize. However, it is clear that the tremendous increase in funding was due to exceptional circumstances and cannot be sustained. While growth rates may in the future be somewhat higher than those achieved prior to 1983, success of individual banks will be a function of strong competition. Moreover, demand accounts still represent well over 80% of total deposit funding, with restrictive implications for the maturity structure of bank lending activities.

Central Bank refinancing, government deposits and foreign agency funding have also played an important role in the Malian financial sector. Since these mechanisms were used primarily by the national development bank (Banque de Developpement du Mali), we will discuss them in greater detail in the market and competitive analysis in Chapter III.

2. Credit

The structure of the credit market in Mali has been heavily skewed towards government and parastatal borrowing. Table 6 shows that, until 1984, this consistently represented nearly 80% of domestic credit. The Malian government has exercized strong control over the financing of state enterprises and the onlending of foreign assistance funds to selected projects and private borrowers by operating state-owned development banks and specialized credit institutions. The financial intermediation role of the commercial banks has largely been restricted to traditional commercial banking functions of deposit gathering and short-term funding. Moreover, the development banks have competed directly with them for private sector deposits and other business through their more extensive branch networks.

Table 6 - Structure of Domestic Credit
(billions of FCFA)

	1980	1981	1982	1983	1984(1Q)	(2Q)	(3Q)
Domestic credit	137.9	148.9	170.9	192.9	201.6	—	—
Government borrowing (net)	55.9	61.5	75.9	91.3	95.1	—	—
Parastatal borrowing	52.3	55.3	58.4	59.1	61.0	22.8	20.0
Private sector borrowing	29.7	32.0	36.6	42.5	45.5	46.0	47.1

Until 1984, BDM supplied some 80% of total credit to the economy. Its mandate to automatically finance the operating deficits of state enterprises (75% of its portfolio consisted of loans to this sector) resulted in annual growth rates in parastatal borrowing which were frequently over 20% in the 1970s. Under growing external pressure, this rate of growth was steadily reduced after 1980, while BDM's overall performance and role were reviewed in detail prior to Mali's admission to UMOA. Private sector borrowing, which had held constant at approximately 20-22% of total domestic credit, grew much faster than parastatal borrowing (10% p.a. vs. 4% p.a.) between 1980 and 1983. With the refinancing of non-performing parastatal obligations by the French Treasury, private borrowing now accounts for approximately two-thirds of outstanding credit to the economy.

Table 7 presents a profile of the supply of credit to the economy in Mali. Very little medium-term funding has thus far been extended to the private sector, and in fact the relative weight of term loans has declined over the period shown. The bulk of the financing made available to private borrowers has served to meet working capital and other short-term needs rather than to finance the acquisition of capital goods and other major inputs for investment in productive activities. The fact that non-seasonal borrowing (which includes some term financing) by parastatals held fairly constant demonstrates the fact that they enjoyed a continued high level of commitment from the government. Despite the recent adjustment in the credit market and plans for further restraint in parastatal development, it is likely that state enterprises will continue to enjoy privileged access to credit, to the detriment of opportunities for increased term lending to the private sector.

The predominance of the public sector is by no means the only factor inhibiting increased term lending to private borrowers and a general expansion of the banking system's private sector business base. Conventional bank-customer relationships are difficult to maintain due to the small scale, geographical diffuseness and informality of much of Mali's productive and commercial activity, which renders transaction costs prohibitive for both lenders and borrowers. Both the banks and potential

Table 7

Structure of Credit to the Economy

(MM FCFA)

	1979	1980	1981	1982
RASTATAL SECTOR				
Seasonal	24.6	24.5	26.5	25.8
Non-seasonal	21.2	24.1	24.7	27.8
OPAM consolidated	7.0	7.0	7.0	7.0
TOTAL	52.8	55.6	58.1	60.6
IVATE SECTOR				
Industry/construction	4.5	5.4	7.1	8.5
Other short-term	12.7	14.7	15.7	18.5
Externally funded	2.5	2.7	2.5	3.2
Export financing	0.3	0.4	0.9	1.0
Medium term	3.5	3.4	3.2	3.5
TOTAL	23.4	26.5	29.3	34.5
TAL CREDIT	76.1	82.0	87.4	95.0
WHICH:				
ntral Bank Rediscounts	47.7	48.5	50.0	54.2
nk Lending	28.4	33.6	37.4	40.9

borrowers have tended to be quite conservative in their dealings with one another. This is due to the lack of adequately documented market and credit information and the fact that the banks operate with credit analysis and loan administration systems which tend to be highly risk-averse and ill-adapted for greater market penetration. As a result, private sector credit is absorbed by the better established, urban and foreign community, or by participants in specialized development programs.

Given the country's poor infrastructure, the structure of the Malian economy is heavily weighted towards transport and commerce. This has not surprisingly produced a domestic entrepreneurial class which is dominated by traders, who typically have little collateral to offer other than inventory. Successful traders are not only capable of financing their operations internally, but also are among the leading operators of the informal credit networks which have historically provided access to surpluses held outside of the organized financial sector, to both urban and rural borrowers.

B. Recent developments

These general characteristics of the banking environment have thus far limited the volume and scope of activity of existing commercial banks. Nevertheless, such recent entrants as BIAO-Mali and Bank of Africa-Mali (BAM) were created and operate on the assumption that existing demand for banking services will sustain profitable operations in the Malian economy, and can further be stimulated through the marketing of appropriate deposit and credit products. Several important developments are currently transforming the overall business climate in Mali and deserve careful ongoing scrutiny in the preparation and execution of BAM's business plan. Chief among these are the momentum gained in public sector reform programs and sustained increases in external development assistance.

The various economic and administrative reform programs currently underway in Mali in the past few years seek to reduce the role of public and parastatal institutions and to stimulate private sector activity. In particular, policies supported by the IMF, the World Bank, France and the UMOA members in the context of negotiations over budgetary support facilities and admission to UMOA are designed to limit the growth in government spending and to liberalize markets which have long been dominated by state enterprises. Table 8 shows that growth in current public expenditures has not exceeded 10% p.a. since 1980 (vs. 12-18% annual increases in the late 1970s). The current budget showed a small surplus in 1982 and 1983. Public investment is financed primarily by foreign borrowing, while counterpart funding obligations have absorbed an increasing share of total public expenditures. Continued improvement in Mali's budgetary performance could increase confidence both domestically and

abroad and thereby help to ease pressures on the banking system arising from the potential BCEAO-imposed reduction in government borrowing.

Table 8 - Government Finances
(billions of Malian Francs)

	1980	1981	1982	1983
Current Revenues	75	88	105	109
Grants	48	57	61	81
TOTAL REVENUES	123	145	166	190
Current expenditures	84	92	99	106
Capital expenditures	13	6	11	12
Exp. financed by foreign borrowing	23	36	44	50
Counterpart to grants	30	42	60	74
Other	-5	-3	16	17
TOTAL EXPENDITURE	155	173	230	259
CURRENT BALANCE	-9	-4	6	3
TOTAL BALANCE	32	28	64	69
Foreign deficit financing	29	32	57	60

Mali's recent public sector reforms have encouraged continued support from major development institutions. Ongoing and newly-planned IMF and World Bank programs are designed to expand technical assistance to the senior government officials responsible for the broad range of current economic and administrative reform activities. The IMF standby facility will expire in May, 1985, and could be replaced with a lower conditionality program, given the results obtained thus far. The World Bank is introducing a major economic management program to expand efforts to correct inefficiencies in the public sector and in economic (particularly pricing) policies. USAID is currently designing an Economic Policy Initiative program in Mali, which will include a review of financial and state enterprise sector needs in order to provide complementary resources to the current efforts.

In addition, there are a number of sectoral assistance projects in various stages of design and implementation which will help to develop Mali's productive capacity and infrastructural base (such as the Manantali and Selingue dams, the Kalana gold mine, and a series of road projects). A considerable amount of funding and technical assistance is also being allocated to the revitalization of large projects (Operation Haute Vallee, Office du Niger) whose poor performance has stimulated serious reform efforts. Projects such as these can effectively complement the resources available from the domestic banking system, while linkages created with local private sector activities could broaden the scope of serviceable demand for credit.

C. Summary

On balance, there has been a significant shift in the banking and overall business environment in Mali in the past two years as reform programs have reached a more advanced stage, particularly in the context of preparations for Mali's entry into UMOA. The major patterns which have emerged, and their likely impact on the banking system, are as follows:

o The development of the banking infrastructure and of bank deposit bases has been greatly accelerated. Deposits have doubled since January, 1983, and now equal money held outside the banking system. Although the tremendous growth in deposits should slow in the future, this is thought to represent a permanent adjustment in the structure of the money supply. Banks will have to engage in strong competition in order to achieve sustained increases in deposits.

o The reduction in the growth of government spending, ongoing parastatal rationalization efforts, and the recent refinancing of Central Bank claims on the Government and the banks may free up some of these additional resources for lending to the private sector.

o Additional resources may be expected from foreign development agencies, thereby stimulating demand in Mali and helping to finance investment. Foreign private lenders may also gradually increase their exposure in Mali, to the extent warranted by continued reforms and the development of new business opportunities. This external funding could encourage the banks to focus on meeting existing and emerging demand for credit in the private sector.

o The potential increase in financial resources will not necessarily promote lending in support of private investment. State enterprises will continue to demand seasonal and other short-term credit from the banking system, while the banks do not normally engage in medium-term lending to the private sector.

III. MARKET AND COMPETITIVE ANALYSIS

A. Structure of the Banking System

Mali's banking system consists of two development banks and four commercial banks:

- Banque De Developpement du Mali (BDM)
- Banque Nationale de Developpement Agricole (BNDA)
- Banque Malienne de Credit et de Depots (BMCD)
- Banque Internationale pour l'Afrique Occidentale-Mali (BIAO)
- Banque Libyo-Malienne (BALIMA)
- Bank of Africa-Mali (BAM)

Although BDM has long dominated the financial sector in terms of both geographical coverage and transaction volume, four of the six banks were created in the past five years and have competed aggressively for a growing share of the market. Chart 1 summarizes the principal organizational characteristics of Mali's banking institutions. Although their ownership structures differ widely, all but BAM are either wholly or partly owned by the Malian Government, which continues to play a very active role in the financial sector through its control over BDM and BNDA. The partial ownership of BIAO and BMCD by French interests (public and private) and of BALIMA by the Lybian government suggest to varying degrees that political considerations have thus far provided an important incentive to entering this market.

The foreign shareholders in BIAO and BMCD have provided an initial equity investment and, in the case of BMCD, a new infusion of capital in 1983. Since BALIMA's financial statements were not available, we could not determine to what extent the Libyan Government has supported its subsidiary beyond its initial commitments. However, in aggregate terms Mali's banks have maintained net surplus foreign assets since 1980, which indicates that they have not relied heavily on foreign borrowing to support their operations. The French parent banks have played an important role as correspondents, given the limited interest of foreign banks in the Malian market and France's status as Mali's major trade partner, and reportedly exercize policy control over major transactions (e.g. the credit authority of local management may be limited to 10 MM FCFA).

All of the banks have their headquarters in Bamako. The two development banks have the most extensive branch networks (17 out of a total of 23). The branches which BDM and BNDA established outside of the capital were intended to facilitate the delivery of development banking services, and were funded to a large extent by the BCM, institutional deposits and development agency lines of credit. In 1981, some 18% of BDM's short-term loans (43% to private companies or individuals) and 75% of its

longer term loans (60% for private housing) were administered at its branches. Similarly, over 40% of BNDA's loans to individuals and small associations were extended by its branches in its first year of operations.

These branches have also generated significant deposits. For example, 36% of BNDA's deposits (8.6 MM FCFA) and all of BDM's deposits from private individuals (800 MM FCFA) in 1982 were generated outside of Bamako. BDM management has clearly stated its intention to compete directly with the commercial banks in the mobilization of deposits, and in addition to its branch activities has mounted a strong campaign among Malian expatriates in France (with a representative office), West Africa and the Middle East.

BIAO has aggressively sought to capitalize on the market opportunities created by infrastructural and rural development programs and by Malian expatriate remittances, with the opening of branches in Manantali (1983) and Kayes (1984). Its Mopti branch generated 422 MM FCFA in deposits in 1982 and 875 MM in 1983, but reportedly experienced a large drop in 1984 as a result of the drought. BMCD opened new branches in Bamako and Segou in 1983, while BAM is actively considering entry into the Kayes market, since many of the expatriates making remittances to their families in Mali originate from this region.

B. Banking Services

1. Development Banks

BDM has served primarily as a conduit for financing the production and marketing activities of Mali's state enterprises and the operations of SOMIEX, Mali's state trading company. Up to 60% of these loans were rediscounted with the Central Bank in order to maintain the level of liquidity required to satisfy parastatal operating needs. Prior to the restructuring of SOMIEX and OPAM, the cereals marketing board, over 40% of BDM's loans were classified as credit to the service sector, while the bulk of its remaining loans was evenly divided between agriculture (principally for cotton and peanut marketing) and industry (primarily to various parastatal operations). BDM also engaged in some onlending of development agency funds to small enterprises, in the extension of housing loans to individuals, and in pre-export financing (e.g. for gold and livestock exporters). It is currently undergoing a major reorganization following the results of a World Bank sponsored audit conducted in 1983-84. BDM is expected to emerge as a leaner, more disciplined bank, not only as a result of internal reforms and the refinancing of its rediscounted non-performing loans, but also in the wake of ongoing efforts to streamline the parastatal sector. This may enable it to draw increased outside funding for specialized development finance activities, although it may also orient it towards increased direct competition with the commercial banks.

Chart 1 - Organization of Malian Banks

DEVELOPMENT BANKS	Established	Primary Shareholders		Authorized Capital	Facilities
Banque de Devellopement du Mali (BDM)	1969	GRM	100%	2500MM FCFA	HQ-Bamako 12 branches
Banque Nationale de Devellopement Agricole (BNDA)	1981	GRM CCCE BDM Central Bank	55% 20% 10% 15%	1000MM FCFA	HQ-Bamako 5 branches
COMMERCIAL BANKS					
Banque Internationale de l'Afrique Occidentale (BIAO)	1980	BIAO-Paris (BNP,CCF,UBS, Banco de Brasil) GRM-23%	77%	975MM FCFA	HQ-Bamako 4 branches
Banque Malienne de Credit et des Depots (BMCD)	1962	GRM - Credit lyonnais (Mgmt.)	50.20% 49.98%	800MM FCFA	HQ-Bamako 2 branches
Banque Libyo-Malienne (BALIMA)	1981	Libyan Arab Foreign Bank GRM	51% 49%	250MM FCFA	HQ-Bamako
Bank of Africa-Mali (BAM)	1982	Private Malians		650MM FCFA	HQ-Bamako

BNDA has published only its 1982 financial statements, although its primary focus has remained unchanged since then. Approximately 80% of its portfolio represents working capital and capital equipment procurement loans to CMDT (Compagnie Malienne pour le Developpement des Textiles), the agency which manages the Mali Sud integrated rural development project. BNDA also lends to small farmers, artisans and village associations and cooperatives, and has provided some start-up capital to village industries (mills, blacksmith shops).

BNDA's principal objectives are to further diversify its portfolio away from the CMDT account by becoming involved in other large rural development programs such as Operation Haute Vallee, while respecting its mandate to serve small rural borrowers and cottage industries in the Bamako area. It is still in the process of developing loan administration support systems through the network of government and development agency extension programs, and has moved fairly slowly in increasing its overall level of activity with small borrowers, despite reportedly minimal default rates.

2. The Commercial Banks

All four commercial banks provide essentially the same set of services, namely:

a) short-term loans and overdrafts, primarily to the commercial sector and selected parastatals

b) discounting of short-term obligations

c) guarantees of notes, bills and drafts enabling clients to obtaining third party (typically foreign supplier) financing

d) surety bonds (primarily performance bonds and coverage for statutory import duty deposits)

e) opening of letters of credit, typically partially or fully cash collateralized

C. Comparative Performance of the Commercial Banks

This section analyzes the mix of services provided by BIAO and BMCD and reviews the results of their respective business strategies. When appropriate, references are made to BDM's performance in the market. Despite differences in approach, both BIAO and BMCD compete for opportunities to make sound short-term loans to both private and parastatal sector borrowers, to generate non-funded business, and to arrange the financing of trade transactions. The latter set of activities ranges from the financing of cereal imports by OPAM and by the private traders who have stepped in to the expanded market created by its liberalization,

to financing cotton and gold exports. Their competition is also beginning to focus on opportunities to capitalize on the recent growth in deposits through the design of new deposit instruments (CDs) and acceptable housing and consumer loans.

1. Funding

A comparison of Tables 5 and 10-11 shows that the aggregate IMF figures in Table 5 understate the results reported by the major banks in their 1982 and 1983 statements. A similar understatement may therefore be assumed for the nine months of the 1984 fiscal year. Both sources do indicate that the supply of deposit funds available to banks has at least doubled since the 1st quarter of 1983, with time and savings deposits accounting for approximately 40% of this growth. However, demand accounts still represent some 80% of total deposits. Among the three major banks, BDM held 65-70% of total demand deposits in the 1982-83 period, with BIAO ranking second at 18-20% and BMCD third at 12-15%. BIAO continued to outperform BMCD in 1984, with a 33% growth in demand deposits vs. 27% for BMCD.

Tables 10-11 show that BIAO has been the principal beneficiary of the increase in non-demand accounts. It had captured nearly 50% of this market by the end of 1983 and achieved a growth of over 20% in both time and savings deposits in the abbreviated 1984 fiscal year. BMCD's non-demand accounts doubled in 1983, but experienced a 25% net decrease in 1984, as time deposits fell by 31%, partially compensated by a 40% increase in savings deposits. In 1983, approximately 35% of both BIAO's and BMCD's deposit bases consisted of non-demand accounts. BMCD's time and savings deposits had fallen to 22% of total deposits by September, 1984, while BIAO's deposit structure remained stable. The preference in aggregate terms for savings deposits may reflect a basic conservatism among depositors, and suggests that the competition for time deposits is more intense than for the more liquid savings accounts. Table 3 shows that UMOA has set higher rates for savings deposits than for all but the largest and least liquid time deposits. Thus, BIAO's larger savings deposit base positioned it well for the heightened competition for time deposits during the boom period.

Rediscounting has been of marginal importance as a source of funding for all but BDM, and the higher rates offered by the BCEAO make it unlikely that banks will resort to rediscounting while liquidity remains high. BDM's 1983 outstanding rediscounted obligations accounted for over 90% of the contingent liabilities of the three major banks (with the exception of documentary credits), with the remaining 10% representing BIAO's and BMCD's fee-generating guarantees of loans made by other institutions. In effect, rediscounting has served as the principal instrument for subsidizing state enterprises, and has proved to be an inefficient use of capital in Mali. Nearly all of BDM's rediscounted obligations were found to be non-performing by a World Bank-

Comparative Income Statements

(MM FCFA)

	BIAO			BMCD		BDM		BAM
	1982	1983	9 mos 1984	1983	9 mos 1984	1982	1983	9 mos 1984
INCOME								
Interest Income	1,254	1,472	1,459	986	807	4,928	5,564	64
Less: Interest Exp.	288	399	408	355	254	3,304	3,856	17
Net Interest Margin	967	1,073	1,051	631	553	1,624	1,708	47
Other Revenues	416	579	569	903	628	824	1,180	95
TOTAL INCOME	1,383	1,652	1,620	1,534	1,181	2,448	2,888	142
EXPENSES								
Personnel Costs	497	579	467	401	343	936	917	49
Outside Services	139	124	197	55	46	534	492	52
Other Administrative	105	159	153	313	325	262	396	28
Depreciation	42	142	118	88	78	314	464	31
Provisions	53	107	95	300	274	417	493	8
TOTAL EXPENSES	835	1,111	1,030	1,157	1,066	2,462	2,761	168
NET PROFIT	548	541	590	377	115	(14)	127	(26)
Less: Taxes	271	270	293	142	49	0	81	2
Adjustments	4	1	6	(2)	12	(88)	0	(5)
NET AFTERTAX PROFIT	273	270	291	238	54	74	46	(23)

Table 10

Comparatives Balance Sheets - Assets

(MM FCFA)

	BIAO			BMCD			BDM	
	1982	1983	9 mos 1984	1982	1983	9 mos 1984	1982	1983
BANKING ASSETS								
Cash & Demand Funds	2,475	1,632	1,308	430	199	698	2,910	4,133
Due from Banks	2,222	3,279	5,284	711	1,781	1,683	2,652	4,236
S-T Loans/Advances/Discts	5,969	7,598	9,892	10,395	12,767	11,807	17,073	21,424
Blocked Funds	0	0	0	1,492	1,438	265	0	0
M-T Loans/Discounts	1,877	1,358	1,492	403	382	259	6,955	7,423
Accruals/Suspense Acts.	480	562	787	425	640	885	13,653	15,483
TOTAL BANKING ASSETS	13,022	14,428	18,763	13,855	17,205	15,597	43,241	52,698
Provisions	126	205	299	105	105	105	3,195	816
NET BANKING ASSETS	12,896	14,224	18,464	13,750	17,100	15,492	40,046	51,883
Fixed Assets	1,601	1,679	1,625	391	500	464	2,608	2,935
TOTAL ASSETS	14,497	15,903	20,089	14,141	17,600	15,956	42,654	54,818
OFF-BALANCE SHEET ITEMS								
Documentary credits	1,754	1,789	2,134	N/A	5,940	4,605	0	9,329
Other Contingent Liab.	9,871	8,908	9,954	N/A	1,245	1,297	57,478	62,723

Table 10 (Cont.)

Comparative Balance Sheets - Liabilities & Capital

(MM FCFA)

	BIAO			BMCD			BDM		B
	1982	1983	1984	1982	1983	1984	1982	1983	9 1
DEPOSITS									
Demand Deposits	5,858	6,985	9,264	4,499	4,484	5,687	14,366	19,806	
Time/Savings Deposits	3,125	4,072	5,158	1,170	2,440	1,830	1,960	1,938	
Deposits as Collateral	552	516	1,161	188	210	220	14	10	
TOTAL DEPOSITS	9,535	11,572	15,583	5,856	7,133	7,737	16,340	21,753	
Due to Banks	108	180	319	580	486	556	7,425	13,285	
ST Liabilities	1,225	859	684	1,161	1,015	0	5,231	7,339	
Regularization Accounts	265	316	439	138	609	787	4,943	2,351	
TOTAL ST LIABILITIES	11,132	12,927	17,025	7,735	9,242	9,080	33,937	44,728	1,
MT/LT Liabilities	2,114	1,606	1,553	5,392	7,258	5,764	2,783	4,090	
TOTAL LIABILITIES	13,246	14,533	18,578	13,127	16,500	14,844	36,720	48,818	1,
Capital Reserves	15	54	92	218	152	260	3,360	3,384	
Net Worth (including retained earnings)	1,236	1,317	1,420	795	948	854	2,574	2,616	
CAPITAL	1,251	1,370	1,512	1,013	1,100	1,114	5,934	6,000	
TOTAL LIAB & CAPITAL	14,497	15,903	20,090	14,140	17,599	15,958	42,653	54,818	1,

Table 11

Market Position - Three Major Banks (1982-1983)

	1982				1983			
	TOTAL (mmFCFA)	BIAO	BMCD	BDM	TOTAL (mmFCFA	BIAO	BMCD	B
TOTAL ASSETS	71,292	0.20	0.20	0.60	88,320	0.18	0.20	[illegible]
Banking Assets	70,117	0.19	0.20	0.62	84,331	0.17	0.20	0.
Fixed Assets	4,600	0.35	0.09	0.57	5,114	0.33	0.10	[illegible]
ST Loans/Discounts	33,436	0.18	0.31	0.51	41,788	0.18	0.31	0.
LT Loans/Discounts	9,234	0.20	0.04	0.75	9,163	0.15	0.04	0.
Accruals	14,557	0.03	0.03	0.94	16,684	0.03	0.04	0.
TOTAL DEPOSITS	31,730	0.30	0.18	0.51	40,458	0.29	0.18	0.
Demand Deposits	24,723	0.24	0.18	0.58	31,274	0.22	0.14	0.
Time/Savings Deposits	6,254	0.50	0.19	0.31	8,449	0.48	0.29	0.
Due to Banks	8,113	0.01	0.07	0.92	13,951	0.01	0.03	0.
Other Liabilities	17,616	0.19	0.37	0.44	16,636	0.12	0.50	0.
CAPITAL	8,198	0.15	0.12	0.72	8,470	0.16	0.13	0.
Net Worth	4,605	0.27	0.17	0.56	4,880	0.27	0.19	0.
Documentary Credits	--	--	--	--	17,058	0.10	0.35	0.
Other Contingent Liabilities	--	--	--	--	69,137	0.13	0.02	0.

[illegible]

With the exception of BDM, the banks [illegible] in the interbank market and have lent their excess funds primarily with the Central Bank and, to a lesser extent, with BDM. Interbank deposits constituted 2% of BIAO's and 7% of BMCD's funding by the end of 1984, while BDM's net borrowing fr[illegible] - principally from the BCM and BIAO - nearly doubled in [illegible] 7,400 MM to 13,300 MM FCFA).

2. Asset Structure and Financial Performance

The asset structures of the major banks differ widely, although all but BDM's are heavily biased towards short-term loans and liquid assets. Medium term loans (in excess of one year) represented an average 10% of BIAO's assets and only 2% of BMCD's over the 1982-84 period. Although BDM has engaged in some medium term lending, an average 30% of BDM's term assets were classified as accruals or suspense accounts in 1982 and 1983, as a result of its subsidization of parastatal losses and of the financial management problems which it has experienced over the years. Overall, there has been a net decline in medium-term lending since 1982, despite the fact that each of the major banks recorded asset growth of 25% or more in 1983 (BMCD and BDM) or 1984 (BIAO).

BMCD emerges as the most conservative of the two major commercial banks, with 78% of its assets representing short-term loans and advances and the discounting of short-term paper. However, BMCD's liquidity ratios have been far lower and its leverage ratios far higher than BIAO's (see Table 12). Its total loans/total deposits ratios have consistently been higher than both BIAO's and BDM's, while its risk assets/capital ratio is by far the highest of the three major banks. While it is clear that BMCD has been less successful in generating deposits, the ratios suggest that it has also pursued a higher risk strategy than BIAO, focusing on the development of a more substantial portfolio of on-balance sheet items. However, the bad debt ratios (2% for BMCD vs. 0.8% for BIAO in 1984) of both banks are low, which reflects the high quality of their portfolios and the conservatism of their credit policies.

The divergence of the ratios presented in Table 12 lies in the fact that BIAO has successfully exploited the interest rate and fee structure of the Malian financial market, seeking to build its clientele by providing a wider range of non-funded services than the more firmly established BMCD. While BIAO's short-term loan portfolio has on average constituted only 51% of its banking assets, its placements in the interbank market have represented 23% of these assets (vs. 9% for BMCD), with another 12% being held in cash (vs. 3% for BMCD). BIAO has thereby maintained high liquidity ratios, with the liquid assets/total deposits ratio averaging 45% and the liquid assets/total assets ratio over 30%.

Table 12

Comparative Financial Ratios

	BIAO			BMCD			BDM	
	1982	1983	1984	1982	1983	1984	1982	1983
PROFITABILITY								
Return on Total Assets	1.88%	1.78%	1.62%	N/A	1.50%	0.34%	0.17%	0.07%
Return on Net Banking Assets	2.12%	1.99%	1.78%	N/A	1.54%	0.35%	0.18%	0.10%
Return on Equity	21.82%	20.60%	20.19%	N/A	22.49%	4.88%	1.25%	0.09%
Net Int. Margin/Interest Income	0.77	0.73	0.72	N/A	0.64	0.69	0.33	0.31
Other Income/Total Income	0.30	0.35	0.35	N/A	0.59	0.53	0.34	0.41
Personnel Exp./Total Expenses	0.60	0.52	0.45	N/A	0.35	0.32	0.38	0.33
Total Asset Growth	N/A	9.70%	26.33%	N/A	24.46%	-9.34%	N/A	28.52%
LEVERAGE								
Total Loans/Total Deposits	0.82	0.77	0.73	1.84	1.84	1.56	1.47	1.33
Total Liabilities/Net Worth	10.72	11.04	13.08	16.51	17.41	17.38	14.27	18.66
Total Deposits/Off Blsht Items	0.82	1.08	1.29	N/A	0.99	1.31	0.28	0.[illegible]
Risk Assets/Capital	6.55	6.80	7.85	12.45	13.75	11.77	5.81	7.25
Total Assets/Capital	11.59	11.61	13.29	13.96	16.01	14.32	7.19	9.14
LIQUIDITY								
Liquid Assets/Total Deposits	0.49	0.42	0.42	0.19	0.28	0.31	0.34	0.38
Liquid Assets/Total Assets	0.32	0.31	0.33	0.08	0.11	0.15	0.13	0.15
Liquid Assets/Off Blsht Items	0.40	0.46	0.55	N/A	0.28	0.40	0.10	0.12
ASSET QUALITY								
Provisions/Total Loans	1.60%	2.28%	2.63%	0.97%	0.80%	0.87%	13.30%	2.63%
Prov. & Accruals/Total Assets	4.69%	5.39%	5.88%	3.85%	4.35%	6.39%	42.07%	31.41%
Bad Debt Expense/Risk Assets	0.64%	1.15%	0.80%	N/A	1.98%	2.09%	1.21%	1.13%

Although this may appear to be a sign of [illegible], Tables 10 and 12 show that BIAO has a much higher value of off-balance sheet activity than BMCD, much of it consisting of guarantees of short-term obligations requiring more substantial cash coverage than BMCD's emphasis on letter of credit operations.

BIAO management has therefore clearly emphasized the generation of fee income, while effective cash management has allowed it to simultaneously cover these contingent liabilities and earn attractive rates from placements with the BCM and BDM. BIAO increased its level of interbank deposits by an additional 60% in the 1984 fiscal year to take advantage of the 11.5% BCEAO rate.

Despite the success of BIAO's strategy in terms of profitability, BMCD has maintained a substantially higher non-interest income/total income ratio, since it has held an average 35% share of the documentary credit market (vs. 10% for BIAO). The opening of letters of credit is typically a less risky and more lucrative business. Since BMCD can operate with existing lines in Credit Lyonnais' extensive branch and correspondent network, it has held an advantage in this field. BIAO has had to develop individual lines of credit with its shareholder banks and other correspondents, and some of its holdings with other banks represent cash collateral on trade transactions. In any event, BIAO appears to have effectively positioned itself to capture a growing share of this market, as is reflected in comparative results for the 1984 fiscal year.

A comparison of the banks' fixed assets shows that BIAO has invested far more heavily than BMCD in facilities (including the recent move to new headquarters in Bamako) and equipment. BIAO has thus far developed the most advanced computerized accounting system in the Malian banking system. Although all of the banks will have to devote increasing attention to modernization activities, BIAO has clearly hoped to capitalize on an earlier start in order to improve its competitive position. It is also interesting to note that BIAO has by far the highest personnel expenses/total expenses ratio of the major banks, as well as the most attractive salary scale, which suggests that it has succeeded more readily in attracting high quality staff. While attractive facilities and efficient customer service may have historically been a particularly weak element of bank strategies in Mali, they should become more critical success factors as competition increases.

D. Market Deficiencies

The discussion in Chapters I and II reviewed the overall performance of the Malian financial sector as a system of intermediation between depositors and borrowers, and concluded that there is a major gap in the provision of financing for investment in productive assets. Table 7, for example, shows that

most of the financing provided through 1982, the last year for which complete data was available, has in response to short-term requirements. The level of medium-term financing remained constant over the 1979-1982 period, implying a decrease in real terms. More importantly, it decreased over that period by 50% as a percentage of total credit to the economy, falling from 15% to 10% of credit to the private sector.

The foregoing analysis of individual bank strategies and performance confirms the fact that most of the credit made available in Mali continues to be for production, trade and working capital financing. The very structure of the economy tends to create a heavy demand for working capital and other short-term credit facilities, while the informality of much of the activity creates an active market for the off balance sheet guarantee-type transactions which are being actively pursued by BIAO, BAM and, to a lesser extent, BMCD. Table 13 shows that commerce, trade, transport and other services are the major contributors to GDP, while modern agriculture and manufacturing and processing industries, sectors typically requiring longer term funding for the acquisition of productive assets, account for a comparatively negligible share of economic activity.

To date there have been no major incentives for banks to move in the direction of providing medium term financing. The banks have been careful to match the maturities of their sources and uses of funds and, given the marked preference for demand accounts, appropriate resources have generally not been available for longer term lending. However, there is no doubt that the weakness of the term credit market in Mali goes far beyond constraints created by the structure of bank deposit bases.

Table 13 - Structural Distribution of GDP
(in percentages)

Major Sectors:

Agriculture	25
Industry	12
Services	63

Subsectors in order of importance:

Commerce/trade	30	Construction	5
Livestock	17	Crafts	4
Transport	16	Modern agriculture	2
Public Administration	11	Food Processing	2
Traditional Agriculture	6	Other Industry	3
Other Services	6		

As BIAO's strategy indicates, the interest rate structure encourages the use of funds as security for fee-generating activities, which have lower transaction costs than (and therefore effectively compete with) more traditional lending operations. Moreover, the currently high liquidity of the banking system reduces the potential effectiveness of rediscounting as a credit allocation mechanism, since the banks do not have to resort to making rediscountable loans in order to supplement their deposit-based funding.

BDM has thus far provided most of the medium term financing in Mali, and should rightly be looked upon to take the lead in this market. However, BCEAO regulations and the new Malian banking law do not impose separate regulatory regimes for commercial and development banks, therefore providing no formal structure for the delimitation of BDM's activities. Absent other controls and clearly defined priorities, BDM is likely to continue to carry out traditional commercial banking functions, to the detriment of its development finance responsibilities. For example, while all of the banks engage in seasonal lending activities (particularly in the marketing of cotton and other cash crops), BDM is actively involved in this market, if for no other reason that it is not subject to UMOA's rediscounting ceilings and therefore provides a mechanism for BDM to seek BCEAO funding support.

Recent and continuing policy reforms designed to stimulate private enterprise in Mali should increase the pressure on financial institutions to provide more resources for business start-ups and expansion. The heightened competition among both commercial and development banks for deposits and revenue-earning opportunities can be seen in the growth of branch networks and in Bank of Africa's rapid initial growth. While we have not conducted an analysis of the existing or potential demand for credit in Mali, it is possible that successful banks may in the future be more encouraged to provide the type of medium-term financing required to support investment in productive businesses.

IV. BANK OF AFRICA-MALI

A. Ownership

BAM was founded by Mr. Mohamed T. Diawara, an Ivorian citizen born of Malian parents in Bourkina Faso. Mr Diawara served as Minister of Planning of Ivory Coast from 1968 to 1977, and played a key role in Ivory Coast's "economic miracle". His subsequent activities as President of the Club of Dakar (a West African "think tank") and promoter of African businesses led him to return to Mali in November, 1981, where he won presidential support for the creation of a private investment company in association with Malian businessmen.

The company was incorporated in July, 1982 as the Union pour le Financement du Developpement en Afrique - Mali (UNIFIDA - Mali), but its existence was short-lived. Its authorized capital was increased from FCFA 130 million to FCFA 500 million on October 4, rapidly followed by government approval to operate as a financial institution (October 6) and a well-publicized and successful stock issue. On October 20, the shareholders voted to establish in its place a commercial bank with authorized capital of FCFA 650 million. Bank of Africa - Mali (BAM) was incorporated on December 20, 1982 and approved as a bank on December 24. The uncharacteristic rapidity with which these events took place was a manifestation of the growing emphasis on private enterprise development in Mali and the general disenchantment with the performance of the national development bank, BDM.

BAM's capital is held by some 650 shareholders, although 83% of the shares are owned by 44 shareholders, and at least one third are still controlled by Mr. Diawara personally (7.69%) and through interlocking directorates in UNIFIDA - Luxembourg (19.73%), UNIFIDA - France (2.31%) and Agartha Finance Corporation (7.69%). Although BAM's capital is not as widely held as its image as "the bank of Malians" suggests, the fact that it is Mali's first 100% private African-owned bank has been extremely well-regarded in business and government circles.

Subsequent to the creation of BAM, Mr. Diawara has encountered some serious difficulties in connection with the placing of funds by FOSIDEC, a fund established by the West African Economic Community (CEAO) in 1977. Allegedly, an amount in excess of 6 billion FCFA (US$15 MM) was placed by FOSIDEC in 1982, with Mr. Diawara's companies acting as agent. The whereabouts of these funds is not known and they are allegedly long overdue to FOSIDEC. Mr. Diawara has been under house arrest (along with several members of FOSIDEC's senior management) since October, 1984, and an investigation of the whole affair is underway in Ouagadougou.

The Diawara affair bears close scrutiny in any evaluation of BAM. Technically, legal action can be taken by CBAO, FOSIDEC to possibly attach Diawara's equity holdings or otherwise affect the overall equity structure of the bank. This could result in a sell-off of Diawara's interest in BAM which, given the bank's encouraging performance, may not prove particularly disruptive. Diawara's shares could be purchased by existing shareholders, as when CCBP withdrew in July, 1984, although given its magnitude, Diawarra's interest may take more time to absorb. It is also possible that FOSIDEC would retain Diawara's interest, assuming they succeed in attaching it.

According to BAM management, Mr. Diawara had no signatory power over any account of the bank even prior to his arrest. He was not involved in its management, although he actively held the post of Chairman of the Board. At a meeting held October 31, 1984, the BAM Board decided not to demand Mr. Diawara's resignation because he "had not been indicted" and any such action would be tantamount to an admission of guilt.

The controlling interests held by Diawara appear to be having little or no impact on BAM's reputation in Mali, its overall business policies and its day-to-day operations. The Malian Government continues to publicly support the bank.

B. Management

Since its inception, BAM has been headed by a French citizen and close associate of Mr. Diawara, Mr. Paul Derreumaux. As General Manager, Mr. Derreumaux reports to an 9-member Board of Directors. BAM also has a 12-member advisory board known as the Comite des Sages, headed by the President of Mali's Chamber of Commerce. Most of the members of this board are prominent Malian businessmen, and were the original directors of UNIFIDA-Mali. When the investors decided to establish a bank, these directors resigned, alleviating fears that they might use their position to influence bank policy and credit decisions. The Comite now meets once a year and plays a minor role in BAM management. However, it is a novel institution which both preserves the loyalty of influential members of the business community and provides marketing support and security for the BAM's banking activities. The bank has made a number of commitments on the basis of the personal cognizance of Comite members.

BAM's top three management positions under the General Manager were held until July 1984 by French expatriates under a technical assistance contract with a French banking group, the Caisse Centrale des Banques Populaires (CCBP), formerly a 3.8% shareholder in BAM. The CCBP managers reportedly left because of a reorganization of the company's international activities under a

new president, and CCBP sold its shares in BAM (25MM FCFA) to Malians on September 30, although it remains BAM's principal foreign correspondent. Since then, Malians have occupied all management positions, with the exception of Mr. Derreumaux. BAM recently recruited a French banker on a 6-month renewable contract to serve as an advisor in the Credit Division, to help train marketing agents, and to develop new products.

The departure of the CCBP advisors reduced BAM's personnel costs and did little to disrupt operational continuity. Tighter control was exercized over the various bank officers and departments, and although this was done effectively, opportunities for a greater delegation of responsibilities should gradually be developed to accomodate the growing volume of activity.

C. Operating Departments

BAM's organizational structure is illustrated in Chart 1. The three major departments are Credit and Marketing, Operations and Accounting, and Personnel and Administration. The major responsibilities of each division are summarized below.

1. Credit and Marketing Department

o Customer Service Division: Day-to-day service and marketing. Processses both individual and business account transactions (which are handled separately), provides walk-in advice to clients, and develops new business opportunities and BAM's overall marketing strategy. The outstanding feature of BAM's customer service operations is the so-called "polyvalence des guichetiers". Unlike other banks, BAM provides a "one-stop service" to walk-in customers, which involves account status verification, issuance of cashier's checks, check approval, and the like.

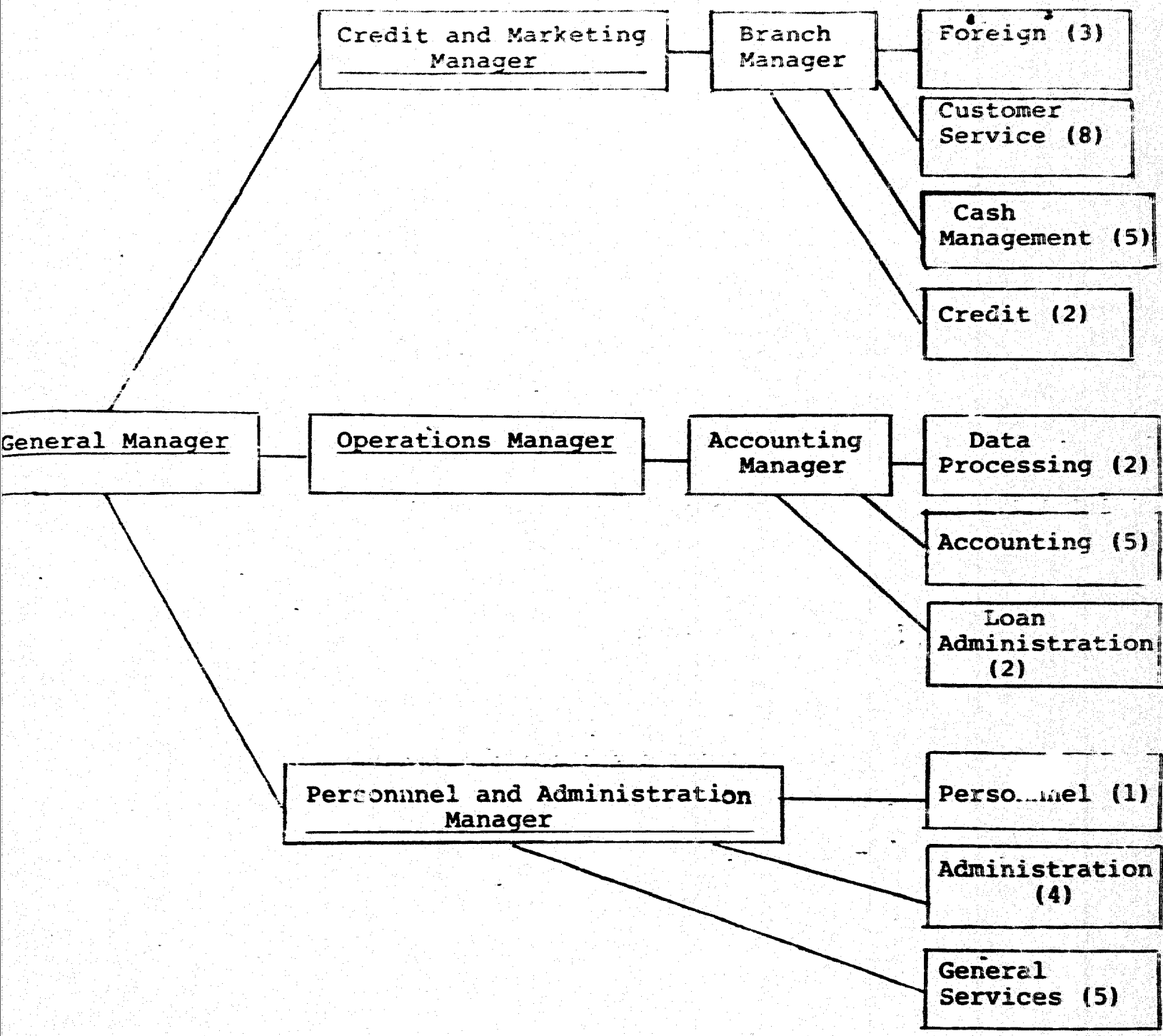
o Foreign Division: Processes documentary credits, foreign transfers, correspondent bank transactions and all other foreign services.

o Credit Division: Handles credit analysis, loan administration, and the monitoring of all bank commitments. A fairly rigorous credit analysis procedure is in place for lending operations, and a credit analysis manual has been set up.

2. Operations Department

o Accounting Division: Maintains the general ledger, prepares periodic financial statements and reports to the Central Bank, and monitors checkbook and certificate of deposit inventories. Also in charge of procurement and fixed asset management.

Chart 2 - Organizational Structure of Bank of Africa
(Number of employees at end - FY1984)



o Branch Administration Division: Validates computer records for branch use, including payroll records, monitors client payment orders, personalizes checkbooks, and manages certified checks.

o Loan Administration Division: Manages discounted loans, loan drawdowns, credit information collection, keeps loan amortization schedules and monitors payments, manages guarantees, helps Accounting prepare customer balances, manages time deposits.

o Data Processing Division: Daily recording of all accounts data, daily updating of customer accounts, daily closing balances for customer accounts and the branch, preparation of transaction volume summaries and monthly account summaries.

3. Personnel and General Administration Department

o Personnel Division: Prepares and administers recruitment tests, keeps personnel records, prepares monthly payroll, manages employee benefits, organizes training and evaluates performance, deals with government agencies concerned with personnel matters. Personnel and hiring manuals have been developed.

o Administration Division: Purchasing all office supplies and materials, building maintenance.

o General Services Division: Typing pool, photocopying, security, driving, and other staff services.

Although BAM has been in operation for little over a year, it is already distinguishing itself by the efficiency of its service, the motivation of its staff and appropriate controls in key operating areas. Visits to the various departments revealed few serious weaknesses in operating procedures and staffing. Our three major observations are as follows:

a) Credit controls for non-funded operations (guarantees etc.) are less formal than for lending and discounting operations: not all of these transactions pass through the credit committee. Moreover, BAM's legal analysis capability is still at a rudimentary level. Although the bank has maintained high asset quality with a conservative approach and occasional recourse to the BCEAO "Centrale des risques" (Credit bureau), its capacity in this area should be further developed. It should be noted that loans in excess of 30 MM FCFA must be approved by the BCEAO.

b) BAM's computer applications should be expanded to the loan administration area, which at the time of our visit was operated manually. If possible, a computer terminal should be available in the teller area in order to further improve the excellent service being provided. Customer account data was being entered by hand on computer runs, which made the greater

efficiency possible but poses a risk which should be eliminated as soon as possible.

c) An independent auditing department is in the process of being set up and will further improve operating control. An audit by Arthur Andersen was due to take place in the first quarter of 1985, in part to support this development.

D. Funding

BAM developed a solid deposit base between January, 1984 and March, 1985. Tables 14 and 15 provide a monthly breakdown as to the value and number of accounts. By the end of the abbreviated (nine-month) 1984 fiscal year, BAM had generated 1521 accounts, whose total value of 1123 MM FCFA represented 7%, 15% and 115% of the deposits of the three other commercial banks (BIAO, BMCD and BALIMA, respectively).

BAM's early successes coincided with the national boom in deposits during the transition period of Mali's entry into UMOA. It performed well relative to its major competitors, BIAO and BMCD. BIAO's deposits grew by 4000 MM FCFA, while BMCD's grew by only 600 MM FCFA. Thus, BAM outperformed BMCD and captured nearly 20% of the three banks' incremental deposits. The growth rate levelled off somewhat between October and December as the currency conversion was completed and the agricultural season began. However, the first three months of 1985 brought an extremely impressive resumption of growth in both the number (33%) and amount (78%) of BAM's deposits. The bank reached the 2000 account plateau during March, and the total value of deposits reached 2161 MM FCFA. An innovative advertizing campaign to celebrate the bank's first anniversary in December helped spur this growth.

Individual accounts have consistently represented 73% of the total number of accounts since September, 1984, but their value fell to as low as 22% of the total deposit base (in December). Since September, when the average individual account size was 295,500 FCFA, average account sizes have ranged from a low of 210,000 FCFA in December to a high of 379,542 FCFA in March. BAM's monthly reports to the BCEAO make note of the fact that it has recently attracted the business of high net worth individuals.

The value of corporate accounts as a percentage of total deposits rose from 48% in September to 57% in March. This growth reflects seasonal activities as well as BAM's ongoing efforts to win over larger business acounts. Deposits held as collateral, principally for letter of credit operations and, to a lesser extent, as security for other off balance sheet commitments, amounted to 23% of deposits at end-FY1984 and rose to 28% by the end of December. These deposits have concinued to remain stable in absolute terms, although their share of the deposit base has fallen.

Table 14

Value of Deposits - January 1984 - March 1985

End of Month (MM FCFA)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	MAR
INDIVIDUALS	71	125	152	188	247	271	258	262	328	281	239	266	564
Demand	47	80	103	130	192	188	186	191	251	207	167	195	437
(Shareholders)	9	20	29	23	27	25	33	35	35	30	21	21	28
Savings	11	25	32	35	36	39	38	38	44	36	34	34	47
Time	14	20	17	23	19	44	34	34	34	37	37	37	53
COMPANIES	198	238	274	491	633	702	581	532	544	643	585	602	1244
Demand	189	229	255	481	623	667	486	437	449	558	500	517	1184
(Shareholders)	131	85	112	220	352	297	251	166	184	211	199	235	255
Time	9	9	19	10	10	35	95	95	95	85	85	85	60
OTHER CLIENTS	5	2	102	161	151	75	232	331	257	361	326	345	353
TOTAL	274	365	528	840	1031	1048	1071	1125	1129	1285	1150	1213	2161

Table 15

Number of Deposits - January 1984 - March 1985

End of Month Situation

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	MAR
INDIVIDUALS	326	492	620	742	836	930	980	1058	1110	1187	1222	1261	1486
Demand	248	368	471	548	618	689	729	793	837	893	919	946	1135
(Shareholders)	39	47	56	60	63	65	66	69	70	72	75	76	85
Savings	73	118	143	186	211	235	243	256	264	283	289	301	336
Time	5	6	6	8	7	6	8	9	9	11	14	14	15
COMPANIES	133	188	243	289	329	348	360	389	411	431	438	467	537
Demand	132	187	241	288	327	346	357	386	408	429	436	465	535
(Shareholders)	62	74	84	92	100	101	106	106	110	111	111	115	119
Time	1	1	2	1	2	2	3	3	3	2	2	2	2
TOTAL	459	680	863	1031	1165	1278	1340	1447	1521	1618	1660	1728	2023

Table 16 shows the concentration of demand deposits at the end of FY1984. By far the largest number of deposits (79%) showed balances of less than 200,000 FCFA (average balance 37,000 FCFA). The top 84 accounts with balances of over 2 MM FCFA represented 77% of the total value of deposits, with an average deposit size of 8 MM FCFA. Recent developments indicate that accounts with larger balances continue to contribute the major share of BAM's deposit base. However, BAM has attracted a significant number of both small and large depositors, and the relative weight of large accounts should therefore not be a cause for concern.

Table 16 - Concentration of Demand Deposits

Amount	Number of accounts	Average Size	Total Value
200,000	1209	37 MM	45.3 MM
200-500,000	108	324 MM	35.0 MM
500-1,00,0000	78	696 MM	54.3 MM
1-2,000,000	42	1517 MM	63.7 MM
over 2,000,000	84	8040 MM	675.4 MM

BAM actively encourages shareholders to hold accounts with the bank. However, shareholder deposits represented only 5% of the value of individual deposits and 20% of corporate deposits by March, 1985, down from 11% and 34% respectively at end-FY1984.

BAM has been less successful in attracting time and savings deposits. These represented 5.2% and 2.2% of the total deposit base, respectively, in March, 1985, despite the fact there had been a significant spread between BCEAO-imposed rates on demand and non-demand accounts. The recent elimination of mandatory interest on demand accounts may help to adjust the maturity structure of BAM's funding in the coming months.

E. Banking Activities and Use of Funds

The structure of BAM's banking assets has thus far been dominated by placements with other banks (50%) and short-term loans, advances and discounts (43%). In the latter category, advances (overdrafts to depositors) of 413 MM FCFA at end-FY1984 represented 25% of BAM's banking assets, with direct loans accounting for another 10% and discounts of short-term notes 7%.

Table 17 shows that BAM's placements have been primarily with the BCEAO and with CCBP, its principal correspondent. Prior to Mali's entry into UMOA, BAM placed its funds with the other commercial banks rather than with the Central Bank. The current BCEAO rate of 11.5% on interbank deposits has proved to be a very strong incentive for BAM, as its placements grew from 290 MM FCFA in December to 996 MM FCFA in March. Given BAM's recent entry into

the market as well as the overall caution of foreign banks in handling Malian trade transactions, the deposits held with CCBP represent up to 80% cash collateral on letters of credit opened by BAM. Some portion of the funds have been invested in an interest-earning time deposit, and the balance of this offshore account has more or less followed the trend of BAM's trade transaction business.

Much of BAM's activity has been concentrated in the provision of a variety of guarantees and bonds upon which it earns fee income of 2 to 4% (see Table 18). Non-interest income represented approximately two-thirds of BAM's income in FY1984, with total contingent liabilities as a percent of total assets rising to 80% by end-FY1984. The primary vehicles, other than letter of credit transactions, have been guarantees of notes to suppliers and performance bonds for building and civil works contractors. The latter product has been particularly successful in the first quarter of 1985, with outstanding contingent liabilities in this category growing from 218 MM FCFA in December to 990 MM in March.

The focus on off balance sheet transactions was a deliberate policy and not unusual for a start-up bank. Attractive interbank rates justified the use of funds as security for these fee-generating activities, which reduced the pressure to achieve rapid asset growth. BAM has preferred not to leverage its funds excessively, and has maintained a conservative approach to traditional lending and discounting activities. These have thus far been somewhat concentrated in the provision of overdraft facilities to depositors. However, there has been a substantial increase in off balance sheet liabilities since December, and management has expressed the intention of controlling this for the balance of FY1985.

Although only one of BAM's direct loans was classified as non-performing by end-FY1984, the bank has reportedly experienced some defaults on obligations which it had guaranteed. It can nevertheless be expected that this type of transaction will continue to provide a significant proportion of BAM's revenues, as it has for the other commercial banks.

The bank's small aftertax loss of 23 MM FCFA was entirely a function of the developmental character of its first few months of operations and to a rapid depreciation policy . The depreciation expense on 256 MM FCFA in fixed assets was 31 MM, and thus the bank had in fact achieved an operating profit of 8 MM FCFA. The comparative financial statements and financial ratios presented in Chapter IV show that BAM's expenses are within the norms of the market (e.g. personnel expenses are about one-third of the total, vs. 36% for BMCD and 43% for BIAO). The issue of profitability will be examined in greater detail in Chapter V.

Table 17

Due from Banks - January 1984 - March 1985

End of Month (MM FCFA)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	MAR
B C E A O	0	0	0	0	0	576	400	315	285	345	290	290	996
B M C D (Demand)	112	116	107	190	146	3	3	4	4	4	4	4	6
B M C D (Time)	168	168	233	175	175	0	0	0	0	0	0	0	0
B D M	0	0	0	200	500	0	0	0	0	0	0	0	0
B I A O	5	5	31	23	19	32	2	3	3	3	3	3	3
C C B P	206	248	140	122	93	202	246	404	404	447	288	198	303
C N C A	0	0	0	0	25	53	69	51	48	107	127	119	116
OTHER INSTITUTIONS	99	99	29	14	13	1	4	54	82	102	52	96	87
TOTAL	590	636	540	724	971	867	724	831	826	1008	764	710	1511

Table 18

Total Loans and Guarantees - January 1984 - March 1985

End of Month (MM FCFA)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	MAR
Short Term Loans	43	22	89	181	133	359	320	373	420	433	488	678	702
Discounts	0	0	35	211	141	73	105	158	150	175	153	116	116
Medium Term Loans	0	0	0	0	0	0	0	0	0	3	3	0	3
Documentary Credits	0	0	155	179	270	169	377	586	669	612	640	560	636
Bill Guarantees	16	154	470	734	744	700	538	486	443	588	542	543	339
Surety Bonds	0	0	21	25	46	89	93	127	222	179	186	218	899
Other Guarantees	0	45	45	45	45	73	113	119	119	119	119	116	194
Other Commitments	0	0	0	0	0	0	80	80	80	80	80	80	25
TOTAL	59	221	660	1196	1109	1294	1249	1343	1434	1577	1571	1751	2278
Reserves	0	0	106	125	0	74	150	198	0	250	248	276	31

F. Summary of Competitive Position

BAM has performed well since it began its operations in December, 1983. The following list highlights the major strengths and weaknesses of BAM's competitive position vis-a-vis the three major banks.

1. BAM strengths

o Excellent timing of entry into the Malian market (into a liquid market, and prior to the elimination of interest on demand deposits), helping to sustain enthusiasm among supporters.

o Ability to take credit decisions in Bamako, without having to refer to offshore management (as do BIAO and BMCD).

o Ability to operate in the informal sector, where tangible security may be difficult to obtain, but "moral guarantees" provided by the Comite des Sages and shareholders can constitute an acceptable substitute.

o Less rigid management structure, enabling it to be more responsive to specific needs of Malian market and to be more aggressive.

o Not restricted by the Malian civil service scale (as is BDM) and not burdened with inefficient staff built up over the years (as is BMCD).

o More efficient approach to walk-in customer service.

o Computerized accounting (more advanced than BDM and BMCD).

2. BAM weaknesses

o No established offshore network of correspondents and affiliates to facilitate trade transactions and to provide referrals.

o After the departure of CCBP personnel, insufficient trained and experienced management staff.

o No branch network.

o Repercussions of the Diawara affair.

V. CORE BUSINESS STRATEGY

A. Recommended Approach

After a successful initial phase of development, BAM is in a position to develop a core business strategy which will, in the medium term, make it an important market force in the Malian financial sector, while retaining its status as a bank wholly owned by private African investors. The three recommended core business strategies represent a slightly more aggressive stance than has thus far been adopted. However, a balanced growth should keep the overall level of risk within the norms of the marketplace.

1. CONTINUE TO AGGRESSIVELY COMPETE FOR BOTH DEMAND AND TIME DEPOSITS.

The timing of BAM's entry into the Malian banking system was excellent, since Mali's return to UMOA helped to create a liquid market. BAM has performed well in developing a deposit base. From around 500 MM FCFA at the end of March, 1984, total deposits have jumped to over 2100 MM FCFA by March, 1985. However, the relative importance of time and savings deposits in total deposits has declined from 15% at FYE1984 to less than 10% by March, 1985. Since demand deposits are no longer remunerated, the obvious tendency is to concentrate on these types of deposits as a source of funding. However, demand deposits tend to be more volatile than savings and time deposits. A sudden drop could have a serious impact on an emerging bank, since the immediately available alternative source of funding would be the interbank market, where the interest rates are very high (currently 11.5%). In addition, were the BCEAO to reinstate mandatory interest on demand deposits, BAM's profitability would be adversely affected.

Although remunerated at a much higher rate, time and savings deposits provide a much more stable source of funds. It is recommended that BAM work gradually towards obtaining approximately 25% of its resources from these accounts. Overall deposit growth can be stimulated by pursuing the following strategies:

a) Develop new funding products. While BAM already provides most conventional commercial banking products permitted under the BCEAO structure and demanded by the market, the introduction of more innovative products can increase the bank's ability to attain the deposit growth projected.

o Certificates of deposit (CDs) should be introduced, with varying maturities beginning at six months and rising at quarterly (or preferably monthly) intervals. CD's earn a high rate of interest under the BCEAO structure (7.25% to 9.5%) and give the term depositor both a high return and mobility of funds, since they are discountable at 1% over the offered rate. BIAO has already introduced these certificates and is reportedly impressed

with the response. The varying maturities will provide the clientele with a CD tailor-made to their needs, while permitting BAM to move towards increased term lending.

o Annuities would help BAM increase its share of deposits from expatriate Malians, whose remittances are typically intended as vehicles for saving and family support. The annuity would be structured in such a way that the beneficiary of the expatriate's transfer would be entitled to a series of periodic payments.

o Contract deposits should also receive consideration, to the extent permitted by BCEAO regulations. Under such an arrangement, the client would enter into a contract with the bank to deposit a stipulated amount into the account. A higher rate of interest would be paid, depending on the duration of the contract. An interest penalty would be imposed on a depositor who defaults on any of the contract conditions.

b) Expand the deposit gathering network. BAM is already considering the establishment of a branch office at Kayes, projected to become operational during 1985/1986. Provided an adequate feasibility study has been carried out, implementation of this plan would create new opportunities for deposit collection, since Kayes is the place of origin of many Malian expatriates. Plans for a proposed branch of BAM in France, established expressly for the purpose of soliciting deposits from Malian expatriates, have been stalled because of stringent regulations in France. However, it may be desirable to appoint correspondent banks as deposit gathering agents, with accounts to be compensated from BAM deposit balances with the agent bank.

c) Further improve service at the counter. It was observed that a good number of new clients came to BAM because of dissatisfaction with the services provided by BMCD and BDM. Customer service can be further improved with:

o further automation in the cash area making balance information immediately available;

o periodic statements to both demand and time depositors.

2. STEP UP THE MARKETING OF BANKING SERVICES.

In order to become a major actor in the Malian financial sector, BAM should seek to attain asset growth of around 30% p.a. over the next five years. While this is ambitious, the target of 9 billion FCFA in assets is a realistic goal in the current environment in Mali. BIAO reached 20 billion FCFA in total assets during the 1980-85 period. An aggressive marketing strategy will have to be implemented to achieve a balanced growth in the portfolio. The following sub-strategies are recommended:

a) Develop new lending and service products. Having been in operation for over a year, BAM already provides a variety of basic banking products. As the portfolio increases, the introduction of new products is recommended, particularly if BAM chooses to pursue the opportunities which appear to exist in the medium-term loan market.

o The greatest unsatisfied demand in the Malian credit market is for medium-term funding. Apart from the medium-term lending capability that would be provided by the AID-supported facility described in Chapter VI, BAM should increase its own capacity to develop asset-based or project-related lending for terms in excess of one year. The products could be directed towards either the formal or the traditional sector but should be concentrated on the former. Such a medium-term lending capability should also generate some short-term opportunities.

o Lending for residential construction can also be a profitable activity for BAM. The BCEAO is prepared to refinance (at the preferential discount rate) loans for a borrower's first dwelling, up to a limit of 15 MM FCFA. An appropriate product would be an arrangement modeled after the British building societies, whereby the prospective home-owner accumulates deposits at the bank until an amount equivalent to the stipulated percentage (from 25-35%) of the loan principal has been accumulated. The loan can be extended for a term of up to 10 years and rediscounted with the BCEAO. The margin which can be obtained in such a transaction is typically adequate for this type of well-secured lending. Such an arrangement would also serve as a funding source in its earlier years, and could serve BAM well in its formative years.

o In the service area, BAM already operates a "project promotion" service. The bank has provided some support to Malian enterprises seeking to expand into markets opened up by the recent public and parastatal reform efforts. A stronger advisory and support capability would help generate well-conceived financing opportunities.

o The further development of services such as safe-deposit boxes, over-the-counter foreign exchange and bill/coins change operations will make BAM more of a full-service bank, while generating some additional revenue.

b) Increase geographic coverage. As discussed above, the proposed Kayes branch will provide BAM with the opportunity to solicit business and deposits in this productive region. One of BAM's competitive weaknesses is the inadequacy of its correspondent network which has inhibited activity in the lucrative letter of credit market. Now that BAM has produced audited financial statements for an operational year, the development of a broader correspondent network in Europe, Asia

and North America should be a priority activity. The establishment o correspondent relations with banks within the UMOA system is of equal importance.

c) Develop a marketing organization to aggressively market products and services. BAM must create a marketing organization which will emphasize rapid, efficient and responsive service in order to attract customers away from the established banks. It may be desirable to create a business development unit staffed by aggressive young recruits whose sole purpose would be to generate new business. The motivation of these representatives would be enhanced by the introduction of incentive compensation schemes tied to performance.

d) Build on BAM's structural advantage in the traditional market. BAM is not bound by credit policies imposed by foreign shareholders. Moreover, the unique structure of the Comite des Sages and the "moral guarantees" which its members can offer as security for loans, gives BAM an unusual opportunity to seek business in the traditional market. The bank should make efforts to formalize its intervention in this market. For example, Comite members could be organized into cells whose ability to guarantee loans would be related to the aggregate performance of their referrals. While the moral guarantee of a Sage provides a basic security to the bank, an informal credit check system should be instituted if this type of activity is to grow in importance.

3. INCREASE MANAGEMENT CAPACITY.

While BAM's current management has done an admirable job of guiding the bank through its first 16 months of operation, the departure of the CCBP advisors has weakened the crucial middle management ranks of BAM. The immediate and prudent step taken of centralizing all major decisions at the general management level was a useful consolidation measure. However, this level of control would in the long run inhibit growth. A number of BAM employees have been recruited from BDM and BMCD and therefore possess the basic banking skills needed to function in their current positions. However, the implementation of an adequate training program is needed to strengthen BAM's management capacity. Possible components of such a program are as follows:

a) Training in the area of credit analysis and loan administration should be emphasized. A number of larger American and European banks have excellent programs ranging from 4-6 weeks to 6-9 months, providing hands-on training in retail bank management. Marine Midland Bank in New York has agreed to take one trainee in the credit analysis area in the second half of 1985. If language proves to be a problem, some European offices of American banks offer courses in French.

b) Robert Morris Associates administers, on behalf of the smaller U.S. banks, a series of courses dealing with specialized

retail banking operations. These short sessions may be of interest once BAM has identified specific areas it may wish to develop.

c) The most relevant training would be with similar size banks in UMOA countries. BAM's correspondents within the region may be willing to take BAM employees for short-term training programs on a cost-reimbursement basis.

d) A cost-effective method of training supervisory and rank employees of the bank is the seconding of a banking generalist who can provide on-the-job training in Mali.

B. FINANCIAL PROJECTIONS

The basic assumptions for the financial projections presented in Tables 19-22 were developed and discussed with BAM management during the field trip. Some of these initial assumptions have been adjusted subsequent to the analysis of BAM's prospects.

1. Balance Sheet Projections (Tables 19-21)

a) It is assumed that the bank will operate under a maximum leverage ratio of 7.0 during the first five years of operation. This ratio will increase gradually from the current 2.2X, in the following progression.

FY1985	3.6X
FY1986	4.3X
FY1987	5.0X
FY1988	5.5X
FY1989	6.0X
FY1990	7.0X

This represents a fairly conservative leverage ratio when compared with that of BIAO, which in its fifth year of operation is leveraged to about 11.0X. Under these assumptions, BAM will grow to over 9000 MM FCFA in total assets by FY1990, and will thus have become a firmly established bank by West African standards.

b) With respect to funding, approximately one third of BAM's resources will continue to come from demand deposits. Based on the suggested strategy of increasing reliance on the more stable time and savings deposits, funding from time deposits will increase gradually to reach approximately one quarter of all resources. Time deposits of less than one year will represent the largest segment of time deposits (and 15% of total resources by FY1990), while longer term deposits are targeted to reach approximately 4% of total resources. Savings accounts (both individual and company), which have started off quite well at about 3% of total resources, are projected to reach approximately 7% by 1990.

c) It is assumed that about 10% of total funding will come from interbank deposits, which currently represent 12% of resources. This is the costliest source of funds and should therefore be minimized, but occasional shortfalls in funding requirements will have to be sourced from this market.

d) It is assummed that BAM will generate a small profit in 1985, just enough to recover past losses. All earnings will be retained in the form of statutory reserves and capital reserves until 1988, at which time a 10% dividend is provided for.

e) On the basis of the recommended business strategy, BAM's asset growth would be directed towards a reduction in liquid assets, from the current 40% to 25% in 1990. Since BAM is a small independent bank, not supported by a major European or American money-center bank, it will have to hold a portion of its interbank deposits in non-interest-bearing accounts to collateralize its letter of credit operations. As BAM becomes better known, however, the share of total assets represented by these deposits will decline from the current 18% to about 10% by 1990.

f) It is assumed that short term loans, overdrafts and discounts will continue to represent the bulk of the bank's activity. The relative importance of this type of lending will remain stable at about 40% of total assets through the initial years.

g) In keeping with a strategy to increase involvement in medium-term asset-based or project-related financing, medium-term loans and discounts will increase in importance to around 15% of total assets by 1990 (currently at 5 %).

h) The relative importance of off-balance sheet obligations will be reduced from the current 65% of total assets to approximately 45%, since such commitments can very quickly become on-balance sheet items if the primary obligor defaults. While these items will continue to grow in absolute terms, the rate of increase will be lower than that of overall (and specifically liquid) asset growth.

2. Income Statement Projections (Table 22)

a) The following interest rates have been assumed for bank products:

	1985	1986-90
Interbank Placement	9.5%	9.5%
Short-term loans/advances	15.0%	14.0%
Short/lomg-term discounts	14.0%	14.0%
Medium-term loans (preferred)	11.0%	11.0%
Medium term loans (ordinary)	15.5%	14.0%

Table 19

BALANCE SHEET PROJECTIONS (1985-1990)

(MM FCFA)

	1984	1985	1986	1987	1988	1989	1990
NKING ASSETS							
sh & Demand Funds	42	60	80	100	130	155	180
terbank Placements	847	833	765	809	1236	1468	1705
n-Interest Interbank	n, a	400	500	600	720	750	800
Loans	167	300	475	650	900	1200	1440
vances	414	750	900	1080	1300	1560	1875
scounts	150	300	600	900	1080	1400	1700
Pref. Loans/Discounts	0	0	100	300	350	400	450
ıer MT Loans/Discounts	76	120	200	350	450	550	650
'AL BANKING ASSETS	1696	2763	3620	4789	6166	7483	8800
vvisions	7	20	48	60	80	90	100
' BANKING ASSETS	1689	2743	3572	4729	6086	7393	8700
ed Assets	256	305	328	311	314	307	300
AL ASSETS	1945	3048	3900	5040	6400	7700	9000
BALANCE SHEET ITEMS							
ımentary Credits	669	800	1000	1200	1440	1500	1600
rantees	443	500	800	1000	1100	1200	1300
ls	222	700	700	900	1000	1100	1200

Table 19

BALANCE SHEET PROJECTIONS (1985-1990)

(MM FCFA)

	1984	1985	1986	1987	1988	1989	1990
MAND DEPOSITS	700	1131	1176	1568	2008	2497	2952
ME DEPOSITS							
Less than one year							
500-1000	34	91	195	252	320	385	450
2000+	95	183	273	353	448	539	630
More than one year							
0-500	0	0	39	50	64	77	90
500+	0	30	78	101	128	154	180
RTIFICATES OF DEPOSIT							
Less than one year	0	0	117	151	192	231	270
More than one year	0	0	78	101	128	154	180
VINGS ACCOUNTS	44	122	195	302	448	539	630
TERBANK DEPOSITS	228	366	390	504	640	770	900
LLECTION ITEMS	79	183	234	302	384	462	540
HER LIABILITIES	152	274	390	504	640	770	900
TAL LIABILITIES	1332	2381	2313	4189	5400	6578	7722
PITAL							
Capital	650	650	650	650	650	650	650
Retained Earnings	-38	17	85	201	350	472	628
Total Net Worth	612	667	735	851	1000	1122	1278
TAL LIABILITIES & CAPITAL	1945	3048	3900	5040	6400	7700	9000

Table 20

LIABILITIES AS PERCENTAGE OF TOTAL ASSETS (1984-1990)

	1984	1985	1986	1987	1988	1989	1990
AND DEPOSITS	0.36	0.37	0.30	0.31	0.31	0.32	0.33
ME DEPOSITS							
Less than one year							
500-1000	0.02	0.03	0.05	0.05	0.05	0.05	0.05
2000+	0.05	0.06	0.07	0.07	0.07	0.07	0.07
More than one year							
0-500	0.00	0.00	0.01	0.01	0.01	0.01	0.01
500+	0.00	0.01	0.02	0.02	0.02	0.02	0.02
RTIFICATES OF DEPOSIT							
Less than one year	0.00	0.00	0.03	0.03	0.03	0.03	0.03
More than one year	0.00	0.00	0.02	0.02	0.02	0.02	0.02
VINGS ACCOUNTS	0.02	0.04	0.05	0.06	0.07	0.07	0.07
TERBANK DEPOSITS	0.12	0.12	0.10	0.10	0.10	0.10	0.10
LLECTION ITEMS	0.04	0.06	0.06	0.06	0.06	0.06	0.06
HER LIABILITIES	0.08	0.09	0.10	0.10	0.10	0.10	0.10
TAL LIABILITIES	0.68	0.78	0.59	0.83	0.84	0.85	0.86
PITAL							
Capital	0.33	0.21	0.17	0.13	0.10	0.08	0.07
Retained Earnings	-0.02	0.01	0.02	0.04	0.05	0.06	0.07
Total Net Worth	0.31	0.22	0.19	0.17	0.16	0.15	0.14

Table 21

WEIGHTED COST OF CAPITAL (1984-1990)

	1984	1985	1986	1987	1988	1989	1990
EMAND DEPOSITS	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
IME DEPOSITS							
Less than one year							
500-1000	0.0014	0.0025	0.0041	0.0041	0.0041	0.0041	0.0041
2000+	0.0040	0.0050	0.0058	0.0058	0.0058	0.0058	0.0058
More than one year							
0-500	0.0000	0.0000	0.0009	0.0009	0.0009	0.0009	0.0009
500+	0.0000	0.0009	0.0019	0.0019	0.0019	0.0019	0.0019
ERTIFICATES OF DEPOSIT							
Less than one year	0.0000	0.0000	0.0026	0.0025	0.0026	0.0026	0.0026
More than one year	0.0000	0.0000	0.0019	0.0019	0.0019	0.0019	0.0019
VINGS ACCOUNTS	0.0019	0.0034	0.0043	0.0051	0.0060	0.0060	0.0060
TERBANK DEPOSITS	0.0111	0.0114	0.0095	0.0095	0.0095	0.0095	0.0095
LLECTION ITEMS	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
HER LIABILITIES	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
TAL WEIGHTED COST OF DEBT	0.0271	0.0296	0.0521	0.0382	0.0386	0.0382	0.0380
ST OF EQUITY	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
TAL WEIGHTED COST OF FUNDS	0.0185	0.0232	0.0309	0.0317	0.0326	0.0326	0.0326

Table 22

INCOME STATEMENT PROJECTIONS (1985-1990)

(MM FCFA)

	1984	1985	1986	1987	1988	1989	1990
TEREST INCOME							
Interbank Placement	--	73	73	77	117	139	162
Short-term loans	--	69	69	91	126	168	202
Advances	--	131	131	151	182	218	263
Discounts	--	84	84	126	151	196	238
Medium-term loans- pref.	--	0	11	33	39	44	50
Medium-term loans	--	19	29	49	63	77	91
TAL INTEREST INCOME	64	302	396	527	678	843	1005
LESS: INTEREST EXPENSE	17	71	121	160	209	251	293
INTEREST MARGIN	47	232	276	367	469	592	711
HER REVENUES AND FEES							
Documentary Credits	--	60	75	90	108	113	120
Guarantees	--	40	64	80	88	96	104
Bonds - Cautions	--	28	28	36	40	44	48
Miscellaneous Fees	--	1	5	11	5	5	5
AL OTHER REVENUES	95	129	172	217	241	257	277
AL INCOME BEFORE OP EXPS	142	361	448	584	710	849	988

Table 22

INCOME STATEMENT PROJECTIONS (1985-1990)

(MM FCFA)

	1984	1985	1986	1987	1988	1989	1990
AL INCOME BEFORE OP EXPS	142	361	448	584	710	849	988
RATING EXPENSES							
sonnel Costs	49	75	110	132	158	190	228
side Services	52	60	69	79	91	105	121
er Administrative	28	40	46	53	61	70	80
reciation	31	31	37	37	37	37	37
visions	8	45	50	50	65	72	80
AL EXPENSES	168	251	312	351	412	474	546
PROFIT	-26	110	136	232	297	375	441
s: Taxes	2	55	68	116	149	187	221
Adjustments	-5	0	0	0	0	0	0
AFTERTAX PROFIT	-23	55	68	116	149	187	221
idends	0	0	0	0	65	65	65

b) Interest expense is based on the weighted cost of funds calculations made on the liability side of the balance sheet. Since demand deposits do not carry interest and represent an important source of funding, the weighted cost of funds, excluding equity, is a little over 3%.

c) Other revenues on documentary credits, guarantees and other off-balance sheet items are computed as follows:

Documentary credits	4% turning 2.5X p.a.
Guarantees	3% turning 2.0X p.a.
Bonds	2% truning 2.0X p.a.

d) Operating expenses are projected based on estimated FY1985 figures (first full fiscal year of operations) and take into account such factors as the opening of a branch in Kayes and the establishment of a stronger marketing capability. For the sake of conservatism, generous annual growth rates have been built into the expense projections -- 20% for personnel and 15% for outside services and other administrative expenses. Projected depreciation expenses assume that BAM will make no major fixed asset investment during the period, apart from 60MM FCFA estimated to be required for the branch in Kayes.

e) No dividends are provided for until 1988. Assuming a sufficient build-up of capital reserves, a dividend of 10% p.a. is proposed for the years 1988, 1989 and 1990. If BAM were to enter an arrangement with AID such as that described in Chapter VI, dividend policy would have to take into account AID loan covenants, which may include provisions that no dividends be declared, for example, during the grace period or only after meeting debt service requirements during the repayment period.

f) Under these assumptions, the bank's return on assets would reach 2.5% by 1990, while return on net worth would reach 17.3%. These results compare favorably to comparable ratios presented in Table 12.

3. Sensitivity Analysis

Sensitivity analyses were conducted on two key variables:

- Demand deposits
- Leverage

a) Demand deposits: Since demand deposits represent such an important source of zero-cost funding for BAM (constituting approximately one-third of its resources), any interest paid on such deposits would have an immediate negative impact on the bank's profitability. A 4% rate of interest, for example, would

be consistent with the previous BCEAO rate, and would result in a 40%+ increase in interest expense and an approximate 30% annual decrease in net profit. One way to mitigate such an effect would be by increasing leverage.

b) Leverage: The financial projections are based on leverage factors ranging from 3.6X in 1985 to 7.0X in 1990. This is quite conservative by Malian banking standards (e.g. BIAO's is currently 11.0X. Increasing the leverage factor from 5.0X in 1986 to 7.0X in 1987-1988 and 10.0X in 1989-90 have a rather dramatic impact on income. Since the financial model assumes that a substantial level of assets will be held in the interbank market, net profit increases by about 25% in 1987-88 and by over 50% in 1989-90.

Clearly, increased leverage would soften any negative impact resulting from increases in interest costs (e.g. on demand deposits). BAM has the flexibility to adopt such a strategy, while maintaining a leverage factor consistent with Malian banking practices.

VI. Recommendations for a BAM/AID Medium Term Lending Program

In addition to implementing the recommendations presented in Chapter V, BAM may wish to consider the development of a joint project with AID for a medium term lending facility in Mali. The structure proposed below is consistent with the Agency's overall strategy and is similar in design to AID-supported programs in other countries. Successful initiation and management of the proposed program would also further the bank's short and longer term business objectives, while simultaneously broadening the scope of AID's involvement in Malian development.

The foregoing analysis has demonstrated that the financial sector is heavily concentrated in terms of

- Services provided;
- Geographic coverage; and
- Client base.

At present, the six banking institutions in Mali focus primarily on a wide range of short term financing and guarantee transactions, almost to the exclusion of other services. While the composition of the Malian economy has pushed the banks in this direction, it leaves open additional market niches which may be addressed. Banks' clients tend to be well established, relatively large businesses (by Malian standards) involved in commerce, trade, agriculture (production) and services. Their financing requirements tend to be for working capital rather than for the acquisition of fixed assets.

This suggests that there are opportunities to develop a market niche in the provision of medium term financing for productive investments made by small and medium sized businesses in, and more importantly, outside of Bamako.

A. Purpose

The purpose of this proposal is to assist the bank in differentiating its products and markets by providing a relatively new set of financial. AID support for the establishment of a medium-term lending facility would provide BAM with additional resources which, although intended for a specific line of business, could accelerate the bank's development by increasing its exposure to a broader range of potential clients.

Key features of the proposed facility are that it:

o Focuses on small and medium sized businesses which are in a start-up or expansion phase;

o Emphasizes productive investments which result in local value added (especially in the agriculture sector); and

o Identifies business opportunities outside the Bamako area.

We believe that this facility, by addressing a new client base, could result in ancillary business for the bank, further promoting its market penetration objectives and enhancing its competitive position.

B. Description of Services/Products

The following services should be provided to this new market niche:

1. Financing: The development and provision of medium term, preferably fixed rate, financing should allow the bank to generate additional short-term business, since the broader client base will present new short-term financing requirements. Small to medium size production operations require intermediate goods and capital equipment, which to a large extent will have to be imported. This provides an opportunity for the bank to increase its profitable letter of credit and other non-funded transactions business with suppliers of its clients, while allowing it to draw from a larger base in expanding its deposits.

Appropriate criteria for loans extended under this program are as follows:

o Term - Generally 3-5 years depending upon the payout period of the particular project. An appropriate grace period on repayment of principal would be determined on the basis of the projected cash flow.

o Interest - Maximum allowable by BCEAO (currently 11%), plus appropriate fees and commissions to cover the additional risk of the extended repayment period.

o Collateral - Maximum available, but negotiable on a case-by-case basis. Effective credit analysis will be essential to the success of the program, since management of this new facility will have to focus on both cash flow projections and asset quality in determining creditworthiness.

o Eligible Items - Would include procurement of new equipment and construction of facilities. The total package for any given project would typically include a mix of short- and medium-term financing.

o Amount - While the level of financing provided would be a function of project requirements, the bank would generally provide approximately 60% of total project costs. The sponsor would be required to provide the remaining 40% in the form of equity, in order to establish a reasonable debt/equity ratio. In addition, an upper limit should be stablished on the amount to be provided to any single borrower -- e.g. 5% of the total funding available under this new line. This will help prevent concentration on a limited number of borrowers and encourage the loans to relatively smaller businesses, an area of particular interest to AID.

2. Feasibility Studies: The facility will be a relatively new line of business for the bank, and eligible borrowers will have to be identified and qualified. A feasibility study financing program would provide a good loan origination mechani and allow the bank to provide the requested financing with the confidence that the investment would indeed be viable. Training in the preparation of feasibility studies (see below) would permit bank officers to perform some of the analyses. While the funding options vary for this type of program, the bank and the project sponsor(s) could enter into a cost-sharing arrangement, with some recovery provision if the project goes forward.

3. Advisory Service Training: In order to access this new facility, both new and existing bank clients will require some assistance in completing the loan application process. In addition, particularly among new clients with start-up businesses, assistance may be needed in developing accounting and bookkeeping systems, and in initiating their ventures. While bank officers would probably not be able to provide such assistance directly, given the cost to the bank of providing extensive advisory support, they could, with some training, assist the entrepreneur in locating an appropriate source for such advice. Certainly, the account officer will have to follow-up periodically to assure that bank funds are being properly utilized and to identify any potential problems before they reach a critical stage. The officer will therefore have to understand the client's business and monitor it fairly closely. The development of a branch network, or some variation thereof would be instrumental as a means to maintain adequate portfolio management under this program, while helping BAM achieve greater penetration and a stronger presence in the market. (See further discussion below).

AID generally prefers to see the establishment of "Business Advisory Service" units created to provide these and more extensive business management-related services to clients. In the absence of a very high volume in this small to medium sized business, however, the costs associated with such a unit are prohibitive, and it could not be self-sustaining.

C. Target Market/Client

While we have not conducted an in-depth survey of the exact range and distribution of qualifying businesses in the Malian economy, the segmentation criteria presented below are consistent with overall AID objectives and will be used in marketing this facility to Malian businesses.

o Ownership: Given the program's objective of promoting the further development of Malian private businesses, a firm should be 51% owned by Malians, or there should be a plan in place which will result in majority Malian ownership over a reasonable time period.

o Management: A firm should be managed by Malians, or there must be a plan in place which will result in Malian management over a reasonable time period.

o Size: This facility should focus on small to medium sized businesses as defined by Malian standards. This definition may vary by sector, and should utilize business size criteria generally acceptable to AID, such as the number of employees, net assets and other mutually acceptable criteria.

o Location: Preference should be given to eligible businesses which have their principal place of business outside Bamako. However, firms otherwise qualifying for consideration under the facility should not be excluded because of location.

o Business: To be eligible, a firm should add local value through some product transformation process. Preference will be given to such businesses that are agriculture-related.

The application of these criteria would be mutually beneficial to both AID and BAM. From AID's perspective, the class of targeted borrowers would be consistent with its mandate to pursue priority development activities, since smaller businesses outside the capital city generally do not have access to commercial bank financing facilities. From BAM's perspective, this facility would position the bak early in the medium term lending market which will ultimately be developed in Mali. The program will also result in the generation of additional, ancillary and profitable short-term business.

D. Marketing

The bank should undertake a fairly broad and extensive marketing program for this new line, since it represents a relatively new product in Mali and will be directed toward a new client market. A business development/credit marketing specialist should assist the bank in developing and implementing this program.

Key components of the marketing program could include:

o Advertising: The new line should be advertised on a selected basis through existing media (e.g. radio, press) which will reach potential clients. The Bank's successful advertising campaign to celebrate the anniversary of its first year in operation is a good starting point for designing this effort.

o Promotion: Several tasks should be performed in order to promote this new line to potential clients: i) canvas existing bank clients to identify qualifying candidates, ii) survey other potential borrowers, both in Bamako and throughout the country, in order to expand the potential client base, iii) introduce a branch-like network, if warranted by demand, to service outlying clients, and iv) make presentations to business groups and other associations whose membership may include potential clients.

There are clear advantages to establishing a branch system. As noted in our analysis of BDM and BNDA in Chapter III, both institutions have generated large deposits and substantial loan portfolios through their repective branch operations.

The establishment of a branch network, while extremely important in adequately servicing clients and generating additional deposits and new business, also adds costs to the bank. In exploring ways to service clients in outlying districts, low cost alternatives to full-service branch banking will have to be examined-- e.g. the concept of a "mobile" accounts officer who spends a certain percentage of his time travelling to outlying districts to service clients located there and to generate new business.

E. Funding Requirements

The external funding proposed to establish the new facility is as follows:

Item	(US$000s) Amount	
. Medium Term Financing Line	$1,000	
. Feasibility Study Financing	250	(Grant)
. Advisory Assistance/Training	250	(Grant)
TOTAL	$1,500	

1. Medium Term Financing Line ($1.0MM loan): Resources to develop a medium term financing product would be provided by both external and internal sources, as follows:

(US$000s)

Source	Amount
AID	$1,000
BAM	333
TOTAL	$1,333

The AID $US1.0 million loan (480 Million FCFA) would be extended for a term of 12 years, including 2 years grace on repayment of principal, at a 9% rate of interest. Clearly, an adequate mechanism for covering the foreign exchange risk implicit in this transaction will have to be mutually agreed upon. These terms would allow BAM to turn the line 2-4 times, assuming loans to borrowers averaging 3-5 years.

The bank would contribute to the line on a 1:3 ratio with AID. The total facility of $US1.33 million (640 million FCFA) would therefore include a 160 million FCFA contribution from the bank. This is probably the minimum contribution which would be acceptable to AID.

In addition to the eligibility criteria mentioned above, risk on individual loans would be shared on a negotiated basis with AID. The cash flow projections presented below assume that the risk is shared on a pari passu basis, i.e. 1:3 on each loan. However, the level of risk assumed by BAM will certainly vary with the type of business financed. AID should therefore assume a relatively larger percentage of the total risk on a higher risk commitment - e.g. to agriculture related businesses.

2. Feasibility Study Financing ($250,000 grant): The establishment of a fund for this type of analysis will allow the bank to aggressively pursue opportunities in this new market, in addition to serving as an excellent loan origination mechanism. The funding will allow project sponsors to recruit technical and other experts to conduct market, technical, financial and general feasibility analyses on potential investments which BAM may wish to support through the facility. Junior credit analysts from the bank might participate, as part of their training, in the completion of feasibility studies. This would help accomplish BAM training objectives while providing services to potential borrowers.

Any such study should be funded in part by the available pool and part by the sponsor, ideally on a 50/50 basis. There should be some flexibility in the exact split, however, to allow for the funding of attractive opportunities even when sponsors are unable

- Cash flow analysis
- Credit analysis (advanced)
- Loan portfolio management
- Credit supervision
- Financial model building
- Financial management
- Business operations
- Other training requirements identified during the structuring of this facility.

Course formats could include the following, depending upon the subject matter and the amount of time required to address it:

- One or two-day seminars at the bank on specific topics such as ratio analysis;

- One week courses at the bank on such topics as the use of micro-computers in financial analysis and projections; and

- One month courses (and longer) on more complex subjects requiring more in-depth attention such as advanced credit analysis.

With the exception of those courses requiring one month periods or longer to complete, it would be appropriate to conduct the training on site at the bank. This will allow maximum exposure by bank officers, while providing the trainers with a better understanding of BAM and the local banking environment.

The proposed budgets for these latter two grant-funded activities, and especially training, will have to be developed with more specificity as the structuring of the project takes place.

F. Medium Term Loan Fund Cash Flow Projections

The simplified cash flow statement of a medium term lending fund (MTLF) presented in Table 23 demonstrates that the debt from both AID and BAM can be serviced from the cash flow. The basic assumptions for this model are as follows:

- AID loan

  Amount: $1.0MM (FCFA 480MM)
  Term: 12 years; including 2 years grace
  Interest: 9%

- BAM counterpart funds

  Amount: FCFA 160MM
  Term: Not applicable; funds remain in the MTLF
  Interest: 5%

Table 23

Cash Flow Projections - Medium Term Loan Fund

(MM FCFA)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
URCES														
lance Carried Forward	0	0	10	99	123	123	148	96	53	93	89	72	67	53
D Loan	240	240	0	0	0	0	0	0	0	0	0	0	0	0
M Counterpart Funds	80	80	0	0	0	0	0	0	0	0	0	0	0	0
terest Repayments	0	35	70	63	56	52	45	46	47	39	36	34	31	29
incipal Repayments	0	0	80	160	162	187	138	89	124	123	105	98	83	76
TAL [illegible]	320	355	160	322	342	362	331	231	223	254	229	203	180	159
PLICATIONS														
dium Term Loans	320	320	10	99	123	123	148	96	53	93	89	72	67	53
terest Payment to AID	0	22	43	43	39	35	30	26	22	17	13	9	4	0
terest Payment to BAM	0	4	8	8	8	8	8	8	8	8	8	8	8	8
payment - AID Loan	0	0	0	48	48	48	48	48	48	48	48	48	48	0
TAL APPLICATIONS	320	346	61	198	218	214	235	178	130	166	157	136	127	61
T CASH FLOW	0	10	99	123	123	148	96	53	93	89	72	67	53	98
T LOANS OUTSTANDING	320	640	570	509	470	406	416	424	353	323	306	280	264	241

o <u>Sub-loans</u>

Term: 4 years; including 1 year grace
Interest: 11%

Under this model, 75% of the funds are supplied by AID at a 9% rate of interest while the remaining 25% are provided by BAM at a rate of 5%. This results in an effective cost to the MTLF of 8% and a 3% margin on sub-lending activities. We have not determined whether this spread would cover both loan losses and MTLF operating expenses (not calculated in the model). A loan loss reserve could be generated from the net cash flow on an annual basis, although this would limit new loan generations.

BAM's weighted average cost of funds is low, at approximately 3.2% (excluding cost of equity), given the fact that a large percentage of its deposits (over 30%) are demand deposits on which no interest is paid. In determining an appropriate return to BAM on this facility, the 2% paid to the bank from the MTLF (which should help cover Fund operating expenses and loan losses) should be compared to earnings from other bank assets. For example, BAM earns up to 11.5% on relatively risk free deposits in the interbank market. A willingness to accept the 2% generated from a much higher risk undertaking, one quarter or less of the 8%+ spread which can be earned on low risk activities, would clearly demonstrate the bank's commitment to establishing this new medium term facility, something that is likely to be of some importance to AID. Of course, as discussed throughout the Business Plan, there are additional and encouraging market-based justifications for pursuing such an opportunity.

The cash flow model shows that with the repayment of the AID loan, the Fund decreases over the 10 year payback period to a level of approximately FCFA 250 million. While the projections do not extend beyond the repayment period, the Fund should grow at a modest rate following retirement of the AID loan, as net cash flows increase and are made available for on-lending. Of course, any infusion of additional funds would generate a much more rapid increase in the size of the Fund.

APPENDIX A

APPENDIX A - LIST OF PEOPLE VISITED

U.S. Government in Mali

Mr. James Anderson, USAID

Mr. Louis de Merode, Program Economist, USAID

Mr. Michael Foster, Design & Implementation, USAID

Ms. Vicki Huddleston, Economist Officer, US Embassy

Ms. Karen Russell, USAID

Mr. Gaoussou Traore, USAID

Bank of Africa - Mali

Mr. Paul Derreumaux, General Manager

Mr. Bouraima Sylla, Vice Chairman

Mr. Mamadou Baba Sylla, Credit Analyst

Mlle. Bernadette Sukho, Customer Service

Mme. Ramatoulaye Diallo, Personnel & Administration

M. G. Barry, Foreign Department

Mr. Dramani Konate, Accounting Department

Mr. I. Coulibaly, Cash Management

Mr. Ismaila Konate, Customer Service

Mr. K. Sidibe, Loan Administration

Mr. Raymond Villette, Advisor

Mr. Serge Lepoultier, Concorde Audit, Auditors of BAM

Other Banks

Mr. Ibrahima Boubacar Ba, Director, BDM

Mr. Mamadou Diane, Director External Relations, BDM

Mr. Marck Barnier, Assistant General Manager

Mr. Adama Traore, General Manager, BIAO

Mr. Khalifa Tallou, General Manager, BALIMA

Mr. Toure, Administration & Financial Director, BNDA

Mr. Scholtisseke, Advisor, BNDA

BCEAO

Mr. Yournoussi Toure, Director, BCEAO Branch

Mr. Abdou Salam Fane, Deputy Director, BCEAO Branch

Business Community

Mr. Helix, SOMAPIL

M. Gerard Achcar, Grand Moulins du Mali

Mr. Alpha Gamby, Businessman

Mr. Mamadou Aw, Businessman