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EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH
(EAGER)
TRADE REGIMES AND GROWTH

MALI TRIP REPORT

July 19, 1995

The AIRD Group team that visited Mali from July 11 through July 19, 1995 to initiate the EAGER/Trade project comprised the following: J. Dirck Stryker (Chief of party), Lucie Colvin Phillips (Senior Advisor), and Josue Dione (Regional Coordinator). The purpose of the visit was to work with USAID and African decision makers, business leaders, and researchers to identify and prioritize the initial topics to be investigated during the project. The team was also to work, in collaboration with African researchers, to develop proposals for specific research projects to be undertaken on these issues.

The timing of this visit was particularly propitious because the USAID mission is in the process of elaborating its Long-Term Strategic Plan. On arriving, the team met immediately with the Sustainable Economic Growth Strategic Objective Group. During this and subsequent meetings, a number of key topics were identified for research that will contribute substantially to the implementation of the Strategic Plan. These included:

1. the effect of the devaluation of the CFA franc on comparative advantage and price incentives;
2. the lack of term finance for private investment and lack of short-term finance for export operations;
3. constraints on the processing, marketing, and export of rice in the post-devaluation period;
4. comparative advantage, incentives, and constraints in the livestock sector, including those pertaining to export of live animals, local processing for export and the domestic market, and production and marketing of livestock feeds;
5. constraints on the collection, packing, processing, marketing, and transport of fruits and vegetable exports;
6. advantages and disadvantages associated with Mali's participation in regional organizations such as UEMOA, Air Afrique, etc.

It was agreed that members of the Sustainable Economic Growth Strategic Objectives Group will participate actively in defining and implementing the research, including reading drafts, attending conferences and workshops, disseminating results, and participating in the work of the Policy Research Advisory Committee.

During its stay in Mali, the team visited with Malian government officials, private business leaders, officials of USAID and other donors, researchers, and private consultants,

some of whom had previously been in the public service. A complete list of those contacted is contained in Annex A.

Our preliminary assessment of the policy dialogue in Mali is that it is fairly well advanced compared to the rest of the continent. The government, the private sector, and the donors talk to one another in both informal and formal settings. Both government and private sector representatives now seem positively disposed towards market liberalization, devaluation, and structural adjustment. The Ministry of Finance and Commerce organizes formal consultations on major policy decisions with the Malian Chamber of Commerce and Industry, the Permanent Assembly of the Chambers of Agriculture, the National Federation of Employers, and sectoral professional associations. These organizations complain, however, that their point of view is not sufficiently taken into account when the decisions are actually made. Both they and the government welcome the possibility that rigorous, timely applied economic research might help them choose the most viable policy options.

The research community appears to have been relatively isolated from policy-making. While there are a number of consulting firms that undertake studies for the government or the donors, these are often very short-term in nature and are not always based on the use of sound methodologies. Yet there are a number of economists and other researchers capable of undertaking solid research in support of policy. Some of these are associated with the Ecole Nationale d'Administration; others are operating independently or with firms as consultants. Some excellent researchers are also found within the government, but the closer they are to policy makers the more frequently they are called upon to respond to short-term demands, often of a political nature.

One of the conclusions of the team is that the establishment of a true dialogue between government and the private sector will require that a capacity be created within the research community to undertake research that can be put at the service of the business community. The Malian Coordinator of the West African Enterprise Network and the President of the Chamber of Commerce seem particularly interested in the possibility of developing this capacity and agreed to cooperate closely with the EAGER project.

The current administration has liberal economic policies in place that favor regional and overseas trade, minimize inflation, and are realistically moving toward a balanced government budget. Much of this is the result of the past decade of reform, to which USAID contributed through the 1985-91 Economic Policy Reform Program and the current Program of Reform for Economic Development.

On the other hand, the future integrity of the CFA zone and the ability of Mali to restructure its economy and develop regional and overseas export markets depends critically on the evolution of the real exchange rate (nominal exchange rate adjusted for relative rates of inflation) and the convertibility of the CFA franc. Given fixed parity between the CFA franc and the French franc, this depends, in turn, on maintaining a low rate of inflation within Mali relative to its major trading partners. Following the devaluation, the government avoided reinstating price controls, but issued guidelines to employers, unions, and merchants to ensure

that an inflationary mentality did not take hold. In fact, inflation following the 100 percent devaluation in January 1994 (measured in CFAF/FF) was 34.5 percent for 1994, is 10 percent thus far in 1995, and is projected to decline to 2.3 percent in 1996. As a result, the profitability of a number of Mali's potential export products has improved dramatically.

A second major issue is how to reduce the burden of taxation on the formal private sector and, at the same time, ensure the sustainability of fiscal tax receipts. There is a sense, especially in the private sector, that this can be done by reducing rates of taxation, which will stimulate economic activity and reduce the incentive for tax evasion. In no area is this more important than taxation of imports, which is the single most important source of public revenue. Yet it is critical that such action not reduce public revenues, leading to budget deficits and inflation. There is an urgent need to undertake research and to engage in public dialogue in this area, which can contribute directly to policy reform. The issue is so important, in fact, that all the EAGER research projects will be required to spell out the fiscal implications of their recommendations.

Potential Topics for Research

This initial prospection visit revealed widespread interest in a number of topics that could lead to fundable research projects. These include studies in the rice, livestock/meat, and non-traditional exports sectors. An overarching theme is the regulatory context of regional export-import trade, including regional accords.

1. Rice

One area of great importance for policy is the rice sub-sector. Mali has the potential to produce enough rice not only to satisfy the domestic market but also to export in substantial quantities to neighboring countries. Rice has recently been exported, in fact, to Burkina Faso, Côte d'Ivoire, Guinea, and Senegal. Yet rice is also critical to the domestic market, since a rise in its price can have a severe impact on real income and on nutritional intake, especially of the poor. This occurred recently and motivated the government to substantially reduce the tariff rate on rice imports. Trade policy made in this ad hoc manner, however, makes planning by the private sector extremely difficult.

There is a need to examine external trade in rice from at least two perspectives:

1. facilitation of rice exports as Mali shifts from a deficit to a surplus producer; which will require cooperation with neighboring countries, allowing rice exports from Mali to replace imports from abroad;
2. trade policy during the transition from Mali as a rice importer to rice exporter, and perhaps even beyond to the extent that weather and other factors result in Mali being in surplus in some years and in deficit in others, or that some regions export to and other regions import from neighboring countries.

A key determinant will be trends in the world market price for rice and in the real exchange rate.

2. Livestock/Meat

One of Mali's most important exports is livestock and livestock products. The recent devaluation of the CFA franc created a potential for export expansion and an increase in livestock producer incomes. This is highly desirable because livestock herders and other producers are among the poorest people within Mali. Yet the gains to producers from higher livestock prices also result in losses to local consumers. This is of tremendous importance for policy, because the government has come under heavy pressure to limit exports in order to keep internal prices for meat from rising.

The livestock sector is extremely complex and the options for its development are numerous. At present most exports are of live animals. These confront significant formal and informal trade barriers. Some members of the private sector are interested in local slaughter for export of meat by air overseas or overland within West Africa. This will require expansion of the domestic market for offals and other by-products if local processing is to compete successfully with the export of live animals within West Africa. There also appears to be considerable potential for growth in the tanning of hides and skin, and perhaps even the manufacture of leather products. Other options pertain to trade in feedstuffs, which are increasingly being used in the poultry industry and are likely to expand in importance for ruminant production as rangelands come under increasing pressure and crop residues are exhausted.

3. Nontraditional exports

Exports of fruits and vegetables from Mali have expanded sharply since the devaluation, and there is considerable potential for further expansion. This is extremely important because the horticultural sector has been identified as an important area in which to learn how to export products of international quality in a timely manner.

There was a consensus among those consulted that the major constraints to the expansion of both overseas and regional markets for non-traditional exports are: (1) geographic isolation, accompanied by inadequate, high cost transportation and communications infrastructure; (2) lack of credit for export and import operations and no medium or long-term investment credit. For regional trade, rent-seeking through administrative harassment is also a major problem.

The major constraint on overseas horticultural exports today appears to be the high cost of air freight resulting from Air Afrique's monopoly over freight handling at the airport and extraordinarily high air freight rates. Air Afrique operates the airport, on license from the Malian government, and collects landing fees, freight handling fees, and royalties from all traffic. The result is that it costs 560 CFAF per kilo of produce exported from Bamako to Paris, compared to 350 CFAF per kilo for a comparable distance from The Gambia to London. This arrangement was entered into when air transport charges were paid mainly by European

importers and passenger traffic. As they now affect Malian and other West African exporters as well, this is an opportune time for the Malian government and its fellow owners of Air Afrique to reexamine the rate structure.

Malian exporters also had many problems with the French wholesale market near Paris in the beginning. With the help of the European Union's technical assistance agency for produce, the COLEACP, daily price information and free quality inspections are helping to establish confidence among African sellers and European buyers.

Export of high quality produce is generally most competitive where there is a secondary market for non-exportable produce, either on the local or regional markets. In Mali the local market for overripe, second and third quality produce is very limited. Processing facilities and better developed national and regional markets are two potential solutions. Both would enhance the viability of overseas exports.

4. The Regulatory Framework for Regional Trade

Regional export markets exist for Malian cereals, livestock, mangoes, potatoes, condiments, and other products. They are complemented by imports of gold from Guinea, manufactured goods and produce from Ivory Coast, and kola and diverse products from Ghana and Nigeria. These markets generally operate informally, and are poorly understood. Narrow economic nationalism hampers the development and regularization of this trade, both through formal laws and through rent-seeking administrative harassment. The tendency towards national self-sufficiency rather than regional trade appears to have been enhanced rather than weakened by the recent wave of democratization.

Regional accords that might facilitate this trade are generally not applied. The ECOWAS treaty, for example, calls for the free movement of goods and people within West Africa. The UDEOA and CEAO established preferential tariff rates for intraregional trade, but these were often ignored. Furthermore, some thirty police and customs checkpoints block Mali's main regional trade axis, the road between Bamako and Abidjan. The 1200 km (800 mile) trip between Bamako and Abidjan that could take as little as 24 hours, even with unpaved sections of road, takes most trucks three days, and costs an estimated 150,000 FCFA per truck in bribes one way. Trucks arriving with cargo at the Malian border must be accompanied by a (paid) customs escort; if they arrive after the last escort leaves in the afternoon, they spend the night at the border.

This trade rarely operates through the formal banking system. Payment is mainly in cash or gold, converted either through informal currency markets or by purchasing trade goods locally for resale. With Guinea, Ghana, and Nigeria, formal sector banking practice is not adequate to facilitate the transactions. Traders either find repatriation of payments impossible, due to non-functional currency clearing arrangements, or find it too slow and costly. Even for Senegal and Ivory Coast, fellow members of the CFA zone, the formal banking system is rarely used.

5. Tax Policy and External Trade

One of the major problems in Mali, as in many African countries, is how to reconcile the fiscal requirements of the government with need to maintain a structure of incentives conducive to external trade. A major goal of devaluation is to realign domestic prices so that they better reflect prices on the world market, which are an important measure of the true opportunity cost of goods and services in the economy. Yet high import tariff rates distort local prices and result in excessive protection of import-competing industries.

The structural adjustment program for Mali has included efforts to simplify the structure of import taxation, to reduce the rates of taxation, and to expand the tax base. Although the tax structure has been simplified to a considerable extent and there has been some reduction in tax rates, these rates are still quite high. This distorts domestic prices and leads to high rates of effective protection for import-competing industries, encouraging a flow of resources away from the export sectors in which Mali has a comparative advantage.

A reduction in import tariff rates would reduce these distortions and help promote economic growth. But it could also lead to a reduction in public tax revenues. It is not certain, however, because the decrease in tariff rates would be accompanied by some increase in the tax base, through an expansion of imports and some decrease in tax evasion. Whether the growth of the tax base would compensate for the reduction in tariff rates is an important topic deserving of further research.

6. Other

Some attention was devoted to the USAID mission's concern over lack of term finance for the private sector in general and of short-term financing for the export sector. Discussions with the private sector revealed the importance of these constraints, especially for those companies that do not have a long credit history. The unwillingness of local commercial banks to finance export operations, however, is a common problem of countries with a conservative banking sector. Initial export operations tend to be high risk, particularly in the perishable fruits and vegetables areas. As export operations demonstrate their viability, bankers become more willing to finance them, particularly if they are encouraged by the government and donors to do so.

Although lack of term and short-term export finance has important implications for the capacity of private firms to export, it was felt that this is only part of a much broader issue regarding financial intermediation, which affects the domestic as well as the export sector. Consequently, the team felt that this issue is better suited for study under the other component of the EAGER project, which is being led by the Harvard Institute for International Development (HIID), and which has as one of its themes savings mobilization and financial mobilization. We will recommend, in fact, that the HIID team look at this issue when it visits Mali in the fall, assuming that the USAID mission responds positively to the cable that is being sent from AID/Washington on this component.

Future Action

The team recommends that a number of research topics be selected for Mali and that research proposals be prepared as described below. A senior member of the AIRD Group will return to Mali in late September or early October to work with the researchers who have been identified in the preparation of these proposals. These will be submitted to the Technical Committee in October.

The first meeting of the Technical Committee will probably take place in Bamako in October at the EAGER/Trade project's first semi-annual workshop. During this workshop, researchers will present their proposals, discuss methodologies, and interact with policy makers and business leaders interested in the research. They will also revise their proposals in line with the comments of the Technical Committee.

1. Rice

This study will concentrate on the marketing of rice exports in neighboring countries, especially rice produced in the Office du Niger. It will look at profitability from both an economic and a financial perspective, and will analyze constraints faced by exporters associated with processing, transportation, and marketing. Particular attention will be paid to policies regarding rice imports in neighboring countries.

A senior agricultural economist (Josué Dioné, Ph.D. Michigan State University) has been identified who has an intimate knowledge of the rice sector and of rice policy in Mali. A potential junior Malian researcher has also been identified with training at the masters level (troisième cycle, CIREs, Côte d'Ivoire). In addition, Abdoul Barry, AIRD agricultural economist (Ph.D., Michigan State University), is also available to participate in the study. Discussions with the Ministry of Rural Development reveal important complementarities, but no conflicts, with work being undertaken by the Programme de Recherche en Economie des Filières. We will also be contacting those working on a rice study for the West Africa Rice Development Association to assure that there is no conflict there.

2. Livestock/Meat

This study will be a follow-on to the work undertaken recently by AIRD on livestock production and marketing in the central corridor (Burkina Faso, Côte d'Ivoire, Ghana, and Mali). It will look particularly at various options for the processing, transport, and marketing of livestock products. Special attention will be paid to policies and investments in neighboring countries that could act as constraints on Mali's exploitation of its comparative advantage in livestock.

The Principal Investigator for this project will be Jeffrey Metzel (Ph.D. in economics, Tufts University), who directed the central corridor study and who has also participated recently in a series of studies on the livestock sector being financed by the World Bank. He will come

to Mali in late September or early October to identify the Malians with whom he will collaborate and to develop the research proposal.

3. Nontraditional Exports

The two areas where we think that EAGER Trade Regimes funding would be most useful in promoting nontraditional exports are: (1) transport policy and (2) administrative/regulatory practice. The theme of regulatory practices is taken up below. In the area of transport policy, we have not yet identified a research team, nor have we had an opportunity to survey the literature. The World Bank has been undertaking a major Africa-wide transport study that we will consult upon returning to Washington. We would appreciate suggestions from USAID on Malian researchers with experience in this field. A second mission of the coordinating team will follow up to define the terms of reference more precisely, and mobilize a research team.

4. Regulatory Framework

The regulatory framework for regional trade is an overarching theme that will ultimately integrate findings from the rice, livestock, and tax policy studies. The research team that will address these issues directly will be headed by Dirck Stryker and Lucie Phillips, working with Baba Touré of the Centre d'Etudes et de Recherche Economique et Sociale of the Ecole Nationale d'Administration and others. It will start with a review of the literature covering both the formal legal and regulatory structures for regional trade and informal practice. It may concentrate on financial operations in regional trade during the first year. In a second phase, the practices of both the administration and traders will be examined. By the second year, this study should benefit from input from the rice and livestock studies already underway.

5. Tax Policy and External Trade

The study on tax policy and regional trade will begin with an analysis of effective protection and comparative advantage in the industrial and agro-industrial sectors. Simulation analysis will be used to examine the effects of alternative trade policy regimes including those proposed for a customs union under UEMOA. The impact of these regimes on government budgetary receipts will be estimated as a function of resulting changes in trade flows and the degree of tax evasion.

This analysis will be carried out by Massaoly Coulibaly of the Centre d'Etudes et de Recherche Economique et Social of the Ecole Nationale d'Administration, with participation of an AIRD Group researcher yet to be named. Professor Coulibaly has already undertaken a similar study of effective protection and comparative advantage for a sample of industrial firms during the period prior to the devaluation.

Consultative Process

Since the main purpose of this research is that it have policy impact that stimulates economic growth, research teams will be required to establish a formal consultative process with

decision-makers. In the proposal development process the researchers should interview a wide range of influential persons in government and the private sector concerning their priorities and information needs in the area under consideration. The leaders interviewed may be in private business and in institutions such as the Chamber of Commerce, the West African Enterprise Network, the National Federation of Employers, and sectoral associations. On the government side they may be in the ministries, especially those dealing with commerce, finance and planning, in the Prime Minister's or President's office, in the courts responsible for business litigation, and in the legislature.

Since the budgetary implications of policy changes are a necessary concern, research teams will work with the Ministry of Finance to calculate budgetary implications of any policy changes proposed. The projections will be presented with each report.

A Policy Research Advisory Committee will be formed, the core members of which will include representatives of the Direction National des Affaires Economiques of the Ministry of Finance and Trade, USAID/Bamako, the Malian Chamber of Commerce and Industry, and the West African Enterprise Network. The representative from USAID should be in a position to engage in a policy dialogue with the government and coordinate with other interested donors.

Each research team should analyze the decision-making process in its sector and identify individuals most likely to be able to effect a change in policy if the research shows it to be justified. A list of persons interviewed and summary analysis of the decision-making process should be included in the research proposal. Among the decision-makers interviewed in the proposal development process, each research team should invite one or two of the most influential to sit on the Policy Research Advisory Committee to review the research.

Throughout the research process, the team should maintain contact with committee members. The Advisory Committee will hold at least quarterly review sessions to consider all projects funded for Mali. It will comment on and make suggestions for the initial proposal, the mid-term report, and the final report of each project.

The Policy Research Advisory Committee will develop follow-up action plans, beginning at any point in the process where the results justify it. By the time the first research project delivers its final report, the Advisory Committee should prepare a report on follow-up activities. If the Chair of the Committee desires, he may request the Principal Investigator or a representative of USAID for help in drafting the report.

As the EAGER project's scope is Africa-wide, good communications among on-going research projects in different countries will have a cross-fertilization effect. Each team should make arrangements to communicate via e-mail in so far as possible with the project leaders, sponsors in USAID/Washington, and one another. E-mail communications will be complemented by fax.

ANNEX A
LIST OF PERSONS CONTACTED

Malian Government Officials

Alhassane Ag Hamed Moussa, Directeur National des Affaires Economiques
Mme. Konare Nafissattou Guindo, Directrice Adjointe des Affaires Economiques
Dr. Oumar Niangado, DG, Institut d'Economie Rurale (IER)
Dr. Bino Teme, Directeur Scientifique, IER
Ousmane Moriba Sanago, Directeur, Programme de Recherche en Economie des Filières,
IER
Mamadou Gouita, Chef Cellule de la Planification et des Statistiques (CPS), Ministère
du Développement Rural (MDR)
Adema Coulibaly, CPS, MDR
Dominique Traouré, Directeur, Agence de la Promotion de la Filière Agricole
(APROFA)
Fadio Diarra, Conseiller Technique, Ministry of Finance

Private Business Leaders

Amadou Djigué, trader
Darhamane Hamidou Touré, President, Chambre de Commerce et de l'Industrie du Mali
(CCIM)
Tidiane Hady Kane, Chargé des Relations Extérieurs, CCIM
Mousadek Bally, Bally S.A.
Sahia Bally, Secrétaire Générale, AMALEF
Founéké Kéita, Président Directeur Général, Crédit Initiative
Eric Stevance, Responsable du MaliNet, BINTTA, S.A.
Ibrahima Makanguilé, Coordinateur du Mali, West Africa Enterprise Network
Mamadou Sada Diallo, Président Directeur Générale, SADA S.A.
Mahamane Attaher Maiga, Promoteur, UNITEL

USAID Officials

Joel Schlesinger, Mission Director
Charles May, head of Strategic Planning Team
Cheikh Dramé, Livestock Specialist
Abdoul Diallo, Acting Livestock Development Officer
Oumar Diakité, macroeconomist and head of Sustainable Economic Growth Strategic
Objective Group
Ibrahima Cissoko, education specialist
Amadou Camera, microeconomist
Mamadou Coulibaly, Project Officer for Manantali Dam project
Dennis Bilodeau, Project Officer for Haute Vallée project

Other Donor Officials

Youssef Thiam, World Bank
Francois Giovalucchi, Caisse Francaise de Développement
Yves Gueymard, Ministère de la Coopération

Researchers

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Arouna Dembélé, Chef Département Administration Publique, ENA
Moussa Coumaré, Secrétaire Perménant, CERES, ENA
Mohamané Attaher Maiga, Ingénieur Zootechnicien, ENA
Bani Touré, Economiste, ENA
Mamadou Diakité, SODREA

Private Consultants

Tièna Coulibaly