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# Perspectives on growth and poverty reduction in Mali

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# PERSPECTIVES ON GROWTH AND POVERTY REDUCTION IN MALI<sup>1</sup>

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## RÉSUMÉ

Depuis la dévaluation de 1994, le Mali a renoué avec la croissance, sans que cela n'entame significativement l'incidence de la pauvreté – ce qui s'explique notamment par la forte inégalité des revenus qui s'est accrue sur la période récente. Le Cadre Stratégique de Lutte contre la Pauvreté mise surtout sur l'accroissement de l'offre d'éducation primaire et de santé de base. Ces stratégies risquent de n'avoir pas tous les effets escomptés. Il n'est pas sûr que l'accroissement des sommes allouées à ces secteurs se traduise par une amélioration des services publics et que la demande d'éducation (notamment des pauvres) suive l'évolution de l'offre. Il n'est pas évident non plus que les plus pauvres soient en mesure de mettre à profit ces accroissements pour améliorer leurs conditions de vie. La quasi-totalité des très pauvres sont ruraux, incapables d'améliorer durablement leurs revenus agricoles en les diversifiant, du fait de leurs faibles moyens et de leurs difficultés d'accès au crédit. Dans une perspective dynamique, une politique de redistribution en faveur des plus pauvres leur permettrait d'investir en capital humain pour préparer leur migration vers des secteurs où les rendements sont plus élevés – ce qui suppose en même temps des politiques volontaristes de créations d'emplois et de facilitation d'accès au crédit dans les villes.

**Mots-clé :** Politiques de croissance pro-pauvres, lutte contre la pauvreté, DSRP, Mali.

## ABSTRACT

Since the 1994 devaluation, growth resumed in Mali without any significant decrease of poverty. This may be explained by the high level of inequality, which has increased in the recent period. The poverty reduction strategy described in the PRSP relies mainly on increasing the supply of primary education and basic health. This strategy is not likely to attain its objectives. Increasing the budgetary allocation of these sectors is not enough to improve the quality of public services and the demand of education (especially of the poorest) will not necessarily increase with its supply. Moreover, the poorest are not likely to grasp the benefits in order to improve their living conditions. The poorest are rural, unable to diversify their agricultural income due to their weak assets and their difficulty to access credit. In a dynamic approach, a redistributive policy could give them the opportunity to invest in human capital before migrating to other sectors where returns to education are higher. However, this would work only if active policies in terms of job creations and access to credit are implemented in the urban areas.

**Keywords:** Pro-poor growth policies, poverty reduction, PRSP, Mali.

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## List of acronyms

<b>ACP</b>	:	Africa Caribbean Pacific (Countries associated with EU)
<b>ADS</b>	:	Agence du Développement Social (Safety Net Agency)
<b>AGETIPE</b>	:	Agence d'Exécution des Travaux d'Intérêt public (Authority for public works)
<b>BDM</b>	:	Banque de développement du Mali
<b>BNDA</b>	:	Banque Nationale de Développement Agricole (Agricultural Development Bank)
<b>BoP</b>	:	Balance of Payments
<b>CAPE</b>	:	Cellule d'analyse de la politique économique (ACBF supported).
<b>CCA/ONG</b>	:	Organisation for the co-ordination of NGOs' activities (Comité de coordination des actions des ONG).
<b>CFA F</b>	:	CFA Franc = Franc for the African Financial Community (1FF is CFA F100, 1\$ is CFA F 750)
<b>CIRAD</b>	:	Centre International pour la Recherche Agricole pour le Développement
<b>CMDT</b>	:	Compagnie Malienne de développement des textiles (Malian Company for Cotton and Textiles development)
<b>CPI</b>	:	Consumption Price Index
<b>CPS</b>	:	Statistical Unit (Cellule de Planification et de Statistique)
<b>CSLP</b>	:	Cadre stratégique de lutte contre la pauvreté (French acronym for PRSP)
<b>CSCOM</b>	:	Community health-care centre (Centre de santé communautaire)
<b>CSO</b>	:	Civil society organisation
<b>DAC/OECD</b>	:	OECD Development Assistance Committee
<b>DFS</b>	:	Decentralized Financial Systems
<b>DHS</b>	:	Demographic and Health Survey
<b>DIAL</b>	:	Développement et Insertion International, European Scientific Institute.
<b>DNSI</b>	:	National Office of Statistics (Direction Nationale de la Statistique et de l'Informatique)
<b>EDM</b>	:	Energie du Mali
<b>EMEP</b>	:	Enquête Malienne d'évaluation de la pauvreté (Poverty Evaluation Malian Survey)
<b>ESAF</b>	:	Enhanced Structural Adjustment Facility
<b>EU</b>	:	European Union
<b>FAO</b>	:	Food and Agricultural Organization (UN)
<b>GoM</b>	:	Government of Mali
<b>GDP</b>	:	Gross Domestic Product
<b>HDI</b>	:	Human Development Index
<b>HIMO</b>	:	Programme d'investissement à Haute Intensité de Main d'Oeuvre (Employment Intensive Investment Programme)
<b>HIPC</b>	:	Highly Indebted Poor Countries (debt-relief initiatives)
<b>ICOR</b>	:	Incremental Capital Output Ratio
<b>IDA</b>	:	International Development Association (WB)
<b>IFI</b>	:	International Financial Institution
<b>ILO</b>	:	International Labor Organisation
<b>IMF</b>	:	International Monetary Fund
<b>IPRSP</b>	:	Interim Poverty Reduction Strategy Paper
<b>LDCs</b>	:	Least Developed Countries
<b>MoEF</b>	:	Ministry of Economy and Finance
<b>MEPI</b>	:	Ministry of Economy, Planning and Integration
<b>MDSSPA</b>	:	Ministry of Social Development, Solidarity and the Senior Citizens
<b>MTEF</b>	:	Medium-Term Expenditure Framework
<b>NFA</b>	:	Net Foreign Assets
<b>NGO</b>	:	Non-governmental organisation
<b>ODHD</b>	:	Sustainable Human Development Unit (Observatoire du Développement Humain Durable)

<b>ODR</b>	:	Office de développement rural
<b>OHADA</b>	:	Organisation d'Harmonisation du Droit des Affaires (Business Law Harmonisation Bureau)
<b>PAIB</b>	:	Projet d'appui aux initiatives de base (Grass-Root Initiative Project - GRIP)
<b>PFP</b>	:	Policy Framework Paper
<b>PRECAGED</b>	:	Programme de renforcement des capacités nationales pour une gestion stratégique du développement (UNDP-supported Programme for strengthening the national management of strategic development)
<b>PRGF</b>	:	Poverty Reduction and Growth Facility (ex ESAF)
<b>PRMC</b>	:	Projet de Réforme du Marché céréalier (Cereal Market Reform Project)
<b>PRODEC</b>	:	Ten-year education programme
<b>PRODEJ</b>	:	Programme de développement de la justice (Justice development programme)
<b>PRODESS</b>	:	Programme de développement socio-sanitaire (Programme for social and health Development, 1998-2002).
<b>PRSC</b>	:	Poverty Reduction Support Credit (WB)
<b>PRSP</b>	:	Poverty Reduction Strategy Paper
<b>RMSM</b>	:	Revised Minimum Standart Model (WB)
<b>SA</b>	:	Structural Adjustment
<b>SAM</b>	:	Social Accounting Matrix
<b>SAPRIN</b>	:	Structural Adjustment Review Participative Initiative
<b>SIDA</b>	:	Swedish International Development Agency
<b>SNLP</b>	:	Stratégie Nationale de Lutte contre la Pauvreté (National Strategy to Fight Poverty)
<b>SYCOV</b>	:	Cotton producers Trade-Union (Syndicat des producteurs du coton et du vivrier)
<b>SWAP</b>	:	Sector Wide Approach
<b>TFP</b>	:	Total Factor Productivity
<b>UNCTAD</b>	:	United National Conference on Tariffs and Trade
<b>UNDP</b>	:	United Nations Development Programme
<b>VAT</b>	:	Value Added Tax
<b>WAMU</b>	:	West African Monetary Union
<b>WAEMU</b>	:	West African Economic and Monetary Union
<b>WB</b>	:	World Bank
<b>WFP</b>	:	World Food Programme (UN)
<b>WG</b>	:	PRSP Working Group

## INTRODUCTION

In Mali, about 76% of the population is rural and poverty is more prevalent in the rural areas. This means that 81% of the poor and 98% of the poorest live in rural areas. Keeping this in mind, pro-poor growth seems bound to be labor-intensive growth in the agricultural sector.

The development of agriculture could have a dual pay-off since the increase of the agricultural income, benefiting the poor will probably be spent on rural goods and services which also benefit other poor. However, this will be true if a significant part of the agricultural output increase accrues to the poor and not to the richest farmers. In other words, agricultural output growth benefits the poor if it is not followed by an increase in inequality. The weak endowments of poor agricultural households impede them from reaping substantive profits from growth. Moreover, the problem may not be simply a rural one.

Firstly, the potential for growth in some rural regions is very weak due to low population density, resulting in very little spillovers and economies of scale. Transport infrastructures are very limited, and some of them are in very bad condition (railway). The cost of establishing a complete network would be very high, as distances are important. For these reasons, migrations could play a role in poverty alleviation by transferring workers from low-productivity to high productivity sectors. However, this is a hypothesis which does not necessarily hold. Ravallion and Datt (1996) showed in the case of India, that poverty reduction resulted from within sectors growth, and not from intersectoral transfers. The intuition behind it is that poor rural migrants encounter difficulties to integrate urban labor markets, which are already tiny. Migrants would have better chances of taking advantage of globalization if their human and social capital is high.

Secondly, non-agricultural income is likely to be a significant part of the income of the rural population. This means that increasing the urban income could also benefit the rural poor. This is very difficult to assess in the Malian case, because studies about poverty are based on consumption analysis, not income. In Burkina Faso, there is some evidence that in some poor rural regions, non-agricultural income could be more important than agricultural (Konaté & Raffinot, 1998). Poor people (men and women) are looking for employment inside or outside agriculture during the dry season. Activities like petty trade, handicrafts, and gold washings are typical. One should add to this income generated by transfers from the urban, which proved to be very significant in Côte d'Ivoire (Mahieu, 1990), and transfers from migrants, which are likely to be very important in Mali given the large number of Malian outside the country (800,000 in Senegal, 380,000 in Côte d'Ivoire<sup>2</sup> and 40,000 in France) according to Gubert (2000).

As argued by Cogneau (2002), most poverty reduction strategies are based on aggregate and static views, where efficiency is the main objective. But the dynamic aspects of poverty are very important indeed. The analysis should take into account the complex relationships between growth, inequality and poverty. But we lack information on these dynamics. The comparison between two surveys is not accurate for that purpose. We would need panel data and biographical surveys to be able to say something about social mobility. A recent paper about Burkina Faso (Fofack, Monga & Tuly, 2001), shows that the dynamics might be more complex than expected. The authors establish a lack of concordance in the distribution of welfare across geographical regions over time, but a concordance in rank ordering of socioeconomic groups.

The paper proceeds as follows: section 1 discusses briefly the pro-poor growth concept. Section 2 investigates why growth in Mali has been neither pro-poor nor sustainable. Section 3 investigates if it is possible to make policies more pro-poor and more sustainable, and section 4 if the institutions (including IFIs and donors interventions) allow for such a change.

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<sup>2</sup> 700,000 according to the 1998 census in Côte d'Ivoire.

## **1. PRO-POOR GROWTH**

### **1.1. Is growth enough for poverty reduction?**

The commitment of the international aid community to halving world income poverty by the year 2015 is at the origin of the abundant literature on poverty reduction strategies that has recently emerged. The decision of the international financial institutions (IFIs) to link a debt relief for heavily indebted poor countries to a poverty reduction strategy paper elaboration has enhanced the focus on poverty reduction. Thus, an intense debate started among the different stakeholders involved in development issues (developing countries' governments, donors' co-operation agencies, Northern and Southern civil society organizations, academics etc.).

If there seems to be a consensus on the objectives and also on some elements such as education and health being on par with income in assessing poverty, strong disagreements still remain in the policy choices to reduce poverty. As argued by Ravi Kanbur (2001), there are "major disagreements on the pace and sequencing of fiscal adjustment, monetary and interest rate policy, exchange rate policies, trade and openness, external and internal financial liberalization including deregulation of capital flows, privatization of large scale state-owned enterprises etc."

Two answers have traditionally been given to the key question "how to reduce poverty". The first, representing mainly IFIs' views is that growth is the main engine of poverty reduction (Dollar and Kraay, 2000). Indeed, as argued by Danielson (2001), if there is growth, incomes will rise, and thereby income poverty is reduced and non-income indicators of poverty may well be improved as well. However, the second view is that income distribution is a key factor in poverty reduction, and that "growth" alone is not enough to reduce poverty since it is not obvious that macro-economic growth benefits to the poorest part of the population.

In this context, the concept of pro-poor growth seems a good way to reconcile the two views, which are more complementary than it seems at a first glance. Indeed, nobody can argue that economic growth is not needed for poor countries, but without a dynamic redistributive policy, poverty could hardly be addressed.

### **1.2. What do we mean by pro-poor growth?**

The first question to ask is what we exactly mean when talking about pro-poor growth. Is it growth that simply reduces poverty, or growth that benefits relatively more to the poor? Given the heterogeneity of the poor themselves, do we attribute the same weight to those who are close to the poverty line and those who are the poorest among the poor?

This issue has been widely discussed in Ravallion and Chen (2001), Bourguignon (2001) and Klasen (2001). In Klasen's definition, pro-poor growth means that the "poor benefit disproportionately from economic growth". In other words, "the proportional income growth of the poor must exceed the average income growth rate". If we care about the severity of poverty, we can compare average income growth of the poorest quintile with the one of the second quintile. If the former is higher, this means that growth is good for the poorest among the poor.

The impact of growth on poverty depends, in a great extent, on initial inequality. Higher income inequality reduces the impact of growth as the poor are further away from the poverty line and their income increases start from a lower base (Ravallion, 2000). Thus, as argued by Bourguignon (2001), income redistribution has a dual pay-off in poverty reduction. It reduces poverty instantaneously by giving the poor a higher income. In addition, it also contributes to a permanent increase in the elasticity of poverty reduction with respect to growth and therefore to an acceleration of poverty reduction for a given rate of economic growth.

### **1.3. Regional and multidimensional aspects of poverty**

Aggregate poverty measures are not sufficient to assess the impact of growth on the poor. Indeed, as shown by Demery (1999), in some countries urban and rural poverty have moved in opposite directions under growth. Even within the rural areas, agricultural growth could benefit to cash-crops' producers and not to food-crops' producers, and thus the aggregate effect on rural poverty could be ambiguous, or even negative. By definition, growth refers to constant prices aggregates. But for food crops, an increase in quantities might well be offset by a decrease in prices (King's law).

Beyond the rural-urban divide, the geographical distribution of poverty can help understanding the link between economic performance and poverty. It seems that poverty is higher in areas far from centers of economic activities, such as big cities or coasts. However, sometimes surveys show some unexpected results, such as the case of the region of Sikasso in Mali (discussed later).

Moreover, as pointed out by Danielson (2001) there is a possibility that, while income poverty decreases, non income poverty worsens. In some countries under structural adjustment, IFIs' imposed fiscal discipline has induced a deterioration of health and education services in the last decade. So even if the reforms had improved the income of the poorest fraction of the population, the decrease of public goods provision may have worsened their actual living conditions.

Aware of this problem, the new poverty reduction strategies are centered on increasing health and education expenses. However, this IFIs' switch is not without posing new problems. First the effects of education and health will be seen on the long run, and thus, measures to improve income and provide employment to the poor are still needed. Second, increasing the education and health expenses does not mean necessarily improving their quality and the access of the poor to these services. And finally other basic needs such as water or energy provision must not be put aside while spending all the debt relief resources in health and education services. An effort of public spending prioritization in a multidimensional framework is clearly needed.

### **1.4. Channels of transmission between growth and poverty**

Growth impacts poverty through direct and indirect effects (Danielson, 2001). Concerning the direct effects, they come from increasing poor people's output (mainly urban informal and rural), increasing the demand for unskilled labor and increasing the resources of Government which can allow it to expand its poor targeted expenditures.

However, this static vision must not lead us to forget that growth benefiting to skilled labor is also an important issue in the long run, since the increase of the returns to education is the only way to ensure human capital accumulation and thus high and sustainable growth. Thus, it is capital intensive growth that is not pro-poor. Growth biased toward skilled intensive labor does not benefit the poor in the short run, but can have a long run positive pay-off in poverty reduction by playing as an incentive to human capital accumulation. This is of course possible only if the poor have access to education and if the children of poor households are not obliged to quit schools very early for work (to ensure their parents subsistence). In other words, higher returns to education can contribute to poverty reduction if a potential of social mobility exists in the country, and if there is some job creation.

Moreover, a proactive policy of social transfers could allow a redistribution transforming a neutral growth in a pro-poor growth. Mali experienced a significant increase in its tax resources. If these additional resources benefit mainly to the poor, the impact of growth on poverty reduction could be much more important. The value added tax recently implemented is an efficient way for the government to collect taxes at a low cost, but this tax is highly unequal. Improving the capacities of the tax administration could help relying more on income taxes, which are more progressive than the VAT.

The indirect effects of growth on poverty operate through multiplier effects, since the increased incomes generated by growth are spent by those who benefit from it. The incremental income benefiting to the poor will be generally spent on local goods and services (while the rich consume

more imported products). This means that the increase of the income of the poor has a bigger probability to be spent on non tradable goods, and thus benefit to other poor. This is particularly true in the agricultural sector where the increase of food demand could create a virtuous circle in the rural areas, and favor the emergence of non agricultural production in these areas (Danielson, 2001).

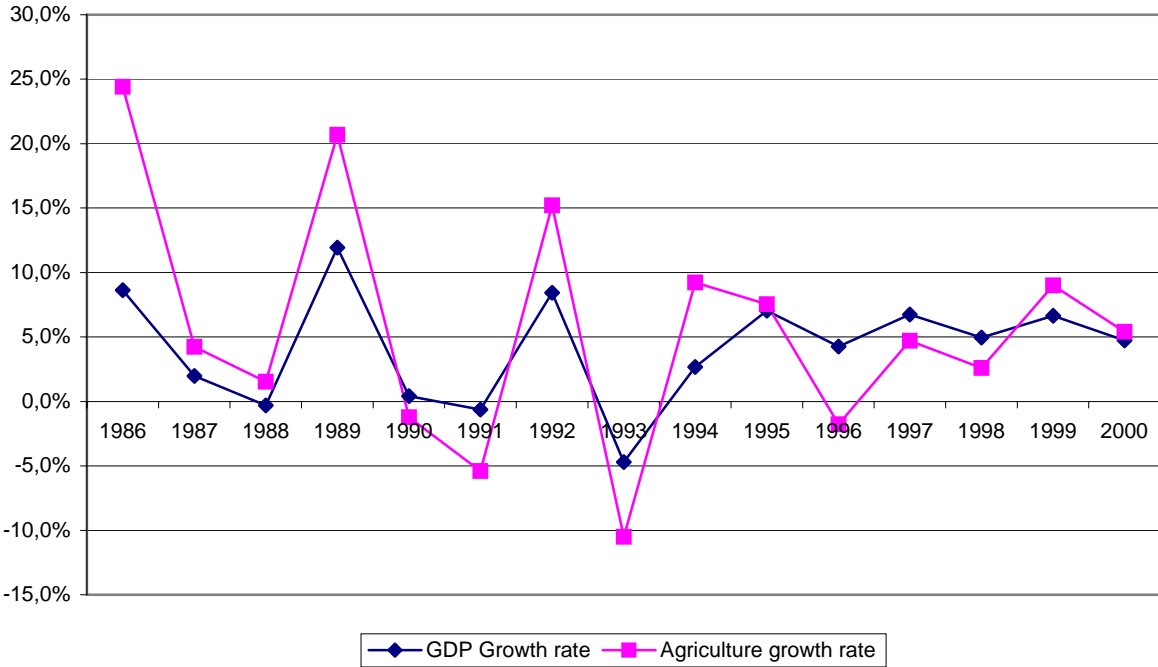
**2. GROWTH AND POVERTY REDUCTION IN MALI: WHAT WENT WRONG?**

We start by analyzing the recent growth and poverty trends. We move then to assessing previous policies to investigate the reasons of the failure of growth in ensuring a significant poverty reduction.

**2.1. An impressive growth record**

In the long run (1960-1996), Malian growth was about 3.1% (Touré, 2001); resulting in a low increase of the income per head (resident population growth was 2.3% for the same period, and natural growth 3.4%). The agricultural growth has been lower, about 2.5%. The share of the agricultural sector in GDP (in a very broad sense, including livestock rearing, fisheries, forestry, etc.) was 67% in 1967 and 48% in 1996.

**Graph 1: GDP and Agriculture growth rates in Mali (1986-2000)**



Source: DNSI

In the nineties, Mali enjoyed a period of sustained economic growth. Growth was boosted by the devaluation, attaining an average of 5.7% during 1995-2000<sup>3</sup>. While factor accumulation continued to play a large role in the post-devaluation period, total factor productivity growth played an enhanced role, explaining about one-fifth of output growth (Touré, 2001).

<sup>3</sup> The National Accounts in Mali are the result of crude estimations of sectoral added values. There is no check by uses (consumption, etc.), and the deflation is a simple one (not a double deflation of production and inputs).

**Table 1: Sectoral breakdown of real growth (1992-2000, billion of 1987 constant CFA F)**

	1992	1993	1994	1995	1996	1997	1998	1999	2000	Average growth rate	
										1992-2000	1994-2000
AGRICULTURE	333,5	298,5	326,0	350,6	344,4	360,6	370,0	403,2	425,0	3,59%	4,10%
Food crops	156,3	119,0	142,9	159,9	142,3	148,9	141,5	169,3	195,9	3,12%	3,77%
Cash crops	49,4	47,0	39,3	46,6	59,4	66,2	75,2	75,2	68,3	7,25%	10,18%
Livestock	83,7	87,9	96,0	94,4	91,8	93,5	99,9	103,9	104,6	2,44%	1,90%
Fishing	9,3	8,7	10,0	9,9	10,1	10,2	10,4	10,5	10,7	2,06%	1,26%
Forest	34,8	35,9	37,8	39,8	40,8	41,8	43,0	44,3	45,5	3,35%	2,95%
INDUSTRY	106,0	108,4	105,8	116,3	122,6	151,1	161,0	164,8	175,6	7,29%	8,88%
Gold and mining	15,5	15,2	14,5	14,7	15,8	38,0	46,4	50,9	57,9	20,29%	27,56%
Food processing, beverages, tobacco	23,6	22,6	24,0	25,4	24,3	25,6	24,6	24,2	25,9	1,05%	0,51%
Textiles	5,9	7,2	6,2	7,5	8,0	10,9	10,0	9,9	10,5	7,68%	8,47%
Other manufacturing	16,4	17,5	17,9	19,2	20,7	20,4	21,0	21,3	21,9	3,53%	2,94%
Electricity, water	10,5	10,4	10,3	11,9	12,9	14,8	16,3	14,7	15,3	6,11%	6,50%
Construction	34,1	35,5	32,9	37,6	40,9	41,4	42,7	43,8	44,1	3,79%	4,37%
SERVICES	238,2	229,1	236,6	239,2	259,7	261,7	276,2	293,2	305,4	3,56%	4,41%
Trade	114,9	103,7	105,9	104,6	118,3	118,9	123,8	136,5	143,3	3,58%	5,30%
Transports and Communications	32,3	34,7	35,7	38,0	40,9	42,2	48,1	51,4	53,8	6,53%	7,13%
Other services	39,2	41,7	42,5	43,1	44,8	44,7	46,6	48,5	50,8	2,85%	2,89%
Financial services	7,5	7,8	7,6	7,9	8,5	8,6	8,9	9,2	10,0	3,38%	4,14%
Public administration	48,9	45,9	49,5	50,4	52,4	52,5	54,2	53,2	53,7	1,73%	1,38%
Fictitious Branch	-4,6	-4,7	-4,6	-4,8	-5,2	-5,2	-5,4	-5,6	-6,1		
Import taxes	34,9	43,3	29,0	40,4	51,6	57,3	64,8	68,6	67,8	9,99%	13,69%
GDP.	712,7	679,3	697,4	746,5	778,3	830,7	872,0	929,8	973,7	4,57%	5,55%
Real growth rate		-4,7%	2,7%	7,0%	4,3%	6,7%	5,0%	6,6%	4,7%		

Source: DNSI

It was to a large extent export led, with export volume growth increasing from about 6 percent on average during 1986-93 to about 13 percent during 1995-2000 (IMF, 2002). Output growth has also been more regular since the devaluation, but remains linked to rainfall. Mali benefited from good rainfall since 1994, making it difficult to link policies and the growth performance.

The growth rate for 2001 is low (1.5%), as a consequence of the cotton crisis (in Malian national accounts, agricultural crop of year  $n/n+1$  is in accounted for in year  $n+1$ ). Nevertheless, this figure is surprising, given the sharp decrease of cotton and cereal productions (previous estimation was -0.1%).

Contributions to growth correspond to the sectoral average growth rates multiplied by the share of the sector in the GDP of the first year. Since 1994, the most significant contributions to the 39.6% compounded growth rate have been made by food crops sector, trade and (curiously) custom duties (See Table 1). All other sectors account for less than 1.5%. One should note that growth is accounted for in constant prices. The picture is very different if we take values at current prices into account (see last column of Table 2). In current value, the rates of growth of cash crops and gold and mining are higher than the growth rate of the food crops sector. This is because of the distortion of relative prices during the period (in the second case, the period begins in 1992 to capture the impact of the

devaluation on prices). Notice also that the basis year of National Accounts is 1985, which is fairly remote and may not take fully into account the important growth rate in sectors like cotton, gold and mining, etc.

The cotton production growth has been impressive (increasing by 118% between 1993/94 and 1997/98), as well as gold mining production growth. But their contribution to growth is not as important as frequently believed, because their share in total added value is limited. Nevertheless, their share in GDP increased.

**Table 2: Contributions to growth (1994-2000)**

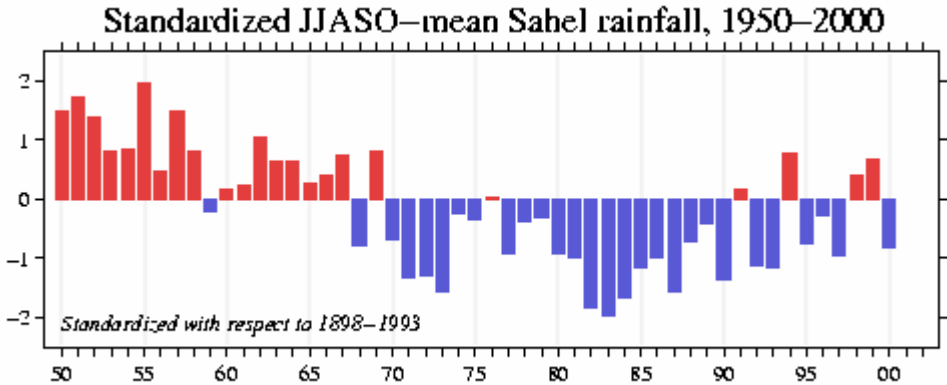
	Contributions to growth (94-200)	Annual rate of growth in current value (92-2000)
Food crops	7.60%	11.1%
Trade	5.36%	12.5%
Custom duties	5.56%	17.9%
Cash crops	4.16%	15.4%
Gold and mining	6.22%	28.8%
Transportation and telecommunications	2.59%	12.1%
Construction	1.60%	12.7%
Others	6.52%	
<b>GDP</b>	<b>39.6%</b>	<b>12.1%</b>

Source: DNSI

A special feature in Mali compared to the rest of West Africa is the relative success of cereal production. Reform of the cereal market under the “Projet de réforme du marché céréalier” (Cereal Market Reform Project, PRMC by its French acronym) is widely considered as a success. Management problems in the production of irrigated rice in the Office du Niger seem under control since the 1994 devaluation. As a result, Mali exports of cereals to neighboring countries increased (these exports are not detailed in the official exports figures).

Graph 1 shows that growth in Mali is still tightly linked with the growth rate of agriculture. Agriculture is highly rainfall-dependant. As shown on Graph 2, the good growth record in the nineties is partly the result of good rainfall.

**Graph 2 : Rainfall in the Sahel 1950-2000**



Source: www.tao.atmos.washington.edu.

## 2.2. Has the increasing poverty trend been reversed?

About two thirds of the Malians live below the poverty line, with about one fifth of the population living in extreme poverty. Mali social indicators are significantly weaker than the averages for Sub-Saharan Africa (IMF, 2002). Analyses rely on only three surveys: Income and expenditure survey (1988-89), Malian Survey of Economic and Social Trends (1994) and WAEMU expenditure survey (1996) (Bamako only).

### 2.2.1. Trends according to official figures and poverty profile

The Poverty and Human Development Monitoring Unit ODHD (ODHD, 1999) asserted that poverty (as measured by the headcount ratio) increased significantly between 1989 and 1996 (due to the 1994 devaluation of the CFAF, and then decreased between 1996 and 1999 (see Table 3).

The assertion that poverty decreased between 1996 and 1999 does not come from survey observations, but relies on mere extrapolations of incomes for the 1995-1999 period, expenditures of households have been estimated on the basis of the 1994 survey under the assumption that all incomes have grown like the GDP per person (ODHD 2000, p. 77).

The most astonishing result concerns the period 1994-96 which was characterized by sustained growth. The evolution of poverty between 1996 and 1999 is more logical, following the usual assumption that growth reduces poverty, given the good growth record.

**Table 3: Poverty trends (1989-1999)**

	1989	1994	1996	1998	1999
	Survey	Survey	Survey	Est.	Est.
Poverty Line (CFA F per person)		77.204	102.971	103.130	97.843
National level					
Headcount Index (%) (P0)	40.8	68.8	71.6	69	64.2
Poverty gap index (%) <sup>4</sup> (P1)	31.9	46.9	48.4	31	44.3
Severity of poverty (P2)	14.1	26.9	28.4	17.3	24.4
Rural level					
Rural Headcount Index	46.7	75.6	78.3	76.0	71.3
Rural Poverty gap index	32.2	48.3	47.8	35.1	45.5
Rural severity of poverty	14.4	28.1	29.8	19.8	25.5
Urban level					
Urban Headcount Index	15.0	36.6	40.6	36.3	31.2
Urban Poverty gap index	27.7	33.0	34.3	12.1	31.1
Urban severity of poverty	12.4	14.8	15.6	5.5	13.3

*Source:* ODHD, 1999 and 2000

As usual, these figures are based on consumption, not income. More specifically, they are based on a “rice equivalent” method (Lok Dessallien et al., 2001: 32). This method raises some questions; one of them being that consumption of the poorest (all rural) is mostly millet and sorghum, whose prices move in a quite different way. Based on producer prices, the poverty line was equivalent to 1,643 kg of millet in 1989, 1,050 in 1996, 982 in 1998 and 1,378 in 1999 – meaning that a producer of millet producing 1 ton of millet would have been poor in 1989, 1996 and 1999, but “non-poor” in 1998.

According to Table 3, the incidence of poverty decreased between 1994 and 1999, and the average income of the poor is closer to the poverty line. However, the poverty gap figures in 1998 are surprising, which may be due to the method of extrapolation.

<sup>4</sup> This indicator measures the magnitude of poverty, considering both the number of poor people, and how poor they are. The Poverty Gap Index is the combined measurement of incidence of poverty and depth of poverty.

### 2.2.2. Who are the poor?

The extent of poverty varies according to the area of residence (urban, rural). 88% of the poor live in rural areas. 90% of the poor work in the primary sector. Furthermore, the situation of the urban poor is better, as their income is closer to the poverty line (République du Mali, 2002). The PRSP states that most of the poor are women. As the figures show that 51% of the poor are women, (which seems to be in line with their proportion in the population) this assertion is controversial. Young people are less poor than elders (only 46.5% of persons under 15). Poor households have typically more children than non-poor and households with aged heads of are likely to be poorer. Educated persons are less poor than ones without education.

A striking fact is that poor persons in Mali are mainly peasants and stock breeders. About 8 million people live in the rural areas. 3 million out of them grow cotton and some 270,000 flooded rice. This means that the majority of rural Malian grows rainfall food crops. The full picture is difficult to draw, because there is no recent agricultural survey.

Some evidence from Southern Mali suggests that poor farmers' households cannot rely only on agriculture (Staatz et al., 1990). They have to find additional revenues outside agriculture, and have to buy cereals in the period preceding the new harvest (when prices are higher). Wealthier farmers are quite self-reliant on food and have diversified agricultural sources of income. They are less prone to get money from extra-farm activities. This is shown in Table 4, because farmers are, on average, richer in the South than in the North.

The fact that poor farmers cannot rely only on agricultural income may be misleading. Staatz et al. (1990) underscore that an improvement in the productivity of food crop agriculture is of paramount importance for them. This is because "long-term nutritional status in the north is positively correlated with a single variable, grain production per capita" (Staatz et al., 1990, p.1316); the same authors add that "even within the North, household consumption security and long-term child nutritional status are correlated with labor productivity in grain production, demonstrating that own production continues to play an important role in these households' food strategies".

**Table 4: Distribution of Major Income Sources in the Opération Haute Vallée (OHV) Area by Sub region\***

	OHV South	OHV North
Agriculture and wild products	55.1	29.4
Commerce	15.0	10.4
Artisans' activities	7.9	20.1
Livestock	6.1	16.5
Prepared foods	4.1	16.8
Labor and migration, remittances	6.0	4.1
Gifts	4.8	1.1
Other	1.0	1.6

Source: Stats et al. (1990)

\*The OHV is an area in Southern Mali (Upper Niger River Valley Development Authority), outside the main cotton production zone (CMDT).

Abdulai & CroleRees (2001) find evidence in Southern Mali (in the CMDT<sup>5</sup> region of cotton producers, which is different from the OHV area) that poorer households have fewer opportunities in non-cropping activities such as livestock rearing and non-farm work, and hence less diversified incomes. Poorer producers rely more on food crops (See Table 5). This appears to reflect their relative lack of capital, which makes it difficult for them to diversify away from subsistence agriculture. Households in remote areas are less likely to participate in the non-cropping sector than their counterparts closer to local markets, while households with educated heads are more likely to participate in the non-farm sector than those with illiterate heads. Rural households generally consider

<sup>5</sup> Compagnie Malienne de Développement du Textile.

holding livestock as an important way out of poverty. Abdulai & CroleRees also report that “42% of the households complained that lack of access to credit was hindering their investments in the non-cropping sector”.

**Table 5: Income sources across income per capital quartiles 1994-95-95/96**

Quartile	Income per capita (1000 FCFA)	Food-cropping	Cotton	Livestock	Non-farm
First	74	58.6	33.6	2.2	5.6
Second	193	27.6	45.8	12.4	14.2
Third	378	16.5	52.6	19.4	11.5
Fourth	982	4.6	57.2	28.0	10.2

Source: Abdulai & CroleRees (2001, p. 442). Note that poverty line in 1994 was 77 thousand CFAF

An important problem for the poor rural household is risk. The variability of rainfall is important, and they have very few opportunities to mitigate the variability of agricultural production – just reducing inventories of short term migration. Dioné (2000, p. 127) notes that “about two-third of the OHV farmers who had historically invested in animal traction had also disinvested from it to generate cash to face both household food shortages and head tax payments in years of poor harvests”.

### 2.2.3. Critics and other studies

The evolution of poverty as described by the ODHD figures (Table 3) has been under hard criticism. The results of the various surveys can barely be compared: methodologies and purposes differ.

DIAL (2000) conducted a new analysis of the same surveys but limited to Bamako in order to investigate urban poverty. The analysis started by a clean-up of the original data bases, which still contained large quantity of flawed information. The analysis concerned Bamako alone, because the 1994 survey covering the whole country is unreliable (it uses a particular methodology to assess household consumption), whereas the 1996 WAEMU survey covers only Bamako.

The study conducted by DIAL shows a significant increase in poverty in Bamako. With a poverty line of \$2, headcount poverty index rose from 33% in 1989 to 57.2% in 1996 (4.7% to 16.2% with a \$1 poverty line). Furthermore, the poverty gap increased from 38,000 CFAF in 1989 to 75,000 CFAF in 1996, showing that the living condition of poor people worsened.

In 1996, 60% of the consumption of poor people consisted in food (51% for non-poor), and 17% in housing (15.9% for non-poor). In 1996, poverty is more likely to occur in households led by a man, in large households (but this result is not robust when one takes into account some kind of weighting of the members of the household, like the Oxford scale). Wage earners are less poor than self-employed. Education of the head of the household impacts significantly on poverty. There are no differences in terms of poverty between non educated and holders of primary education degrees. Differences become significant with secondary education (expenditures increase by 35%) and superior education (50%) (DIAL 2000: 165).

Nutrition indicators for children also worsened in Bamako between the two demographic and health surveys (DHS) of 1987 and 1995/96. For instance, low weight children were 21.9% of children between 3 and 36 months, and 30.6% in 1995/96.

Sahn & Stifel (2000) used a new methodology to assess the evolution of poverty in Africa. They use DHS information about assets (not expenditures). For Mali, the result of this approach is a sharp decrease in poverty (and the poverty gap) between 1987 and 1995. Headcount falls from 23% to 16% for instance, using the 25<sup>th</sup> percentile in 1987 as the poverty line – and from 43.3% to 30.8% using the 45<sup>th</sup> percentile in 1987. Reduction of poverty is effective in the urban and rural sectors. This shows that the evolution of poverty and the analysis of its causes and links with the evolution of GDP are far from clear in Mali.

## 2.2.4. Spatial repartition of poverty

According to the ODHD (1989), the spatial repartition of poverty is as presented in Table 6. The best performing region, in terms of poverty, is the Bamako district, which concentrates 40% of the urban population. Bamako is endowed with the best infrastructures in the fields of education, health, water and so on. The least performing region is Mopti, a Sahelian region devoted to rainfall food cropping. The region is characterized by very low enrolment ratios, lack of agricultural equipment and land conflicts (mainly between farmers and transhumant pastors).

The figures presented have been very surprising for most Malian observers. They could hardly understand how could the region of Sikasso (southern, rainy, with cotton producers) be poorer than the region of Kayes (Sahelian and locked). In response, the ODHD explained (1989, p. 47) that cash costs of producing cotton are high, especially after the devaluation, that Sikasso, unlike Kayes, is not a region of migrants (so the remittances are low), and that the number of people per household is greater in Sikasso. According to Gubert (2000), Kayes has received about 60% of total Malian remittances in 1994 (about 47,000 CFA F by family in Kayes, whereas it is about 10,000 CFA F in the other regions).

**Table 6: Spatial repartition of poverty and HDI**

	Head Count index			HDI
	1994	1996	1998	1998
Kayes	45.1	52.6	50.1	0.340
Koulikoro	74.0	76.5	74.9	0.317
Sikasso	84.6	84.4	82.7	0.308
Ségou	85.0	73.9	70.4	0.288
Mopti	71.5	90.4	88.6	0.251
Timbuktu	58.0	68.2	60.8	0.259
Gao (town)	20.0	26.1	22.9	0.315
Bamako district	24.2	27.7	23.9	0.588

Source: ODHD 1999

If true, these explanations mean that the development of cash crops is not a major way to get out of poverty. But they are in direct opposition with the assertions of Bakary Sanogo (1994, quoted in Sahel and West Africa Club 1998, p.94) who states that: “In the CMDT regions, but also in the regions of the *Office du Niger*<sup>6</sup>,...the high level of income of the peasants modify their habits of consumption and investment; the use of bicycles, motorbikes, radios, of improved guns is now very common”.

Sahn & Stifel (2000) present a different picture (see Table 7). According to their calculations, the decrease of poverty is mainly significant in Sikasso and Ségou, while poverty increased slightly in Kayes and Koulikoro.

**Table 7: Mali, decomposition of changes in “poverty” between 1987 and 1995**

	Poverty		Total change	Intrasectoral effects					
	1987	1995		Kayes Koulikoro	Sikasso Ségou	Mopti, Gao, Timbuktu	Bamako	Migration	Interaction
Headcount	23.02	16.02	-7.01**	0.05	-3.73	-2.28	-0.05	-1.55	0.54
Poverty gap	0.29	0.24	-0.05**	0.01	-0.04	-0.00	-0.00	-0.02	0.00

Source: Sahn & Stifel (2000) \*\*Significance at the 99% levels of confidence

<sup>6</sup> Cotton is grown in the CMDT region, while rice is cultivated in the *Office du Niger* region.

According to the first results of a recent survey (EMEP, 2001), the severity of poverty<sup>7</sup> is the highest in Kidal, Gao and Timbuktu, while the regions where the severity is the lower are Kayes, Koulikoro and Bamako. This survey confirms that the depth of poverty is greater in Sikasso than in Kayes.

#### 2.2.5. Evolution of inequality

In Mali, the Gini index (in terms of expenditures) was 44.3% in 1994 according to the ODHD, and 50.5% according to the WDI. It has increased in Bamako from 41.8% in 1994 to 44.7% in 1996 (ODHD, 1999) which could contribute to explaining why growth has been inefficient in poverty reduction.

DIAL (2000) shows also an increasing inequality in Bamako: the Gini index (in terms of expenditures) increased from 27% in 1989 to 38% in 1996. But it shows also that the 1989 distribution of expenditures does not dominate (in the statistical sense) the distribution of 1996. The real expenditure level in 1996 is worse than the 1989's for 89% of the poorest persons but it is better for the richest (earning more than 450,000 constant CFA F per year and person).

DIAL (2000) presents a decomposition of the change in poverty between growth and distribution effects, showing that the change in poverty incidence, depth and severity is more linked to the worsening of the distribution than to growth performance.

#### 2.2.6. The quality of information

Information provided by different surveys might be misleading if not properly checked. DIAL (2000, p.134) criticizes the careless way the information on poverty has been processed and used : “The low level, if not absence of thinking about the accuracy of analyses shows *a priori* the limited interest of the government and experts for the availability of a reliable quantitative diagnosis. The definition and assessment process of anti-poverty strategies seem completely disconnected from previous analysis. The poverty analysis seems widely perceived as an unavoidable exercise to present the situation, without any effort to draw on the results to work out policies. It is difficult to understand the high demand for analyses without any real effort being made in terms of statistical production. If there is a true will to design policies on the ground of a sound knowledge, surveys are needed, with a skilled staff and monitoring for an effective control of the process, its targets, tools of analysis, and the development of a critical mind about the results.”

Information seems far from reliable today in Mali. Information about incomes is non-existent, and there is no broad picture (as shown in a social accounting matrix for instance), of resources and uses of the different socio-economic groups. Such information is not a luxury. It's the only way to assess the link between the endowments, incomes, expenditures and activities of the different social groups.

### 2.3. Sound macro-policies have not been effective in poverty alleviation

Mali experienced growth during 1994-2000, with a rather modest poverty reduction. If we rely on official data, GDP increased by 33.3% between 1994 and 1999 (about 5.5% per year). During the same period, the incidence of poverty fell by 4.6 points, or 6.7%.

Even more troubling is the fact that Mali is widely seen as following sound policies, at least by IFIs standards. Furthermore, Mali enjoys since 1992 a democratic government committed to poverty reduction, exemplified by the declaration of President Konaré that his second mandate would be dedicated to fight poverty. Does the experience of Mali show that there is no relationship between “good” policies, democracy and poverty reduction? Or could we at least say that those factors are not enough for effective poverty reduction?

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<sup>7</sup> We use the percentage of poor in the last quintile of poverty as a proxy for the severity of poverty.

Mali is frequently seen as committed to reforms. Rodrik (1999: 128) presents Mali and The Gambia as countries substantially open to external trade: “However, they have yet to reap significant growth gains, partly because of extremely poor human and physical resources, and their growth potential remains low”. In the same way, UNCTAD’s 2001 Report (*Economist*, 12/05/01) presents Mali as an example of a strong adjuster from the financial point of view that did not get any results in respect of poverty alleviation. Even the IMF stated recently that “in completing the first review (PRGF), Directors welcomed the measures taken by the new Government and its commitment to push ahead with structural reforms” (IMF, 2001). In short, the commitment to reform seems high, but this does not have a positive impact on the welfare of the population. The fact that capital flight in Mali has been very low and even negative (-2% of 96 GDP, compared to 2.5% of GDP for Burkina Faso), (Boyce & Ndikumana 2001) might be seen as a further witness of the good policies run by the GoM.

### 2.3.1. A long standing commitment to reform

After the independence (1960) Mali took a socialist orientation under the Presidency of Modibo Keita. It resulted in a widespread intervention of the State in the economy (including trade), and a leave from the Franc Zone (1962). From 1960 to 1968, 24 state enterprises were operational, and 77 from 1960 to 1980. The management of these enterprises proved difficult (Cissé 1981). High subsidies and fiscal exonerations from the State could not avoid difficulties like arrears in the repayment to the banks. Export crops (mainly peanuts) decreased and Mali had to import food. As a result of these problems, the economic policy has been modified. Mali reintegrated the Franc Zone in 1967, after a 50% devaluation of the Malian Franc.

After the 1968 military coup of Moussa Traoré, the economic policy changed slowly. The Malian Government turned to IFIs and reintegrated the WAMU (1984).

Mali undertook structural adjustment since 1982, under IFIs' guidance. Structural Adjustment carried on since then, with some periods of interruption (from 1986 to 1988, and from 1991 to 1993 due to the establishment of a democratic regime). These Structural Adjustment reforms have been fairly standard and focused at the beginning mostly on the fiscal deficit. Table 8 presents the fields of reforms and the steps that have been taken.

Some other reforms occurred outside this framework. The reintegration in the Franc Zone implied a major change in the monetary policy, and in some other fields, like business law (in the framework of OHADA since 1995). Furthermore, integration into the WAEMU led to a change of the system of protection. A Common External Tariff (TEC by its French acronym) has been launched in 1996, implying a reduction of tariffs for Mali.

**Table 8: Structural Adjustment Reforms in Mali**

Issues	Schedule / Realizations	Assessment mid-1999 (SAPRIN)
<b>Public Finance</b>		
Fiscal system	Simplification and modernization of tax system (introduction of VAT, but delayed; TCI temporary tax on imports) Removal of export taxes Reduction of number of categories of import taxes and reduction of the rates of import duties. Further modifications after 1994 devaluation (suppression of TCI). Maximal VAT rate 15%, tax on profits 10% (personal) or 35% (corporate)	Tax ratio: 10% of GDP in 1994, 13% in 1997.
Strengthening of tax collection	After 1994 : Increase of efficiency of custom administration, New methods for controlling petroleum products exonerations, creation of a unit for big enterprises	
Reduction of public expenditure	Reduction of extra-budgetary expenditure Reduction of investment Freeze of wage bill, and scholarships	Reduction of subsidies from State budget and reduction of bank credit to non-profitable EPs
Restructuring of public expenditure		The ratio “wages/public revenue” decreased to 27.3% (1997)
Public expenditure management	Three year rolling investment programme included in National budget	Wages are paid on a regular basis since 1988
Budget management		Better budget control, increase of the proportion of priority sectors in total public expenditure
<b>Civil service reform</b>		Voluntary retirement worked Failure of enhancing productivity of public administration
<b>Money, credit and Balance of Payments</b>	L	Increase of NFA
<b>Inflation</b>		Reduction of inflation after devaluation more rapid than projected (1% in 1997, 3.5% scheduled)
<b>Liberalization</b>		
Administrative Price fixation	Liberalization of prices (1992), except petroleum retail prices	
Imports regulation	Removal of quotas.	
Devaluation	50% devaluation (January 1994). Increase of public salaries : 10% Safety net (CFAF 13 billion) to keep prices of generic drugs at reasonable levels; provide imported goods, ensure food security in deficit areas.	Positive effects on exports, but imports have increased quickly as economic growth resumed, and investment in gold sector boomed

<b>Restructuring of public sector</b>		
Study of the situation of the 35 Public firms (Eps)	<p>Assessment / Realization :</p> <p>Rehabilitation: 6 / 6</p> <p>Privatization: 14 / 8 (SOCIMA)</p> <p>Liquidation: 15 / 19 (Air Mali, SOMIEX)</p> <p>After 1994: privatization of ULB, OTER, OERHN, ORT, Strengthening of management of SOTELMA, ONP, PPM and EDM.</p>	<p>No transparency in some cases of liquidation</p> <p>No bank credit available for people who took the EP in charge after privatization.</p> <p>No real privatization law.</p> <p>Rehabilitation is not really effective: some EP like EDM were still unable to function in a profitable way.</p> <p>Preparation to improve the competitiveness of the EPs in a framework of competition with the private sector</p>
	Restructuring of BDM (managed by Morocco's BMCE) And banking sector (CCP, Savings Bank)	Low efficiency of bodies in charge of recovering debts and liabilities
Change in relations between State and Public Enterprises	New laws (1987 and 1991) : no more Government representative in the EPs from 91	No real autonomy of management Decrease of salaries of some categories of manpower
	Assessment of public sector debt and settlement (included cross-indebtedness)	Public sector debt underestimated : CFAF 21 billion still to be eliminated mid-1999
Compensation for employees laid-off	Creation of a Compensation Fund. 1,488 units managed by former EPs' employees have been funded (1985-1988)	Underestimation of the compensation Fund (3.5 billion instead of 8, but 4.8 have been disbursed) Failure of projects undertaken by laid-off employees, by lack of competence, but impossible to assess by lack of information No possibility for the former employees to take over the management.
<b>Promotion of private sector</b>	<p>New legal framework</p> <p>New Labor Code (1992). Removal of ONMOE monopoly, easier dismissal procedure.</p> <p>Revision of the Business Law (Code de commerce) (1986)</p> <p>After 1994: further simplification of procedures for business creation.</p>	Application of new Labor Code delayed.
<b>Development of the rural sector</b>	<p>PASA (1990-98)</p> <p>Distinction of different roles of CMDT (trade, rural development). Contract between State and CMDT (1994).</p> <p>Link between producer prices and world prices of cotton. Creation of a cotton Fund to protect producers from fluctuations of prices.</p> <p>Pilot zone : Bougouni (South)</p> <p>After 1994: New contract between State and CMDT, increasing the participation of farmers' organizations.</p>	<p>Effective in increasing production and incomes, but mostly in flooded rice and cotton sectors</p> <p>Threat of "cotton strike" by SYCOV (1998) to free credit for agricultural inputs.</p> <p>Increase of cotton production at the expense of fallow land and food crops.</p> <p>Rich farmer benefit more.</p> <p>Gains on world prices but no increase in producer prices.</p> <p>No distribution of shares capital for producers (scheduled oct. 1991).</p>

	Increase of cotton prices to the producer. Break-up of the Office du Niger (one unit for water management, one another for industrial and commercial activities)	
Cereals	PRMC (1981)  Liberalization of prices and exports of cereals OPAM only for security stock management Reform of ODRs to focus on extension services (six ODRs have been restructured). Diversification in Bougouni region (maize)	
<b>Education</b>	PCSE (projet de consolidation du secteur éducation)	
	Reduction of scholarships Basic education to get 45% of budgetary expenditure in education.	It has not been possible to reduce scholarships in primary, secondary and university sectors, due to agreements between school children and government after the 1991 revolt
<b>Global assessment</b>		Adjustment worked, but no structural change (dependence on rainfall, no development of the manufacture sector, no foreign investment, export mainly cotton depending on fluctuations in the world market) Growth resumed, mainly due to good rainfall, and to structural reforms namely after devaluation. Adoption of many reforms, but not effective. No implication of Civil society in discussions with IBW (except workers' trade union, Employers union and Commerce Chamber): main reason for rejection of structural adjustment by populations.

These adjustment and liberalization policies have been accompanied by structural reforms together with increased public investment in agriculture, infrastructure and social sectors. Among the structural reforms, the most significant are the cereal market liberalization (launched in 1981, effective in 1988) and restructuring of the *Office du Niger* (a former public firm in charge of the flooded basin of Niger River management) in 1982 (improved in 1984), the increased participation of local communities in the social infrastructure management, notably schools and local health centers (*Centres de Santé Communautaires* or CSCOM).

Decentralization is a major reform aiming to break with the top down approach of policy making (Serra 2002). The Law institutionalizing decentralized elected bodies was passed in 1993. Elections for the 701 *communes* were held in 1999.

### 2.3.2. The impact of reforms

It is difficult to assess the impact of reforms, as other circumstances played a major role in the final outcome (rainfall, terms of trade, external finance, etc.) An attempt has been made by SAPRIN-Mali IREPAS (1999), which main findings are summarized in Table 8.

Nevertheless, some points may be emphasized:

#### Three success stories: health system, cereal market reform, flooded rice production in the Niger delta

The CSCOMs are managed by local association of users. They must rely on their own resources, but the State gives a first endowment. They are widely seen as a success, because they provide access to health services to people who are not wealthy (but not to the poorest, as their functioning are based on cost recovery.)

The reform project of the cereal sector (PRMC by its French acronym) is another success story. Until the end of the seventies, the cereal sector has been completely under State intervention (although private trade never stopped). Priority was given to satisfy urban consumers. The reform has been very gradual and well prepared. Mali became an exporter of cereals (mainly rice) to neighboring West African countries (which also caused some problems, as the prices in the internal Malian market rose sharply in 2002).

The rice flooded sector in the Niger delta was managed as a public firm (*Office du Niger*). The liberalization of rice production and trade has been very progressive and implied a long period of preparation and strengthening of the private actors (Bonneval & Kuper & Tonneau 2002). Rice production also benefited from the 1994 devaluation which increased the price of the imported rice. Repercussions on the production of rice and productivity are impressive (See Table 13). Nevertheless, this increase in rice production did reduce very much poverty. One major reason is that the increase of rice production implies heavy investments (dams, canals). Thus, the areas cultivated are still limited (French colonial administration had planned 1 million h. flooded). From 1978 to 1999, the number of families that received plots of land for rice cultivation increased from 5,000 to 20,000, and the areas from 37,000 to 51,000 h. Total population living from rice production in the region increased from 112,000 persons (72,000 workers) in 1998 to 264,000 persons in 2001 (180,000 workers) (Diarra & Sanogo 2002).

#### The impact on the economy

##### *Impact on growth*

The impact of reforms on the economy is very difficult to assess, because a series of factors affects growth, like drought or change in the terms of trade, devaluation.

The growth rate of the Malian economy experienced no trend since 1960, and presents no structural break (Touré, 2001). The impact of reforms on growth is not significant before 1994, and the rate of

growth remains very unsteady. Since 1994, the growth rate improved, but it seems to be more the result of good rainfall than everything else (namely the devaluation).

#### *Impact on investment and capital*

The investment rate has been steadily growing since 1975, with an important decrease in the 1981-1984 period. The reforms did not seem to have altered the former pace of the investment rate.

According to Touré (2001), the rate of growth of the capital stock during the period 1960-1996 has been 4.65%. As GDP growth on the same period was only 3.1%, the ratio “capital stock / GDP” increased significantly (from about 1.8 in 1960 to 2.8 in 1996. This ratio experienced a decrease during 1974-1979, and resume growing afterwards. This means that growth has been more capital intensive in the recent period.

#### *Impact on economic structure*

Neither the structure of output or exports evolved significantly during the 1980-1996 period (ODHD 1999). The share of agriculture in GDP increased, from about 20% at the beginning of the eighties, to 28% in the mid-nineties, due to an increase in the shares of cotton (from 4% to 6%) and rice (from 2% to 4%). The share of services increased from 38% in 1960 to 51% in 1990 but decreased afterwards to 36% in 1996 (Touré 2001).

#### *Impact on public finances*

After the 1994 devaluation, public finances and balance of payments improved significantly. The “basis” deficit of government fiscal operations (deficit excluding all external flows, in revenues and expenditures) turned into a surplus after 1994, but turned back to deficit in 2000 (See Table 9). The wage bill in terms of GDP decreased, as well as its share in public revenue, reflecting the very low level of Malian wage levels compared with other countries in WAEMU. This allowed for an increase in public investment. Nevertheless, this improvement of public finance had also adverse results. Recruitment has been limited to 250 persons per year (2% of total civil servants). The reform of public enterprises laid down 11,000 workers, mainly in the *Office du Niger* (1,100) and in the Post Administration (280). A program of “voluntary departure” from the civil service resulted in 644 persons alleviating the public wage bill (1987-1989) and 5,800 more between 1991 and 1994 (leaving with a premium).

#### *Impact on the balance of payments*

The trade balance also turned into a surplus in 1997, but the resume of growth generated a deficit later on. The current balance followed a similar path, with a huge deficit at the end of the period. One has to take into account that a country like Mali is importing capital, and for this reason should be expected to run a current deficit. Furthermore, Mali being a Zone Franc country, the external deficit is not a serious problem, in the sense that this deficit is automatically financed by the French Treasury. The peg of the CFAF to the French Franc (now the euro) is more problematic. It could result in a misalignment of the CFAF. Before 1994 Mali experienced an overvaluation of its currency. The competitiveness of the economy improved dramatically after the 1994 devaluation. During the period 1995 to 2001, according to the IMF, real effective exchange rate (REER) did not vary much. The REER index fluctuates between 52 and 65, 100 being the basis in 1990. Nevertheless, the recent increase of the euro against the dollar could have adverse effects on the competitiveness of the Malian economy.

**Table 9: Public Finance and Balance of Payments**

	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Fiscal operations (% of GDP)</b>									
Public revenue	10.8%	11.7%	10.5%	11.1%	13.1%	13.8%	13.9%	14.1%	13.0%
Wage bill	5.7%	5.7%	4.5%	4.0%	3.8%	4.0%	3.8%	3.9%	4.1%
Capital expenditure	9.0%	9.4%	13.1%	12.8%	12.3%	11.0%	12.2%	12.0%	12.1%
Basis balance	-3.1%	-1.9%	-2.7%	0.4%	2.2%	0.7%	1.3%	0.2%	-0.7%
Deficit (commitment basis)	-4.0%	-4.2%	-4.4%	-3.1%	-0.9%	-2.1%	-2.4%	-3.7%	-3.8%
Wage bill (as % of public revenue)	53.1%	48.9%	43.1%	36.5%	29.3%	28.9%	27.4%	27.8%	31.3%
<b>Balance of payments (% of GDP)</b>									
Trade Balance	-5.9%	-4.8%	-6.5%	-4.8%	-4.6%	0.6%	0.1%	-1.3%	-3.0%
Current Balance	-7.7%	-7.0%	-6.9%	-10.5%	-8.4%	-5.2%	-5.6%	-9.3%	-9.4%
Current Balance (without public transfers)	-17.1%	-12.9%	-18.0%	-17.1%	-14.1%	-9.5%	-9.3%	-10.8%	-12.0%

Source: DNSI

### *The impact on inflation*

As elsewhere in the Franc Zone, inflation is under control in Mali, since the credit to the government by the regional central bank *BCEAO* is tightly limited. After the 1994 devaluation, there was a short burst of inflation, but it did not last. Inflation is now low or even negative (see Table 10). It is then difficult to understand why the IMF insisted on tight monetary policy after the devaluation. This policy probably hindered potential investor to grasp opportunities created by the new context.

**Table 10: consumption price index (1990-2001)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
CPI		0.6%	1.4%	-5.8%	-0.6%	24.2%	11.5%	8.1%	-0.7%	4.0%	-1.2%

Source: DNSI

Inflation in 94-95 severely hit the urban poor and was responsible for the entry into poverty of many former non-poor. Inflation was especially high as far as food is concerned. The sharp increase in the price of medicines is a factor of concern for poor people. The allegation that devaluation benefited the rural poor is not confirmed by survey results. As most of the poor are rural cereal producers, the main problem for them remains the infra-annual fluctuation of cereals prices (Staatz et al., 1990).

### 2.3.3. Democracy and governance: empowering the poor?

Mali embarked in a democratic process since the 1991 revolt against Moussa Traoré. Mali is widely seen as one of the few really democratic countries in Africa. This does not mean that there have been no problems with the Malian young democracy.

#### Elections

Really free elections are difficult to settle. The 1997 presidential elections have been rejected by the opposition. Nevertheless, the situation improved. At the opposite of many African rulers, President Alpha Konaré did not compete for a third term. The 2002 elections were far better organized and open (24 candidates, no one supported by the former President). These elections resulted in a change in power with an opposition candidate elected (Amadou Toumani Touré, "ATT", the general that arrested Moussa Traoré and organized the transition to the civil regime after 1991).

#### Stability?

It has been emphasized by many authors that stability is important for growth. But what is exactly meant by "stability" has to be investigated. Azam (1998) considers that stability can not be understood as the absence of change of government. From 1968 to 1991, Mali has been ruled by the same

dictator. But there have been numerous attempts of military “coups”, and the allocation of public expenditure has been rejected by the civil society (mainly students of the medical school, teachers and trade-unions). Many demonstrators against Moussa Traoré lost their lives until the general Amadou Toumani Touré (ATT) arrested the dictator.

Students, schoolboys and teachers became very powerful, and it became very difficult to resist their demands. Many Malian describe the situation after 1991 as a brutal change from dictatorship to a situation where the State is not anymore able to ensure the enforcement of regulations or laws.

Democracy is important because of the freedom of speech, reflected in the development of a free press (but of limited audience, given the high illiteracy rate, and free media (radio). The important point is the control by the civil society on the political leaders to improve the production of public goods and the allocation of goods (to disfavored social groups or regions).

But in Mali, democracy coexists with a high level of corruption, at the top of the State as well as at the lowest levels (policemen, custom officers, etc.). The GoM has put in place a special anti-corruption unit, and some high level political and administrative have been sent to jail (namely CMDT official, under WB pressure).

To conclude this paragraph, it would be interesting to remind our main question: do the poor benefit from the process of democratization? It is very difficult to reply to such a question. Abstention rates were very high in the latest elections (about 75%) and a lot of people (mostly among the poor) do not participate to the vote because they do not have identity cards.

A survey conducted by Afrobarometer (2002) shows that only 60% are satisfied with the way democracy works in Mali. People surveyed accept price reforms and user fees for social services (62%) but reject institutional reforms (58% reject privatization of public corporations and 60% rejects cutting back the number of jobs in the civil service). A survey conducted by AFRISTAT and DIAL in seven West African countries tries to tackle this question by asking the population about its perception of democracy and governance issues. The results are still not available. However, we can at least say that due to the lack of education of the general population, it seems that a significant part of it does not really participate in the decision making process. The educated elite of the country dominates all government, administration and non-governmental institutions. Even “well-meaning” NGOs, do they really represent the voices of the poor? The close ties of some of them with the donor community to capture rents coming from the “aid system” may reduce the latitude of the positions they can take. A real democratization of the country will take the time necessary for the improvement of educational skills within a significant part of the population.

#### **2.4. Why growth has not been pro-poor?**

Given the availability of data it is merely impossible to reach definite conclusions on the factors explaining the weak results in terms of poverty reduction. At this stage we can only present some hypotheses which need be checked when more data are available. Among these factors are the bias of prices against agriculture<sup>8</sup>, increasing inequality in the rural areas, capital intensive growth, low effectiveness of aid, the weakness of social sectors, and the low labor content of growth.

##### **2.4.1. Do the poor benefit from social sectors?**

Public expenditures in the social sectors were low in the nineties (especially in basic education and basic health care). Furthermore, the quality of service delivery in those sectors is widely considered to have worsened in the nineties (DIAL 2000: 142). Nevertheless, social indicators improved, although remaining amongst the worst in the world (Mali is 153<sup>rd</sup> on 162 countries according to HDI ranking). According to Brunet-Jailly (1995), the impact of social expenditures on the living conditions of the poor is likely to be weak, since poor people in Mali make little (or no) use of these services. This

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<sup>8</sup> Liberalization of prices of food crops just mean that these prices now fluctuate according to market conditions. So the bias against agriculture may remain, or even increase, given the weak bargaining power of the farmers.

explains the lack of a clear relationship between health public expenditures and the general health situation.

**Table 11: Mali social indicators and HDI**

	1970	1990	1999	Least developed countries 1999
Life expectancy at birth (years)	41.9		51.2	51.7
Adult literacy rate			39.8	51.6
Combined primary, secondary and tertiary gross enrolment ratio (%)			28	38
HDI	0.277	0.310	0.378	0.442

Source: UNDP

### Health

37.5% of the Malians have access to health services. There is a big difference between urban areas where 62 % of the population take advantage of health services and rural areas where only 28.7% of the people benefit from it (EMEP, 2001).

Public and formal workers are those who benefit the most of health services (respectively 64.5 and 58.3%), while informal and independent farmers are far behind (30.7 and 27.9%).

Assessing the impact of Structural Adjustment (SA) on Health, Brunet-Jailly (1995, p. 243) asserts that the collapse of the Health public service during SA has not had adverse effects on the health situation as expected. The health situation seems to have improved, due to the slow increase of income, and mainly to the fact that “most of health care is provided at the margins and outside the National Health Service”. Brunet-Jailly adds that “the crisis has been more severe for the public bureaucracy that lives by exploiting the rural population and using a part of external aid to its profit, than for the peasantry that remains the bulk of the Malian population”. Brunet-Jailly asserts that the multiplication of peripheral structures makes no sense, as the reference units do not work properly. According to Brunet-Jailly, the main interest of the WB Health Project is to provide income to civil servants (as previous programs), amounting to some 30 to 45 % of the beneficiaries wages.

In spite of the non-existence of formal evaluations, the Community Centres of Health (CSCOM) are often quoted as successes in the fight against poverty in Mali. In theory, the populations concerned take the initiative of their installation. Financing the investments, necessary for the installation of the CSCOM comes from the benefiting populations (20% which can consist of contributions in kind, for example in labor), and from the State (80%). For the starting of the CSCOM, the State ensures the initial build-up of stocks of drugs. The benefiting population pays the current expenditures. It belongs to the benefiting group to set the prices of the medical services offered by the centre. Within the framework of the Program of Medical and Social Development (PRODESS), the State envisages to be more involved in the construction and the operations of the CSCOM in disfavored areas.

Many CSCOMs do not work properly because the benefiting populations were not sufficiently involved at the beginning of the implementation. In these cases, it happens that the medical team sees the CSCOM as its property, thus causing the disinterest of the populations. The requirement of cost-recovery makes the functioning of CSCOMs difficult in the most stripped zones. Also, in rural areas the frequentation of the CSCOM remains still limited by socio-cultural constraints and transportation difficulties. Cost-recovery has been seen under Structural adjustment as a good way to ensure the funding of the Health System, and to make health care for the poor more effective (the rich should choose the private, sophisticated systems, releasing resources for the public health service).

Juillet (1999) studied the Bamako district. She shows that the expected cost of the care is the main determinant of the choice of people when they are ill. 50.8% of sick people in the poor boroughs do not do anything or rely on auto-medication (49.2% in rich boroughs). The expected cost is not the real one; it depends on the representation of people, which might be wrong. One has to take into account that even free services may be costly, due to bribes.

## Education

According to EMEP (2001), 91 % of the rural population and 61% of the urban population did not receive any education. This very low level of education constitutes a major hindrance for economic development. The situation of the rural population is particularly dramatic, and its consequence is that even if the rurals migrate to the urban areas they will have big difficulties to integrate the labor market. Financial resources and the need to work are often cited by the youth to explain why they do not attend school.

The access of the rural children to schools is also due to the lack of schools and poor infrastructure: 10% of rural children (7-15 years) cite this reason to explain why they do not attend schools (EMEP, 2001).

Finally the poor quality of education is another problem in Mali: 36 % of pupils are unsatisfied by the schooling system due to lack of teachers. In the rural areas this percentage amounts to 42.5%. 62% of pupils are unsatisfied by school because they do not have books and school supplies (EMEP, 2001).

### 2.4.2. Has aid been ineffective?

Mali is highly aid-dependant (See Table 12), although aid decreased from 441 million US dollars in 1994 to 354 million in 1999 (47 US dollars per person to 33). A very significant part of public investment relies on external financing. The resume of growth in 1994 has been accompanied by the reduction of the weight of aid in GDP.

**Table 12: Aid as a % of GDP**

	1980	1990	1994	1998
Mali	16.6	20.0	24.5	13.5
Sub-Saharan Africa		9.9		4.1

*Source:* WB, World Development Indicators

Such an amount of aid is likely to have adverse impacts, namely. disorganization of public administration by multiplying projects entities difficult to co-ordinate. Adverse macro-economic effects are also likely to occur (Dutch disease, external debt increasing inflation and reducing competitiveness).

For these reasons, a DAC-UNDP process has been launched, in order to improve donors' co-ordination (OECD/UNDP 1998). However, this process did not have clear outcomes before the PRSP launch.

For the purpose of the SNLP elaboration, a study has been carried to assess the impacts of projects on poverty (Diallo & Raffinot, 1997). ODHD (2000) also addresses this problem, showing that very few projects have been effective in poverty alleviation. These reports stressed that a condition for success is the information and participation of the population from the early stages of the projects to their monitoring and assessment. The training of the beneficiaries of the project is also a factor of success. Micro-finance and drilling of wells (associated with the creation of income generating activities) are generally considered successful. The weak involvement of women is a drawback, especially for credit activities.

The change to budget aid could have positive consequences. It could help to finance current expenditure. A common result of project financing is that investment is financed, but not the recurrent costs, resulting in ill-functioning, or not functioning at all. Debt relief under HIPC reduction scheme should be used as budget aid, and not be focused on investment.

### 2.4.3. An ambiguous impact of migrants' remittances?

Migrations, both internal and external, are very important in Mali. 200,000 people migrate each year (Bocquier & Diarra 1999), resulting in a significant difference between the natural population growth

rate (about 3.4%) and the growth rate of the resident population (2.3%). Remittances from abroad in 2000 are 47 billion CFAF, according to BoP. Current official grants are of the same size (47 billion), but official capital grants are much higher (69 billion).

Gubert (1999 and 2000) and Azam & Gubert (2002) show that remittances in the Kayes region (where migration is more widespread) have a twofold effect on the conditions of living:

- Households who receive remittances are wealthier, and remittances allow them to smooth their consumption, namely in periods of drought. They are better equipped than the others (even with tractors).
- Production of households that receive remittances is lower, as if those households were relying on remittances more than income generated by their own efforts.

Remittances did also finance collective infrastructures (schools, health centers, power, and water supply). The efficiency of these projects is a matter of concern for the migrants' associations.

#### 2.4.4. Links between agricultural production, productivity, prices and farmers' income

**Table 13: Agricultural production (in thousand of metric tons)**

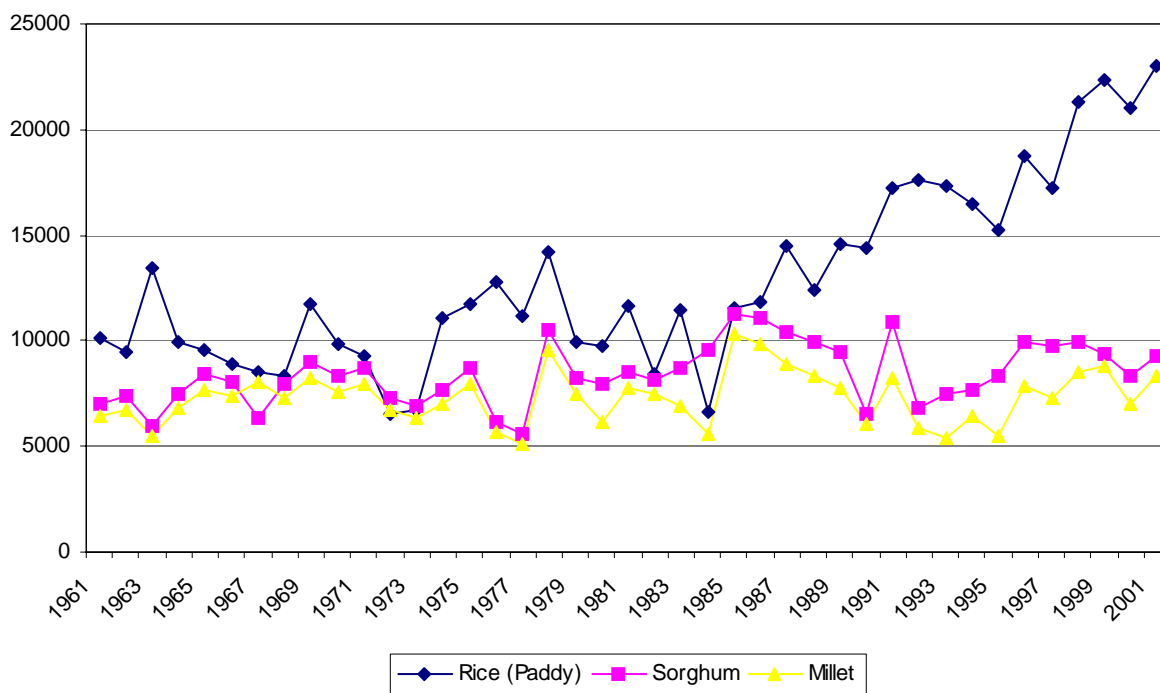
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Cotton	406	452	523	519	460	243
Groundnuts	157	134	143	151	158	166
Millet	707	739	577	732	858	722
Sorghum	710	541	503	539	641	533
Maize	264	294	311	354	397	205
Paddy rice	463	627	511	634	722	671

*Source: IMF (2002).*

The first possible explanation of the weak improvement of rural income is that the increase of production of some crops has been at the expense of others. This means that net increase could have been not very significant. Table 13 shows that while the paddy rice output has significantly increased, other products experienced very slow growth (millet) or even a negative growth (sorghum). Nevertheless, it is widely recognized that there is more complementarities than substitutability between cotton and food crops, namely maize (Dione, 1989). Cotton gives access to credit and inputs.

Agricultural policies have been focused (and still are) on the increase of the production of export crops (namely cotton). However, for most poor people in Mali food crops production (millet and sorghum), not export crops production, is of paramount importance. Furthermore, an important part of their production is used for self-consumption (see 2.2.2.). For this reason, a food crops productivity increase might have a major impact on poverty alleviation.

**Graph 3: Yields of the main cultivated cereals in Mali (1961-2001)**

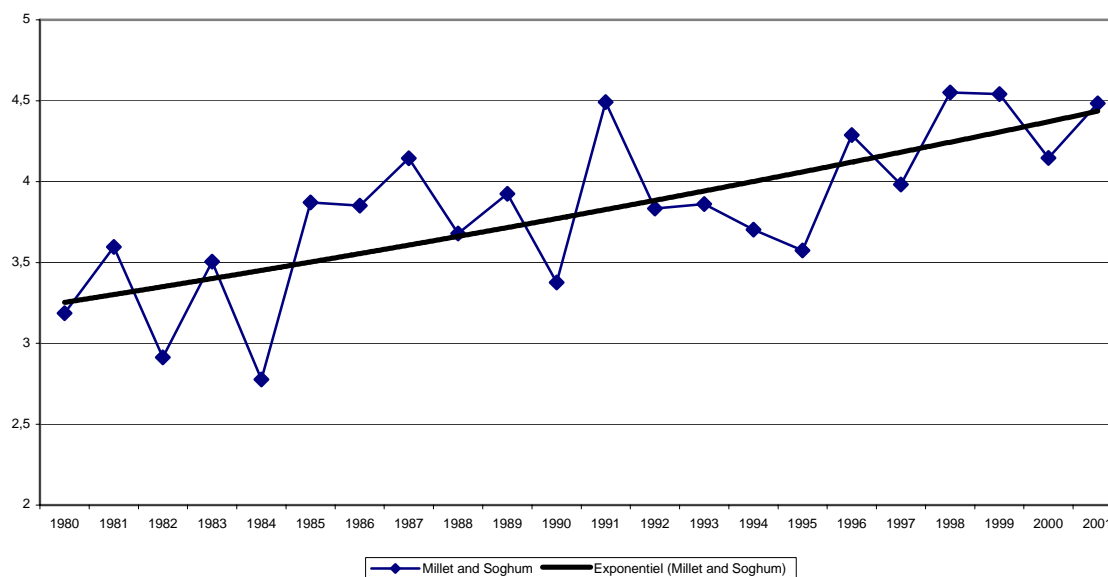


Source: FAO

From Table 1, note that the added value of food crops (millet, sorghum and maize) is much higher than cash crops' (cotton and groundnuts). Even the added value of livestock is 1.5 times higher than the added value of cotton sector. As shown by Graph 3, yields of millet and sorghum, the most common cereals in Mali, increased very slowly while the yield of rice (mostly irrigated in the 'Office du Niger' region) increased significantly since 1988.

However, yields are not the most relevant indicator. Productivity of labor (production divided by manpower) is a better indicator of well-being. Information on the repartition of manpower by crops is missing. We have then to rely on a quite crude indicator, such as traditional cereals (millet and sorghum) production per rural inhabitant.

**Graph 4: Productivity of cereals in Mali (1980-2001)**



Source: FAO

Graph 4 shows that the productivity for food crops improves steadily. Why then did not farmers' income follow the movement of productivity? The first hypothesis is that the increase of productivity has been followed by a fall in agricultural prices.

Indeed, it is well known that good harvests in the Sahel region induce dramatic falls of prices (and vice versa). This means that an increase in production could result in an increase in poverty. Table 14 presents a Malian example of such a change, using the data of the 1998/1999 harvest, which was a very good one and nevertheless resulted in a decrease of the value of agricultural output.

**Table 14: Cereal production: volume and value**

	1997/98	1998/99
Production of millet and sorghum (000 metric tons)	1,080	1,271
Producer price (CFA F)	101.7	77.4
Value of production (billion of CFA F)	109.9	98.3

*Source: DNSI*

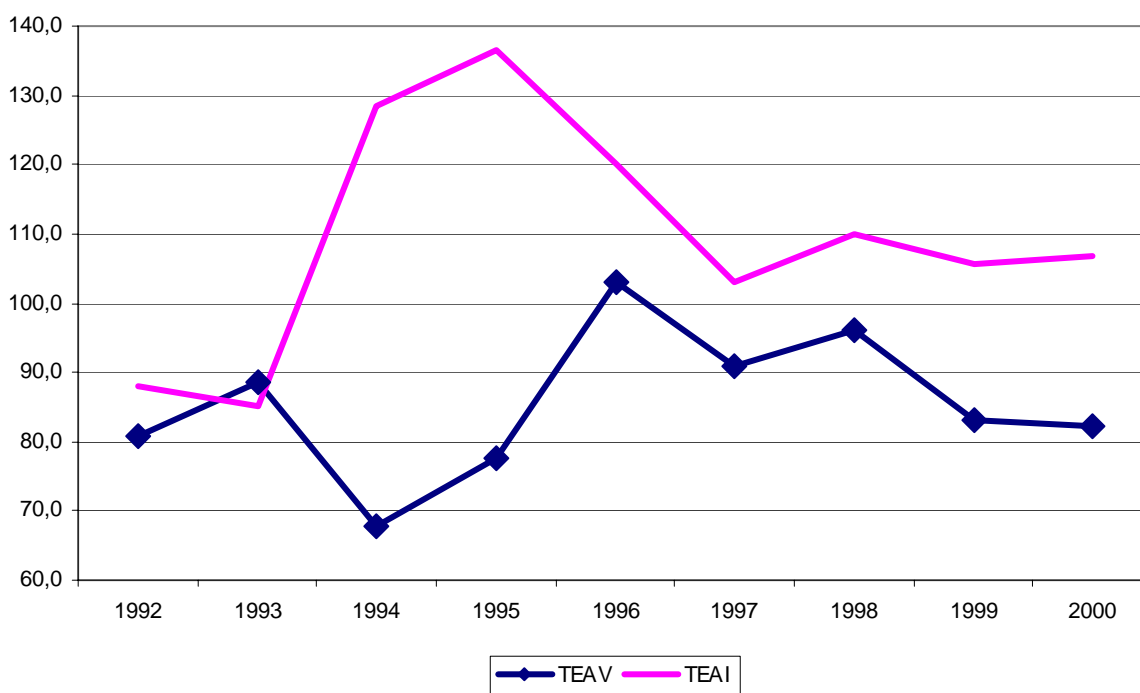
Thus, increases in productivity could be offset by the reduction of food prices. It is difficult to assess the net effect on the poor income since it depends of their situation as net sellers or buyers of food. For net sellers a good harvest may result in decreasing monetary income. Using rice equivalent to compute the poverty line, we will find in this case an increase of poverty headcount.

As there is no model available in Mali to assess the final result of an improvement of the productivity of agriculture, it might be interesting to turn to more theoretical studies. De Janvry and Sadoulet (2002) present an attempt to tackle this problem in the framework of a General Equilibrium Model. They use an "African archetype" to compute the impact of an increase of agricultural productivity. In their model, a 10% increase in total factor productivity (such as improved seeds in all crops) results in an increase of 7.6% of the income of the rural poor households (with a large positive growth in non-agricultural employment, which in turn induces an increase in the demand for food). In this model, poor rural households are supposed to produce all the food they consume, so they do not benefit from the decrease of food prices. The impact of a 10% increase of productivity in food crops is less important, resulting in an increase of 3.9% of small and medium farmers real income. This is because they do not benefit from the decrease of food prices (-12%) and because in the model, the cereal sector represents only 13% of the GDP (twice more in Mali). Eswaran & Kotwal (1992) presented a theoretical model in which increases in agricultural productivity and reduction of food prices allow people to buy other products, leading to the emergence of an internal market for manufactured products.

The deterioration of the terms of trade between agriculture and industry could also contribute to explain why the improvement of the productivity of food crops did not result in a sharp reduction of rural poverty.

Graph 5 presents the evolution of the terms of trade between agriculture and the others sectors. Two sub sectors are presented: food crops sub sector and traded crops sub sector (cotton and groundnuts). Terms of trade here (respectively TEAV and TEAI) are the ratios of the sub sectors deflators to a deflator of the relevant other sectors of the National Accounts (manufactured goods, trade and transportation). After the devaluation, the terms of trade of traded crops increased sharply until 1996, but this change did not last (the level in 2000 is still 22% above the 1992 level). The terms of trade of food crops behave a very different way. They decrease in 1994 and recover after. In 2000, their level is quite close to that of 1992.

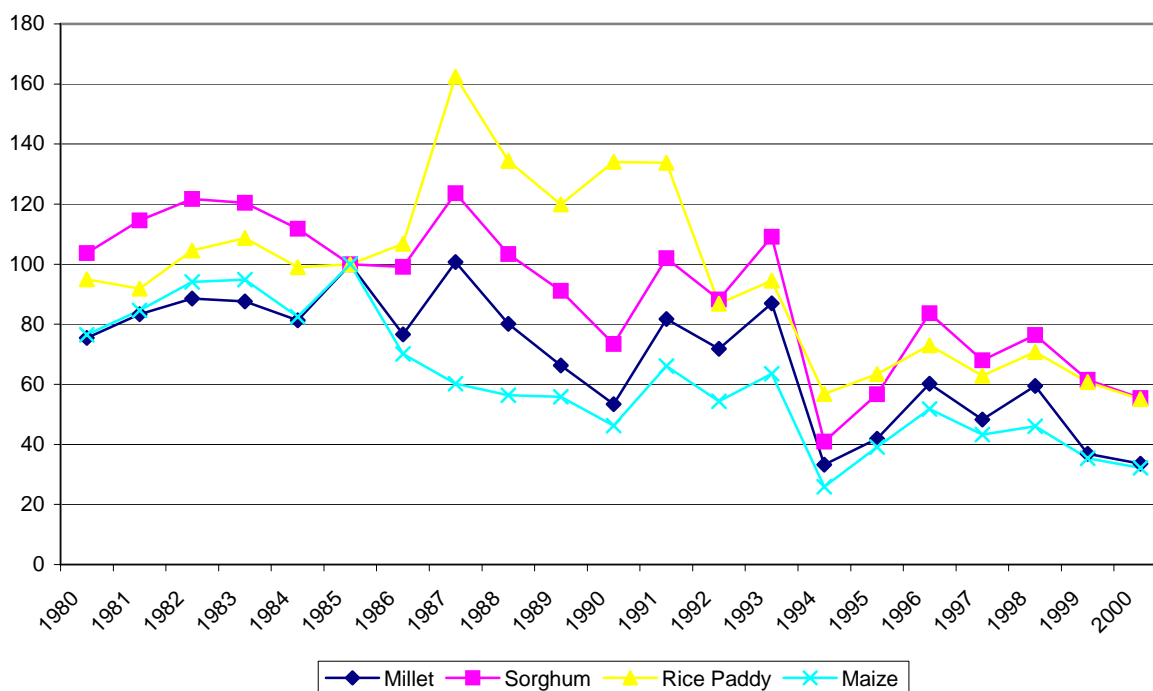
**Graph 5: Terms of trade of agriculture (1987=100)**



Source: DNSI

The poor are mainly concerned by the prices of cereals (millet and sorghum), since their production is not very diversified. The terms of trade of cereals are difficult to compute. One may use the CPI as deflator. But cereal prices are the main component of the CPI, so the method is flawed. Using the import prices instead of CPI gives a different picture (Graph 6), flawed in a different way, since farmers do not buy only such kinds of goods. An accurate assessment of the relative prices for cereals poor producers lies somewhere in-between.

**Graph 6: Prices of cereals deflated by the import prices index (1985=100)**



Source: DNSI

Graph 6 suggests that there has been an important decrease of food crops terms of trade in the recent years (since the 1994 devaluation). It suggests that productivity and income might follow different paths.

To sum up the subsection conclusions, we can say that the poor results in terms of poverty reduction in the rural areas despite the improvement of yields and productivity could be due to a decrease in agricultural prices (following the improvement of productivity), a deterioration of the terms of trade of agriculture (relatively to the other sectors) and of food crops (within agricultural products). In the next subsection we look at another hypothesis: could inequality in the rural sector have increased in such a way that the benefits accrue mainly to the wealthier farmers?

#### 2.4.5. Increasing inequality in the rural sector

Increasing inequality in Southern Mali is documented in ODHD (1999) and Tall (2001), in the aftermath of the 1994 devaluation. Table 15 shows that the increase of income has been much faster in the richest farms. This change appears to be quite general (See also ODHD 1999). Verger (1997) presents some anecdotal evidences of a growing diversification in the cereal sector. The wealthier producers may become traders (cereal exporters).

**Table 15: Increase of income by type of farms in Southern Mali, (F CFA, current values)**

	Income by exploitation 1993/94	Income by farm 1997/98	Increase	Income by person 1993/94	Income by person 1997/98	Increase
Type A (well equipped)	214,183	794,447	271%	8,671	33,806	290%
Type B (equipped, but small herd)	119,306	360,127	202%	8,970	26,676	197%
Type C (not fully equipped, but able to use equipment if rented or granted)	59,137	192,113	225%	7,301	18,835	158%
Type D (no equipment)	86,315	145,040	68%	10,037	19,084	90%

Source: Tall (2001, p.29, quoting CMDT)

The *CIRAD* MATA model (Koné 2002) also shows that the cotton sector liberalization is likely to result in a growing inequality, because the wealthiest producers are more able to take advantage of the freedom to contract.

This growing inequality also results in the development of ‘household’ individualism in Southern-Mali (Tall 2001). This is in contradiction with rural institutions that traditionally treat the village as an entity. In this regard, a major problem appeared in 1999/2000, as the cotton harvest was low. It resulted in a huge indebtedness of the villages. They could not receive further credit without repaying their debt to CMDT and BNDA. Some households could pay, some did not or could not, but sanctions were afflicted to the village as such. This resulted in tensions inside the villages.

All this suggest that increasing inequality in the rural sector could be an explanation of the high persistent poverty in this sector. The wealthier farmers seem to be more able to seize the opportunities stemming from changing conditions than poor farmers. For these reasons, the improvement in the global productivity might not benefit the poor farmers.

We could summarize the findings about rural development and rural poverty the following way:

- Past rural development policies mainly focused on crops (like cotton) that are mostly grown by rich farmers
- There has been some improvement of the productivity of food crops
- This increase resulted in lower relative prices for food, and sometimes in a reduction of monetary incomes in case of good harvests.
- The growing inequality in the rural sector explains that improvements benefited more the wealthier farmers

## 2.4.6. Employment

The low labor content of growth could explain in some extent its weak effects on poverty reduction. However, employment data are scarce, and it is thus impossible to assess this hypothesis.

**Table 16: Employment in Mali (1997)**

	Men	%	Women	%	Total	%
Rural	2,187,443	79.9%	1,782,978	71.7%	3,970,421	76.0%
Informal	485,914	17.7%	690,150	27.7%	1,176,064	22.5%
Civil Service	32,824	1.2%	9,259	0.4%	42,083	0.8%
Modern Private	31,432	1.1%	5,057	0.2%	36,489	0.7%
Total	2 737 613	100.0%	2,487,444	100.0%	5,225,057	100.0%

Source : Observatoire de l'Emploi et de la Formation

During the Structural Adjustment period, civil servants and employees of the public sector were fired or incited to leave. 645 civil servants voluntarily left during 1987-89, and 5,760 during 1991-94 (military included). Recruitment in the civil service area has been limited to 250 per year (Petersen & van der Hoeven, 2000, p. 24). Since 1991, low paid temporary contracts have been proposed ("vacariat"). Donors and the AGETIPE also created jobs. Employment in the formal sector increased slowly (from 32,219 in 1995 to 36,489 in 1996, 37,954 in 1997, 38,860 in 1998 and 39,500 in 1999, according to Petersen & van der Hoeven, 2000, p. 24)<sup>9</sup> – broadly in line with GDP growth. However, since rural and informal employment are prevailing (See Table 16), the increase in formal employment does not have a very important impact on poverty reduction.

The elasticity of employment with respect to GDP could give a good indication of the impact of growth on employment, and thus on poverty reduction. Even if very high elasticities, implying low productivity and wage rates, are not desirable, a very low elasticity means weak effects of growth on employment.

The structural adjustment policies emphasized the lack of flexibility of the labor market as a major hindrance to job creation. This seems irrelevant since the modern sector represents a very small part of total employment.

The reduction in job creations in the public sector (and firing from public enterprises) resulted in fewer job opportunities for educated young people. There are few jobs for them in the modern sector, and unemployed have no access to credit for creating new activities. It resulted in a waste of human capital, and many educated people became disheartened (Traoré 1999, p. 95). Many parents share the opinion that secondary and tertiary education are useless, and that the return to education is in fact very low. The lack of formal skilled jobs and of credit to create new enterprises hinders the role of education as an engine of social mobility in Mali.

The government adopted specific policies to promote economic growth and job creation for the poor. This resulted particularly in the adoption in February 1999 of a Directing Diagram of an Overall Policy for Employment in Mali. This directing diagram stresses in particular the generalization of the Employment Intensive Investment Programme (HIMO by its French acronym) method implemented until now within the framework of the interventions of the AGETIPE.

Job creation for the poor will be increased by the implementation of investment plans in the disfavored areas, and the adoption of the priority principle of the recourse to local resources for their execution. Therefore the budget of the State dealt with uses of volunteers and free-lance to reduce unemployment of the youth and to counterbalance the stop of recruitment in the public sector.

<sup>9</sup> Curiously, the figure for 1996 in Petersen & van der Hoeven is the figure for 1997 in Table 4.

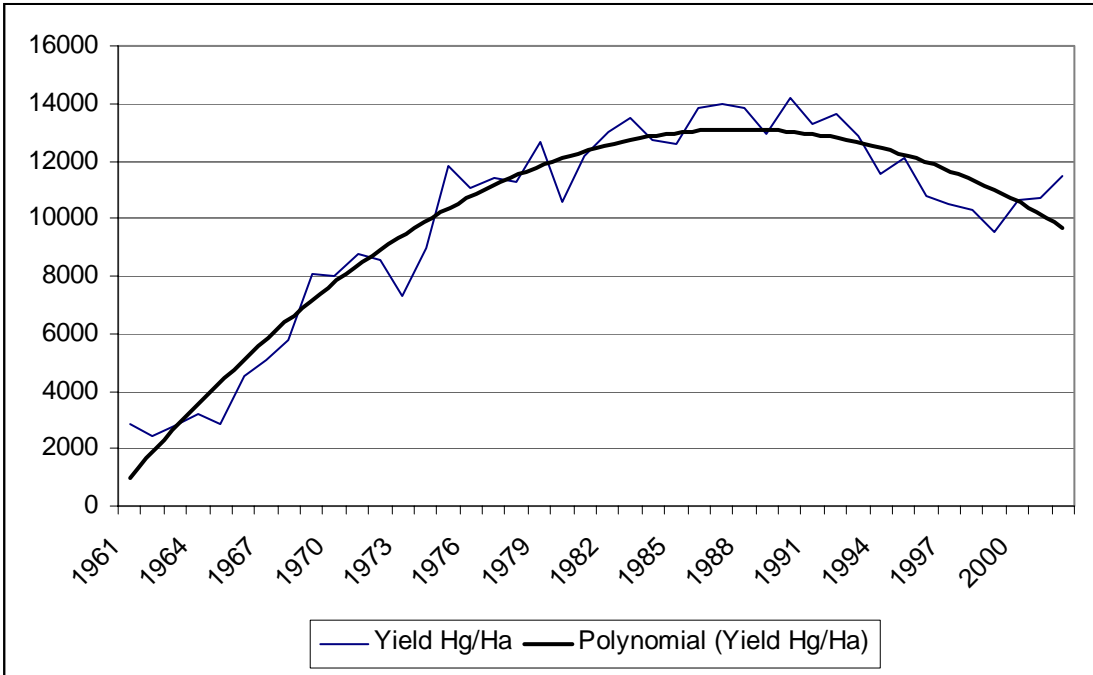
2.4.7. Environment and internal migration: is the current pattern of growth sustainable?

Two dynamic sectors (in terms of income), cotton and gold are likely to endanger environment, and hence the sustainability of growth (Makalou, 2002). Cotton impoverishes soils, so yields are bound to decrease after some years of cultivation. Graph 7 shows that the tendency of decreasing yields is very clear since 1989.

Gold (and mainly gold washing, a source of income for poor people) is dangerous in numerous ways. It generates not sustainable public revenue and may initiate some kind of Dutch disease. Infrastructure such as roads or towns constructed for gold mining may be set apart when production ends. Moreover, it has been shown in Brazil that the products used for gold washing, increase the prevalence of malaria. Some NGOs in Mali are involved in developing alternative activities for women practicing gold washing.

The energy sector is also likely to enhance growth in Mali, thanks to the Manatali dam on the Senegal River. It produces electricity since end 2002. The dam will give the opportunity to develop activities like fishing and market gardening. But the experience of Senegal and Burkina Faso shows that this could also be risky for the environment and even human health and without automatic positive effects on nutrition even when women are engaged in market gardening (Konaté & Raffinot 1998).

**Graph 7: Yields of Seed Cotton**



Source: FAO

Furthermore, the income of the poorest relies for a part on the degradation of their environment. The problems of poverty and environment protection are closely linked in Mali. Wood is still the main source of energy for the poor. The poor rely on deforestation to generate income in the dry season. To avoid this, the government is trying to provide alternative activities for the poor, to stop deforestation.

The SNLP explicitly has taken into account the objective of ensuring a participative management of natural resources. Moreover, the SNLP aims at strongly involving the elected local communities in the natural stock management. The regional action programmes (PAR) are focused on natural resources degradation and mainly on the fight against desertification, except in Bamako, mainly characterized by pollution and cleansing problems.

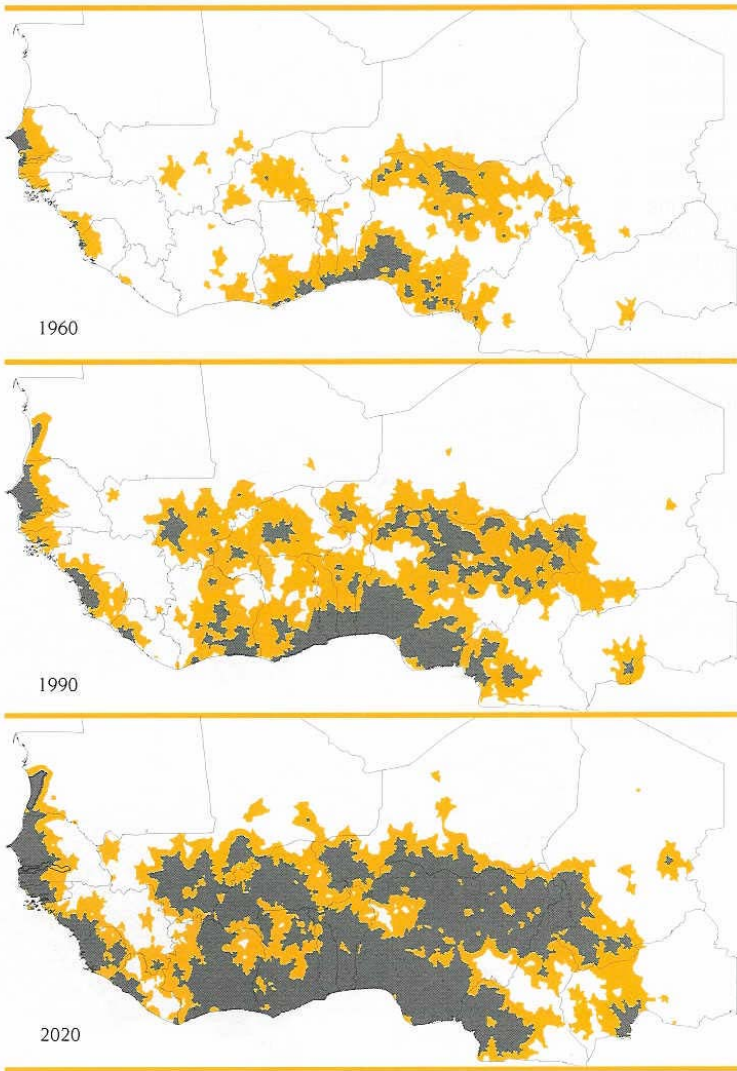
Migrations are important in shaping the future of the Malian society and thus deserve to be studied carefully. Exodus of people from the northern regions to the South has serious implications for the environment (Berthe, Blokland et al., 1991).

The urbanization process is of paramount importance. A significant attempt to investigate the consequences of this process has been the West African Long Term Study (WALTPS). Some results of the study can be read on the maps below. They show that the economic integration of Mali is likely to improve in 2020, as there are important spillovers of urban development on rural development. Nevertheless, the Kayes and Northern regions are likely to remain apart, neither attracted by Dakar nor by Bamako. The map shows that the Malian economy in the long run will develop links with Côte d'Ivoire and not with Senegal. This trend might be reversed by new infrastructure. Nevertheless, things would be different if the civil war in Côte d'Ivoire (2002-03) resulted in long term problems for transportation between Mali and the Coast.

**Table 17: Urbanization in Mali (1960-2020)**

	1960	1970	1980	1990	1995	2020
Population (million)	4.9	5.7	6.8	8.2	9.2	16.3
% urban	6	11	19	22	24	39
Bamako (000)	150			740		2,200

Source: Sahel and West African Club, 1998



Source: Sahel and West African Club (1998)

Land is not yet very scarce in Mali. But, since the drought of 1970, there has been an exodus of population from the northern arid areas to the South. This poses problems for utilization rights of land.

Rural-urban migrations seem to be an inescapable way to enhance living conditions of rural poor. Hence, preparing the conditions of a good integration of those migrants into the urban economy should be a priority, especially in the field of safe water, sanitation and housing.

### **3. IS IT POSSIBLE TO MAKE POLICIES MORE EFFECTIVE FOR POVERTY ALLEVIATION?**

There are two ways of dealing with poverty reduction: promoting higher economic growth or implementing economic policies more targeted on the poor. Both are needed in the case of poor countries (see section 1.1). However, the IMF seems keener to rely on the first view, with the idea that policies reducing imbalances and deficits will achieve more sustainable growth and reduce poverty – an idea very close to the Classical Structural Adjustment framework.

Beyond the macro debate, an important issue is to identify sectors which will have a high growth potential. The analyses of the previous trends (See 2.1.1.) do not assess the potentialities of the different sectors in the future. The danger of a static analysis could be in promoting sectors that have grown quickly in a recent period, but that do not have necessarily a potential in the future. For example, focusing too much on the cotton sector promotion is risky if we take into account its price instability and its effects on environment. It is then better to promote other agricultural (and rural non-farm) activities to encourage diversification. Of course the movement needs to be progressive to give time to the producers to adapt their strategies.

In the case of Mali, some previous reports tried to address this complex problem: MEPI and *Cellule croissance accélérée et développement* (1997), Petersen & van der Hoeven (2000), and, to some extent, Toulmin et al. (2000) for SIDA. We draw on their analysis and recommendations.

We first investigate the prospects of higher growth in the medium run, and then the policies that could enhance the living conditions of the poor. These findings are then compared with the policies promoted by the PRSP (see Box 1).

#### **3.1. Is more growth realistic? Potential Growth**

There is no doubt that a rapid growth is needed to reduce poverty in Mali. Keita (2002), shows that a 9.5% growth rate would be necessary for Mali to gain the present average GDP/person in Sub-Saharan Africa in a decade. But he does not say how to attain it or even if this is realistic.

In the long run, growth in Mali heavily relied on factor accumulation. Toure (2001), shows that from 1960 to 1996, total factor productivity (TFP) sharply decreased. But his results are controversial since he does not take human capital into account, and his econometric results are not significant when factor accumulation and TFP are simultaneously taken into account. Estimates on a shorter period (1980-2000) confirm that factor accumulation explains the bulk of output growth in Mali before the devaluation of the CFA Franc in 1994 (IMF, 2002). A large increase in capital stock boosted average output growth between 1980-85 and 1986-94. Heavy investment efforts were undertaken to raise cotton production, which increased by about 7% per year on average during 1986-94, compared with an average decline of about 1% per year in the preceding period.

### **Box 1: The 3 axes of the PRSP**

- 1. Institutional development and improvement of governance and participation:** good governance, peace and social stability.
  - Decentralization, Improvement of the judicial system.
  - Modernization of the State, reform of civil service, strengthening of civil society, fight against corruption.
  
- 2. Human development and improvement of access to basic social services.**
  - Better delivery of basic civil services.
  - Multisectoral approach against malaria, tuberculosis and AIDS.
  - Alphabetization.
  - Actions in the fields of nutrition, fertility, access to safe water, credit, lodging, social protection.
  
- 3. Development of infrastructures and support to the productive sectors.**
  - Improvement of business environment.
  - Better geographical allocation of activities across the country through a development policy and maintenance of infrastructures (notably roads, telecommunications, etc.)?
  - New vision of sustainable rural development with emphasis on the private producers.
  - New commercial policy, integration in the West African economy and in the world trade, privatization, strengthening of the financial sector, support to the sectors with high growth potential, promotion of exports and of import substitution.

As there is an important accumulation of capital (the same order of magnitude than Taiwan!), this means that it has been very inefficient. Incremental capital output ratio (ICOR) calculations by Chambas et al. (2000) confirm this, since the ratio has regularly increased from the middle of the seventies to 1992. But in Mali, the figures of GFCF are debatable, because they include an important part of external flows (projects by IFIs and Donors) which can hardly be considered as capital

In other countries, like Senegal, TFP growth has been explained by rural urban migration (Berthélémy et al., 1996). This is not the case in Mali.

Toure finds a positive relation between growth and the share of public expenditures in GDP. But this is through capital accumulation, not by enhancing TFP.

A lasting controversy emerged during the PRSP elaboration about the targeted growth rate for the next five years. The IMF insisted that growth rate should be very high in order to reduce poverty (higher than the already optimistic growth rates of the former PFPs). This was also meant to put some pressure on the Malian Government. The IMF argued that this would push the Malian Government to undertake efforts to raise the growth rate. Bilateral partners were reluctant, insisting that the program should be realistic. This is hardly a new issue. Years ago, the IMF (FMI 1977 p.137) noted without criticism that the application of the Malian Five Year Plan (1974-78) should “accelerate economic growth and strengthen the economic basis” (the targeted real growth was 7.1%).

When one examines the break down of the PRSP’s targeted growth, it is quite clear from a simple arithmetic point of view that an important part of growth should be in the agricultural and livestock rearing sectors, because they represent about 40% of GDP.

Table 18 shows the PRSP growth prospects. The reference scenario is in line with former IMF programs. Growth is supposed to be high in 2002, mainly due to the good harvest in 2001 (food crops and cotton<sup>10</sup>). The prospects of growth in the agricultural sector (+5% per year for rainfall food crops, 7% for flooded rice, 3% for cotton) are generally considered as unrealistic. Optimistic growth rates have also been used for gold production, telecommunications, etc. This performance is supposed to be granted by better economic policies.

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<sup>10</sup> In Malian national accounts, agricultural crop of year n/n+1 is accounted for in year n+1

**Table 18: PRSP growth prospects**

Growth rate	2001	2002	2003	2004	2005	2006
Reference scenario	1.5%	9.2%	7.4%	5.9%	5.6%	5.3%
Test 1	1.5%	9.2%	5.8%	5.3%	4.9%	4.5%
Test 2	1.5%	9.2%	2.3%	4.4%	3.6%	6.0%
Test 3	1.5%	10.1%	0.7%	3.8%	2.8%	5.1%

Source: République du Mali, (2002)

To take risks into account, three other scenarios have been established. The first one takes into account food crops fluctuations, and low growth in the cotton sector. The second one includes the forecasted reduction of gold production. The third scenario combines both previous ones (and is likely to be the most realistic).

The reference scenario seems unlikely to occur. It is nevertheless the basis for the projections of public revenue, which also hypothesizes an increase of the fiscal pressure to 19%.

The “*Cellule Croissance Accélérée et Développement*” (Malian think tank about growth acceleration supported by the WB) addressed this problem, designing what could be seen as a very articulated development plan. But the plan was neither supported by the Ministry of Planning nor by the WB. The unit was dissolved and its papers remained useless. It is nevertheless interesting to see how the issue has been tackled. The document MEPI & *Cellule Croissance Accélérée et Développement* (1997) presented two scenarios, with an increasing and sustainable rate of growth, from a macro-economic point of view.

Projections (using RMSM, the WB model) are summarized in Table 19. In this view, growth relies heavily on the development of services. The priorities are listed as follows:

- Flooding (small scale and medium scale)
- Communications (integration of locked areas) and telecommunications
- Energy
- Basic education, vocational training and health
- Institutional development (decentralization, rule of the law, support of private sector)

**Table 19: Scenarios 1997-2006, breakdown of sectoral growth and contributions to growth**

	1997 Growth rates	2006 Growth rates		2006 Contributions to growth
Scenario 1				
GDP growth	4.7	6.0%		
Scenario 2				
GDP growth	4.7%	6.6%	GDP growth	6.6%
Agriculture	4.7%	5.0%	Agriculture	2.2%
Industry	6.0%	5.0%	Industry	0.9%
Handicraft	4.5%	5.0%	Handicraft	0.4%
Services	4.5%	9.0%	Services	3.5%

Source: MEPI & Cellule (1997).

How could such a change result in poverty reduction is not obvious (and was not an objective of the report). Therefore, we will investigate different policies that could make growth more pro-poor and more sustainable.

However, with a past trend of 3.1% and a 5.6% in a very favorable period (devaluation, good rainfall, increase of gold production, etc.), the figures of Table 18 seem optimistic, relying on the hypothesis of a structural break.

As shown by the simulations performed by Cling et al. (2003) on various countries, the high level of inequality in Mali is a serious impediment for poverty reduction. The requested growth rate per capita to halve poverty in Mali by 2015 is 6.3%, which is four times higher than the average rate in the nineties. If the growth rate from 2000 to 2015 was not higher than the average observed in the nineties, the poverty rate would only decrease to 61% in 2015. In a country like Mozambique, which is characterized by the same level of income per capita, inequalities are much lower (Gini index: 39,6%), and thus, the required rate of growth to halve poverty by 2015 is much lower (3,6%).

### **3.2. Actual growth is not enough to induce poverty alleviation. What is the way ahead: more poor-targeted growth policies?**

The analysis of the evolution of the economic performance at the aggregate level is not enough for saying something about its beneficiaries. We have previously analyzed the sectoral contributions to economic growth. We need to identify the activities that have high potential in the future and at the same time could benefit the poor. We need to decompose growth by its different sources to understand which factor benefits the more from it. Is it capital, land, skilled labor, or unskilled labor?

In Mali, industrial growth in recent years has been mainly due to gold and mining output increase (see Table 1). In addition, in the agricultural sectors, it is cash-crop production that experienced the highest growth rate (table 1). Since most of the poor are food producers, they could have benefited in a lesser extent from growth. We do not have data on poor farmers' endowments in Mali to check this hypothesis, but usually cash crop production requires financial resources which the poor lack.

A relevant analysis of this problematic would need the construction of a disaggregated social accounting matrix (SAM). A SAM permits to analyze the circular flow of income within an economy, and to know exactly which actor benefits from which activity, depending on his initial endowments. However, Mali does not have an input-output table at its disposal, so it is not possible to build a SAM representing the Malian economy. Creating such a macro database would be very helpful to understand how the different socio-economic groups are affected by the evolution of the performances of the different sectors.

In the absence of data on the endowments of the different households, we can at least say that growth policies, which at the same time reduce inequality, are the best way to alleviate poverty. The reason is that if the current level of inequality was to be maintained, Mali would need very high growth rates to achieve a significant poverty reduction. Since we believe it is not realistic to expect a sudden growth boom in Mali, we advocate redistributive growth policies.

In other words, poverty reduction should not be seen as a complementary policy to economic growth promoting policies. There should be a mainstreaming of poverty into economic policies. Concretely it means that the government should not design economic policies based on output growth objectives only, but check their poverty impact also. It should promote growth of the activities that will benefit the poor, and at the same time promote social mobility. The analysis of mobility is extremely important in this regard. The main factor of intergenerational mobility is education. Social mobility could be increased by delinking educational outcomes for individuals from family backgrounds. Social mobility could be enhanced by implementing income redistribution via social transfers or public works, providing scholarships for children and credit for the youth.

Income redistribution via social transfers benefits only to a small fraction of the population (mainly civil servants and formal private workers). The fight against poverty involves the necessity of asset provision to poor households (mainly rural) to allow them increase their income and stabilize them via diversification of its sources.

Public works programs should be implemented to promote the creation of physical assets in a labor intensive way, so that as much employment as possible is generated in the poorest regions (Haddad and Adato (2001) show that public works programs outperform hypothetical untargeted cash transfers in South Africa). These jobs must be allocated in priority to the poorest individuals. The problem is that there are no formal structures in the regions able to apply for public tenders, resulting in a monopolization of these tenders by enterprises from Bamako.

Scholarships for poor children can also help them attend schools, mainly if they can save a part of it to contribute to household income. These scholarships should not be allocated to the poorest only, but also to those close to the poverty line. Without this incentive, those who are the most able to get out from poverty could be impeded from investing in education (Bourguignon, 2000).

The availability of credit for the educated youth (especially those belonging to poor households) could help them launching small projects. By easing the access of this category of people to the capital market, the government enhances growth and social mobility at the same time. It permits a better use of human capital, enhances accumulation, and it allows for an intergenerational redistribution.

### 3.3. Tax policies and Redistribution

In developed countries, fiscal policy plays a major role in improving the distribution of incomes. This is not the case in developing countries (Bourguignon, 2000). One of the reasons is that the use of income tax, which is the main progressive tax instrument, is very limited in developing countries. In Mali it represents about 20 % of total tax revenue (see Table 20). Moreover, income tax relies on civil service wages as far as personal income tax is concerned, and on a few enterprises.

**Table 20: Government revenue and its components' evolution 1995-2000, billions CFA F**

	1995	1996	1997	1998	1999	2000
*Taxes on net income and profit	26.6	34.5	37.8	42.8	34.7	45.4
Enterprises	10.8	19.7	20.9	25.0	17.4	23.7
Individuals	14.2	12.9	14.5	16.6	15.6	20.2
*Taxes on goods and services	17.0	25.4	26.5	30.9	39.7	42.1
*Taxes on international trade	73.0	94.5	112.6	127.8	135.4	123.1
Custom duties	5.4	6.6	7.8	10.7	23.8	29.2
Other import charges	22.9	29.0	35.4	37.3	7.2	0.0
VAT on imports	20.8	31.6	34.2	35.3	45.1	46.5
Petroleum import duties	21.2	24.6	29.2	33.4	48.3	37.0
Export taxes	0.1	0.1	2.1	3.4	3.0	4.0
*Other tax revenue	9.0	8.4	10.6	12.0	16.0	11.1
Tax revenue	131.5	172.8	196.3	221.3	235.3	233.3

Source: IMF, 2002

We can see in Table 20 that taxes on international trade still represent the bulk of tax revenues in Mali. However the share of value added tax (on local and imported products) evolved from one fourth in 1995 to one third of total tax revenue in 2000.

Taxes on goods, services and international trade are not progressive, and thus have a weak redistributive incidence. Differential VAT rates (depending on the nature of the goods) can contribute to improve their redistributive impact, but an agreement within the WAEMU has been set to harmonize these taxes to a unique rate of 18%. The IMF also opposes differential VAT rates arguing that their implementation would be very difficult to manage.

Increasing the income tax could be a long-run objective, but it is not a very reliable source in the short run because of evasion problems, and of the small size of the formal market<sup>11</sup>.

Moreover, monetary transfers linked to the income level are very difficult to implement for practical reasons and for fraud risks. Thus it is more advocated to use in kind transfers (Bourguignon, 2000). In addition to these transfers, public goods production (education and health) and assets provision to the poor (livestock, credit, inputs...) could contribute to decrease inequality and ensure pro-poor growth.

In conclusion, efforts need to be done to improve the collection of taxes (especially income and corporate tax) in Mali to permit redistribution in a country characterized by very high inequality rate, and to help Mali rely more on its domestic resources to finance its poverty fighting programme.

### **3.4. Making Openness Work in Mali**

Malian exports are still characterized by a quasi-total dependence on raw materials (cotton, gold and livestock). Gold production increased since 1995, and Mali is now the third gold exporter in Africa. International Direct Investment is limited to the gold sector.

Mali benefits from the Cotonou agreements linking the EU with the ACP countries. It gives a free access to European market for most products. The new European initiative "Everything but weapons" opens the European market further. But very poor countries like Mali proved in the past unable to benefit from this kind of opportunities. Diversification is difficult because of high factor and transportation costs

In the medium run, the strategy for further openness relies mainly on regional integration (WAEMU). But net gains for Mali are not obvious, and could even be negative. Economic activity has a tendency to concentrate on the coast, and this trend is very difficult to resist, especially if transportation, either by road or railway improves. Decaluwé et al. (2001, p.295) show that the Common WAEMU Tariff is likely to reduce the nominal protection, but only for regional imports. Protection for imports from countries outside the WAEMU should increase. The simulation with a regional Computable General Equilibrium Model shows that Mali gains slightly from regional integration. However, there should not be too high expectations with increased openness. The bulk of future growth relies on internal market.

Thus, some authors (like Klasen, 2001) advocate to focus trade reforms on removing the anti-export bias rather than on import liberalization. Trade liberalization could benefit to the wealthier part of the population which could buy imported consumption goods cheaper.

Concerning foreign investment, its benefits for poverty reduction in LDCs are not obvious. Potentially immiserizing growth may arise from capital inflows as a combination of negative terms-of-trade impacts, preferential tax treatment to foreign investors, and remittances of profits of foreign enterprises (Lopez, 2001).

The efforts in the future should not be focused on more trade reforms but on improving the business environment, the competitiveness of Malian exports and increasing their diversification. As shown by many studies, increased trade liberalization does not necessarily lead to more trade. Moreover, the recent crisis in Côte-d'Ivoire (a very important partner for Mali) shows the risks of a strategy based solely on external markets.

### **3.5. Rural development and poverty alleviation**

Poor peasants should be able to seize profitable opportunities through access to credit and through development of insurance schemes. However, opportunities for poor people might be mostly outside agriculture, due to the difficult conditions in which they produce. From a dynamic point of view, this should imply some support to families when sending their children (especially girls) to school. It is

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<sup>11</sup> See Gautier (2001), for a discussion of tax policies and the informal sector.

already done by subsidizing meals at school, or providing some food to girls attending school. Micro-credit schemes are often used by parents to provide money for buying school equipment.

Besides, Berthélémy and Morrisson (1989) showed that agricultural output could be increased by providing farmers with consumption goods they would like to buy. It would then make sense to subsidize the installation of shops in remote villages (not only classrooms and health centers).

### 3.5.1. Diversification

We insisted earlier (see 2.2.2.) on the fact that the quasi-totality of the poor in Mali are farmers. Their problem is not only the level of income (which is of course very low), but the variability of this level. The way they deal with the variability is by portfolio diversification. They try to diversify their income sources by producing other crops (and not only food), rearing livestock, by getting some non-farm income as selling fire wood, handicrafts, or wages. For this reason, strategies to fight poverty should focus on the rationale of income generation at the poor rural household level (and sometimes infra-household level). This is likely to provide different results as focusing on agricultural development in the traditional way.

The PRSP looks like a classical National Plan. It focuses on sectors. But this approach is more bureaucratic than relevant for poverty alleviation. Strategies of poor households and poor people inside households are global. As risk is a major problem, they look for some kind of portfolio diversification of their activities. For this reason, a lot of issues relevant to poverty alleviation are not sectoral, but cross cutting.

More specifically, the problem of rural households is a matter of diversification and spillovers. To work out an effective anti-poverty strategy, one has to understand the logic of the household, all the relationships being taken into account.

### 3.5.2. A case for public intervention

The many failures of the market in the case of poor rural households suggest a case for Government intervention. Abdulai & CroleRees (2001) suggest that the role of government in making assets available to poorer households is still essential in promoting income diversification. The same is true for improved infrastructure.

Agriculture is by definition an activity where high risks exist due mainly to rainfall irregularity and price instability. Thus, if subsidies (like in developed countries) and stabilization policies do not exist, it is not possible to increase investment significantly and improve agricultural productivity. Agriculture remains an activity of subsistence, except for the wealthiest farmers who can compensate losses of bad years by gains of good years.

Moreover, poor farmers do not have the resources to buy fertilizers and pesticides, and thus have a limited potential of output growth. The sectors where inputs are provided to farmers (e.g. cotton sector where the CMDT provides inputs and the Office du Niger region) have shown that output can increase significantly.

Input provision is not the only impediment. Marketing structures (such as co-operatives) are also needed, because farmers, especially those living far from big cities do not have the resources to commercialize their products. Traders are generally reluctant to buy products in remote areas.

All this is not to suggest returning to widespread government intervention, as it was in Mali in the seventies. The situation is different, because of the increasing role of the farmers' associations. Their importance is now recognized by most stakeholders. They could have the lead in the management of rural development. It is still difficult because of the long history of opposition between government and farmers' organizations. As Bingen (2000, p. 362) notes: "Despite the political openness of the Third Republic for the expression of new agrarian interests, the opportunities for a more collaborative agrarian coalition may still need to be created." An important caveat is that these organizations are of

different kinds (some parastatals, some really autonomous), and that most of them do not represent the smallest farmers, but middle and big ones (Bingen 2000).

### 3.5.3. Property rights

As there are no property rights on land in West Africa, in the sense of the Roman law, the problem in Mali is one of rights of use of land, water, etc. Much has already been done to improve the situation. A major issue is the balance between the rights of farmers and those of stock breeders (Kintz, 1992). Laws have been passed, but not all the applications decrees. In this field no authoritative solution will work. A participative approach is the only way to provide sustainable solutions. It implies intense interactions between the local and national levels. Nevertheless, according to Stamm (1998) this is likely to improve living conditions in rural areas, but should not be expected to result in a major improvement of production.

These problems have been identified in the PRSP (notably in the Mopti and Timbuktu regions, as one could expect). The ongoing reforms mentioned are: Pastoral Charter (*Charte pastorale*) presently discussed in the Parliament and revision of the Land Act (*Code foncier*). There is an emphasis on a participative approach including “civil society, elected bodies, populations” (sic, p. 24), taking into account the interests of nomadic pastors. However, nothing is mentioned for facilitating access to land for women (a problem that has been identified and tackled in the PRSP of Burkina Faso).

### 3.5.4. Credit

The low credit availability in the rural areas is a serious impediment for social mobility. Poor households who do not have assets or social capital do not thus have collateral for obtaining loans. These capital constraints limit their opportunities in the farm and non-farm sectors and thus hinder their potentialities for diversification. Except the scarcity of collateral, high transactions costs make it also prohibitive to lend in some areas.

#### Formal rural credit

The main lending institution, the *Banque Nationale du Développement Agricole* (BNDA) mainly supplies credit to cash crop producers (especially in the cotton sector). This is a source of increasing inequality which must be clearly addressed. The main issue is how food crops producers will pay back their loans if they do not sell a significant part of their production.

The bulk of credit is for cotton producers. It is managed by CMDT and BNDA. However credit is not provided to individuals but to Village Associations (AV). This resulted in a crisis after the 1999/2000 cotton harvest, which has been poor. Furthermore, the CMDT cancelled the “ristourne” (a bonus payment depending on the change of world prices), lowering the incomes of the cotton producers, and falling short on expectations. Many producers were unable to repay their debts, and wealthier producers were not willing to repay for others. As the AV as such is the debtor, this resulted in the rationing of credit for the AVs that did not repay, inducing tensions inside the villages. As a result, some producers had to sell assets.

This shows that the management of credit by villages’ associations should not be compulsory. One lesson from micro-credit should be used: associations of producers should be the result of a free peer selection.

#### Micro-credit

Decentralized Financial Systems (DFS) include mutual saving, credit institutions, and systems of interdependent credit of Grameen Bank type. In 1997, DFS had 230,000 members, and deposits amounted to F CFA 6.5 billion. The total assets of the DFS amounted to F CFA 9.5 billion of which: 71.7% for the mutual networks, 17.9% for the village saving banks, and 10.4 % for the interdependent systems of credit (Traoré, 1998). The default ratio, which measures the share of non-performing credits, often exceeds 5%. The interdependent systems of credit seem to give the best results. In 1997 the eight principal networks added up 3,067 groupings (women for a vast majority).

The DFS can not be seen as homogeneous. A part of them is devoted to medium income groups. The debtor interest rates were between 15 and 24% in 1997 and even reached 36% for the short-term credits (mutual banks of saving and credit). In the case of the village saving and credit banks, the interest rates sometimes reached 60%. (Traoré, 1998). Moreover, DFS have difficulties becoming sustainable institutions. Most of them remain highly subsidized (Nguyen 2001).

In the PRSP, the lack of access to credit is identified as a main feature of poverty in terms of “capabilities”. The PRSP targets the enlargement of access to credit, notably to micro-credit for the poor. A part of HIPC funds are devoted to the enhancement of the access to credit. A Malian Solidarity Bank (*Banque Malienne de Solidarité*) is to be created, to provide “credit at moderate cost to persons without collateral” – a very risky approach, implying subsidies if the MSB is to provide credit directly. This Bank should also refinance micro-credit institutions, which is welcome and could help DFS becoming sustainable institutions. But this should not be compulsory. DFS must benefit from the competition between banks.

### 3.5.5. Prices, liberalization, risks of increasing inequality

Liberalization in the agricultural sector (in the cotton sector for example) could enhance output, by increasing the efficiency of the marketing process (this is only a hypothesis depending on the evolution of competition). However, its external effect could be to increase inequality by benefiting mainly to the better endowed farmers, and thus could have modest results in terms of poverty reduction. Competition is good, but when the competitors are “prepared”. The poor lack endowments to support competition, because they can not reduce their production costs which are already low, given their technology of production.

For example the reforms of the CMDT as described in the PRSP will consist in abandoning its public service activities, the provision of inputs, credit and transport. This could help it improve its efficiency, and thus increase the cotton prices, but will hurt the poorest farmers who are the most in need for these services. If they can not buy the inputs, although output prices are more rewarding, they will not reap any benefits. Special measures for poor farmers need to be implemented. Otherwise an increase in inequality (and thus in poverty) will be the main result of liberalization.

## 3.6. Industrial policies

Manufacturing in Mali has been State-driven after the independence. It became heavily subsidized and under-performing. With Structural Adjustment, privatizations occurred, and some industrial units have been stopped (see Table 8).

Industrial policies have been abandoned for a long time, while all the focus has been on macro-economic policies. The first question is: should governments implement pro-active industrial policies? The second is: should these policies concern mainly the poorest regions or the regions that already have a burgeoning industrial tissue?

The answer to the first question is obviously yes. However, the scarce resources, and the errors made in the past in focusing on capital accumulation must be avoided. The Malian economy relies mainly on the informal sector, and if a serious industrial policy has to be implemented, it must take it into account. As stressed by Klasen (2001), structural adjustment programs have tried to improve the environment of private enterprises, but merely ignored the informal sector. The Government must not try to develop large factories, but accompany the development of small and micro-enterprises in the sectors he believes have a high potential in the future. Moreover, it seems that expectations on privatization achievements were over-optimistic in the past. Given the weak regulation systems, the small market size, the cost of management by foreigners and gains in efficiency are bound to be low.

Concerning the second question, the answer is more difficult. The “pro-poor” logic would argue in favor of industrial policies in the poorest areas, but the problem is that these policies could be more efficient in the advanced regions. The two factors must simultaneously be taken into account, and the sectoral policies must be adapted to each region’s context.

There is also a need to consider industrial policies as a way to diversify the country exports. Thus, the analysis must take into account the potential at the regional and international levels. To this aim, an analysis of the country competitiveness in comparison with similar countries is needed. It must not rely only on static indicators, but also on dynamic indicators which permit to capture the potentialities of Mali (see James and Marouani, 2000).

Textiles, food processing, some light metal transformation are often presented as engines of growth. As some of them already collapsed, this should be considered with great care (Petersen & van der Hoeven, 2000). In particular, textiles are often quoted as a valuable investment. President ATT mentioned the development of textile industry as a way to avoid exporting cotton fiber without transformation, and therefore retain added value in Mali. As further transformation of cotton involves high scale economies, the development of such an industry could be problematic in Mali (and collapsed recently in Burkina Faso).

The PRSP mentions many problems with existing industries. The development of transformation industries for fishing and cotton is presented as a civil society proposition. The emphasis is put on developing decentralized industrial estates (*zones industrielles*). Such an estate already exists in Bamako. It is in bad repair and did not attract many investors. It is difficult to understand how these estates could attract more investors, if the main obstacles to private investment are not removed (high costs of energy and transportation, low qualification of manpower, corruption, etc.).

There has been in the past so many problems with State led industrialization that much caution is needed. A system of public subsidies is likely to be counterproductive, due to problems of governance. Thus industrialization is to be the result of private initiative, even though it needs to be accompanied by a strategy of public investment and institution building to improve the business environment. Easy access to bank credit should be secured (but not fully guaranteed by the government). A good information system about opportunities in external markets should be provided to private investors.

### **3.7. Education, growth of supply, demand and productivity**

The PRSP puts a strong emphasis on education (in line with the existing PRODEC launched in 1997). It insists on better delivery, by providing more schools, teachers, books, etc. It also emphasizes on strengthening ties between schools and local communities, and improving access of the poor (notably girls) by providing meals in schools. Nevertheless, the decision (imposed by the IFIs) to use HIPC funds to hire low paid teachers (outside civil service) cast some doubt on the effectiveness of the policy. This decision is in total contradiction with the demands of civil society to have well paid teachers in the villages, to compensate the difficulties of living outside Bamako. The problem of the curricula and their adaptation to the needs of the poor is not tackled. Moreover, the way productivity could be enhanced by education in the rural regions of Mali is not under scrutiny. The targets are set in terms of results (enrolment rates, etc.) and not in terms of impacts (improvement in capacities to write, read, compute, etc.)

The development of educational infrastructure in rural areas is a major pillar of the PRSP and conditionality for the utilization of the HIPC debt relief. What can be expected from such a change remains unclear. As we noted, primary education in Mali does not seem to make a big difference in monetary poverty in the towns. It is likely to be the same in rural areas. In neighboring rural Côte d'Ivoire, Gurgand (1997) has shown that primary education makes no difference in terms of income. Hence, education in rural areas is most relevant to allow educated persons to grasp opportunities of off-farm income generating activities. This is, in our view, the true meaning of the high demand for education in rural areas (contrasting with a low demand concerning health care, according to an interview with Sidi Mohamed Zouboye, Member of the Parliament).

Nevertheless, education progress could constitute a major factor of intergenerational poverty reduction. Even if econometric studies showed that it has a limited direct impact on agricultural incomes, these studies showed that it had a stabilization role of rural incomes. Indeed education progress eases the diversification of activities, permitting the realization of activities with higher returns. It also facilitates geographic mobility toward more dense regions with more developed

markets. Finally it permits the access to formal jobs (primary education for unskilled jobs and secondary or university for skilled jobs). On the long run, the education of the mothers has also a significant impact on poverty, especially through the improvement of children's health (Cogneau, 2002).

Appiah & McMahon (2002) have simulated the impact of an improvement of enrolment in Africa, and specifically in Mali. They focused on direct effect, but also on indirect effects of education such as improvement of human rights, democracy, deforestation, property crime, etc. Those indirect effects are overwhelmingly externalities. They are not usually taken into account when returns on education are calculated. Appiah & McMahon (2002) build a model by estimating the relationships between all the variables, and used it to simulate a change in educational policy.

Table 21 shows the impact of a 2% increase in expenditure on education in Mali (resulting in an increase of about 20% in school enrolment). This table presents the "increments" at different dates, meaning the difference between the scenario with an increase in educational expenditure and a "trend scenario" assuming no changes in current policies. In Mali, most of the increments do not result from the direct impact of education on the other variables, but from indirect effects.

**Table 21: Impact of a increase of expenditure in education in Mali (2% of GDP)**

	Level in 2000	Increment by 2010	Increment by 2020	Increment by 2040
GNP per capita (\$)	255	1.3	99	461
GNP growth (%)	4.6	1.2	3.0	3.3
Population growth (%)	3.3	0	0.1	0.1
Life expectancy (years)	52	0.02	1.6	3.5
Infant mortality rate	122.4	-0.175	-7.7	-14.2
Total fertility rate	6.8	0	-0.03	-0.06
Inequality (Gini)	0.50	0	-0.01	-0.01
Rural poverty*	59 %	-0.38	-3.6	-7.2

Source : Appiah & McMahon (2002) \* Percentage of persons living with less than 1\$ a day (PPP)

Table 21 shows that the impact is likely to be small and delayed. A striking finding is that population growth is likely to increase, the decrease in the fertility rate being offset by the decrease in mortality. The reduction of rural poverty to 2010 is likely to be negligible, and the reduction in inequality nil. Most of impacts become significant only after 20 years. This finding is important for the design of policies, but also for the monitoring of the strategy of poverty alleviation: one should not expect rapid changes before many years.

The choice of a poor household to invest in her child education is difficult, knowing that she could need the child to work: 20% of rural children put forward the need for working as an impediment to go to school (EMEP, 2001). Thus, there is a need to subsidize education and link social transfers to households to sending their children to schools. In the past, school refectories have been used to enhance school attendance. 500 schools benefit from a program funded by WFP, UE and France. Girls are given edible oil as a specific incentive. This program was established for the Northern region, as a contribution to civil peace keeping.

Moreover, the weak demand of educated workers due the specialization of the country in primary products, and due to the small size of the firms (except some public enterprises) is also a serious problem. According to EMEP (2001), 19% of the children consider that going to school is useless. Thus, the labor market plays an important role in encouraging or not the investment in education. If demand of skilled labor is limited to public administration where jobs are rationed, the incentives to go to school will be weak.

According to EMEP (2001), education seems to have a higher impact on income distribution in urban than in rural areas. This could be explained by the higher returns to education in urban areas due to the existence of public and formal jobs.

Moreover, there is some ground to consider the Malian educational system as less effective for poor persons. Jaffré & Dicko (2000), stresses that the Malian school books describe a world (namely for health care) very different from everyday life of the poor. As a result, school does not provide useful tools to improve their living standards. This problem should also be addressed.

Promoting education is good, not only for monetary poverty reduction, but because it is per se an improvement of well-being. Nevertheless, the impacts are likely to be small and delayed.

### **3.8. Improving Health care: any benefits for the poor?**

The PRSP builds on the PRODESS, which has been revised to fit with the poverty reduction objective. Most issues are tackled. The PRSP emphasizes the link between health and education of women. The priority is given to access improvement of women to health services. It remains however unclear how the access of the poor will be improved, as a major hindrance is the recovery policy cost. On this issue, the PRSP only states that the cost of the health services will remain low, that solidarity will contribute to finance the access of the poor, and that alternative financing of the health system has to be established. Moreover, most indicators are fairly general, and do not target the poor.

The improvement of health status of poor persons depends on the strengthening of CSCOMs. The national budget should allow for the implementation of CSCOMs in every remote area and provide subsidies for allowing free access to very poor people. CSCOMs should also be protected against interventionism from the new elected bodies.

### **3.9. Gender Inequality**

Many studies have shown that increasing women's education has a significant positive impact on improving intergenerational social mobility (by the effects on children). In Mali, It seems that there is the same access for men and women to health services, while it seems that men are favored in terms of education, the literacy rate being of 23.8% for men and 10.4% for women.

Moreover, 12% of employed men have regular jobs, while only 4.7% of employed women have the same privilege. 63% of the employed women are unpaid workers, while only 39% of the employed men are in the same situation. 3.9% of male workers have access to Government jobs, while only 1% of female workers have this opportunity. Women work mainly in the social sectors and in the administration.

The PRSP takes these different aspects into account (a 2002-2006 action plan was already underway). Priority access to education (through targeted measures) and health for women is acknowledged – notably concerning anti-AIDS drugs for pregnant women. The PRSP also takes into account the fight against sexual mutilations. The empowerment of women and improvement of their participation to decision making is considered as an objective. However, the way to achieve this objective remains somewhat unclear.

Reducing gender inequality is an objective by itself, but could also contribute to improving the income and welfare of poor families. Thus targeted policies (education, employment) need to be implemented to reduce inequality.

## **4. IS THE INSTITUTIONAL FRAMEWORK POOR FRIENDLY?**

PRSP should not be considered as a one-shot document. Monitoring should be used to improve policies. Hence, the way the institutional system deals with poverty reduction will be very important. This poses problems, because one may wonder if the commitment of the IFIs to poverty reduction will last, and if the Government of Mali has the political will and the administrative capacity to fully “institutionalize” the PRSP (Dante et al., 2002).

#### **4.1. Political economy of poverty reduction**

The government interest in poverty alleviation depends on the degree of political accountability in the country. But are the poor represented in the electoral process? Who needs poverty alleviation in Mali? Easterly (2000, p. 116), argues that “donors’ concern for the poor creates perverse incentives for the recipients. Since countries with larger poverty problems get more aid, those countries are not incited to alleviate their poverty problem. The poor are held hostage to extract aid from the donors”.

Although this remark could be considered as somewhat cynical, there is a real problem linked to the selectivity of aid. Should donors help the countries who do well, or those who have the biggest problems? The difficulty is to sort out the difficulties due to mismanagement, and those due to weak resources or exogenous shocks.

In addition, since donors (especially IFIs) are set up with a separate country department for each country, their budget is determined by the amount they have disbursed to recipients in the previous years. Thus, they have incentives to disburse even when loan conditions are not met (Easterly, 2000).

It seems that the new IFIs conditionalities will rely more on performances in terms of poverty reduction, but this has to be checked in the future.

Moreover, some authors argue that the interests of civil servants could reduce the government resources allowed to social transfers. Azam (1998) asserts that Mali is the country in West Africa where the ratio of civil servant medium wage to GDP is the highest. At first glance, that looks quite paradoxical, as civil servants in Mali are also amongst the least paid in West Africa. But both are true, as Mali’s GDP per capita is very low. Azam’s conclusion is that the State in Mali has worked for the civil servants, not for the public. But could we reasonably ask the civil servants to be more efficient and reduce their wages at the same time?

The PRSP emphasizes the promotion of good governance as an important mean for reducing poverty. Five topics are identified: i) improvement of the performance of public sector ii) democratization and decentralization iii) improvement of the credibility of civil service and justice iv) participation of women and v) fight against corruption.

The improvement of the public sector performance relies on the introduction of a result-oriented public management system, which is a very ambitious approach. The PRODEJ aims at improving the judicial system. Most of the PRODEJ financing goes to enhancing working conditions. It is very unclear how this could reduce the widespread corruption of the judicial system. The improvement of budgetary transparency is seen as a result of the reform in controlling bodies (*Contrôle Général des Services Publics* and *Cour Suprême*), but the first is under control of the Prime Minister and the second lacks resources. There are hardly new measures to fight corruption in the PRSP. This fight relies on a free press, the involvement of civil society and development partners. The part of the PRSP concerning governance looks like a wish list. But there are no easy solutions in this domain.

#### **4.2. Weak capacity of policy design and implementation**

The state capacity (partly linked to education skills) is an important determinant of how well a country is able to reduce poverty. It affects the ability to design and implement policies and generate funds through taxation. Many countries introduce a range of programs but weak administrative capacity mean poor implementation. State capacity also influences the ability of a country to craft an independent policy position and negotiate effectively with the multilateral institutions about the pace and design of reforms and thus adopt a more gradual pace with lower adjustment costs (Tsikata, 2001). For the case of Mali this is even more difficult, given the aid dependency.

The drafting of a realistic development program is a difficult task for the Malian administration. Wages are so low that most civil servants are desperately looking for additional sources of income. Only civil servants of the A category (best paid) are above the poverty line; civil servants of the C category must wait 20 years before getting out poverty (ODHD 1999). Donors provide them with a

vast range of in-kind or monetary incentives, or hire the best to run projects or to work at their local representations.

The design of development strategies is by nature an activity without financial interest to civil servants. Donors tried to resolve this problem by financing special units (PRECAGED, CAPE, ODHD and the “Cellule croissance accélérée et développement”). However, this strategy seems to be neither effective nor sustainable. Technically, there is a lack of instruments such as sectoral and economy-wide models to analyze the impact of public policies on poverty. This reflects both the inadequate response of donors to this need, and the lack of capacity of the Malian administration to make use of the available tools. One of the results of this situation is the weak link between the PRSP and the budgetary process.

The problem is basically a problem of civil service reform. It is very difficult due to the encroachment of practices such as low productivity in line with low wages, widespread corruption, etc. Two attempts (1990 and 1996) to reform Civil service have been made (Serra, 1999, Petersen & van der Hoeven 2000) without result, but inciting civil servants to leave. Change is not likely to occur if new systems, relying more on external assessment (by public opinion polls, for instance), are not backed by wages' increases. This applies more specifically to civil servants in rural areas, who need monetary incentives to take into account the bad living conditions. The opposite way has been chosen in the PRSP, trying to expand civil service in rural areas by recruiting low skilled persons (although there are already many high skilled jobless persons, like physicians).

### **4.3. Decentralization**

It is not enough to improve health and education at the aggregate level to fight poverty. Indeed the poorest live in enclosed regions, and improving their living conditions will be the most difficult task. The redistributive impact of public goods provision depends on their regional incidence.

Decentralization is quite recent in Mali (Law about decentralization has been adopted in 1993). Legal texts allow wide range of responsibilities for decentralized bodies, including primary education and health. The problem is that financial resources should be also decentralized in order to make this transfer effective. This has not yet been the case, resulting in permanent difficulties.

HIPC debt relief should ease this difficulty, by taking in charge new teachers (in fact, under-paid “volunteers” as IFIs insisted that these new recruitments should not be made inside of the legal framework of the Civil Service). But decentralization raises other problems. The selected candidates are often of very low level of education. Cases of corruption have been reported, resulting in a ill-functioning of some decentralized entities (like CSCOMs).

### **4.4. Did IFIs really break with Structural Adjustment?**

The IFIs refrained themselves to intervene directly in the PRSP process, in order to promote ownership of the program. They just monitor it (but closely) and comment when requested. However, the commitments of the GoM in its tri-annual rolling programme with the IMF have reduced its latitude in the PRSP elaboration.

Moreover, the IFIs still have their own lending instruments (PRGF, PRSC), which could allow them a substantive control over the patterns of public expenditures even if their conditionalities are not directly included in the PRSP. Since end 2002, IMF declared that the PRSP will be the only document taken into account in the relations with the Fund, but insisted on “operationalization” (Dante et al. 2002).

### **4.5. Did Donors improve their co-ordination?**

Donors and IFIs bear some responsibility for splitting the Malian budgetary process. Most of the projects are off-budget. Besides, some donors are keen to create special funds and agencies. After the devaluation (1994), the World Bank convinced the Malian authorities to create a special

Agency (ADS) to provide a safety net. It is difficult to assess the exact use of the funds poured into this Agency.

Few donors are prepared to move towards budgetary support. The most reluctant amongst them invoke the lack of effectiveness and of reliability of the Malian budgetary process. Some see it as definitely unreliable, some as better than the African average. The Malian Ministry of Finance joined the IMF “norms and codes program” to enhance transparency of budgetary process.

Donors are participating actively in the PRSP process, partly because of the consensus reached through the OECD/DAC–UNDP Aid Review of Mali. PRSP is considered as the reference document for aid programs. But this doesn’t mean that all programs are funded. A striking exception is PRODEJ, the program for justice improvement.

A consequence is that a majority of donors would like to be more involved in the negotiations between the Malian Government and IFIs. However, neither the IFIs nor the GoM support this proposal.

#### **4.6. The PRSP: business as usual?**

The elaboration of the Poverty Reduction Strategy Paper (PRSP) in Mali was widely seen at the launch of the process as an IFI conditionality to obtain debt relief. At the beginning, the Government of Mali opted for a very fast process by Malian standards. However, the deadline of the final PRSP elaboration has been delayed several times. The process has been much slower than expected. Consequently, the perception of the stakeholders evolved progressively, considering more the PRSP as a permanent process with the aim of poverty reduction.

Money was an obvious reason for haste, but the IFIs and donors tried to avoid financial pressure. Although the full PRSP had not been yet completed, since September 2001, Mali benefited from debt relief from IFIs and most bilateral donors under HIPC I and II. But the amount of debt relief at stake is modest (between 14 and 24 billion CFA F; about 5% of public expenditure).

The perception of the PRSP by the Malian authorities has evolved toward considering it as an opportunity to elaborate a five-year plan (2002-06). This change has been welcomed by donors who are concerned with the lack of a reference development strategy document.

The civil society has been involved in the PRSP process, but its participation in shaping the document has not been effective. NGOs criticized the speed of the process, and decided to undertake their own consultative process (with the support of USAID). Ironically, the result was a process that was even faster than that of the Government. The NGOs’ paper criticizes the PRSP as a new name for structural adjustment, but makes no operational proposals. The weak implication of trade unions and private sector organizations is particularly striking.

Will the PRSP be able to ensure a mainstreaming of poverty into public policy? Most stakeholders believed that given the time frame to elaborate the PRSP, it was only possible to package the various projects, programs and strategies already under way. Agreement and funding are already secured for these projects and programs, and designing new ones would have taken many years.

Given the limitations of the PRSP exercise, greater efforts could have been made in terms of prioritization of activities and coherence between the different programs, although this would have taken more time. Donor’s responsibility in this regard is crucial. Are they ready to reorient their own programs to take into account the new priority of mainstreaming poverty, or will they just change their discourse to include poverty in their previous project?

The link between the PRSP and the budgetary process is very important if the PRSP is to be more than just an additional document expressing good intentions. Since 1998 there has been an attempt to develop programs with a medium-term budgeting perspective. The PRSP elaboration has been an opportunity to use the MTEF as a prioritization instrument. In the two sectors where SWAPs were introduced (education and health), the process is still half-way.

#### **4.7. The need for data on a sustainable basis**

The PRSP could shape a new relationship between the IFIs, donors and the Malian Government. However, to be successful, it has to be an outcome of a permanent strategic planning process, not just a one-off document.

The lack of basic information is a major hindrance for strategy elaboration. Until an advanced phase of the PRSP elaboration, there is still no recent data on poverty. The WB provided support for poverty surveys in 2001 (quantitative and qualitative), but only partial results are available to date. The information about poverty provided by surveys must be completed by macroeconomic databases (input-output table, social accounting matrix...). This could help to model the link between growth and poverty reduction, and thus design effective pro-poor growth policies. The GoM could show its commitment to poverty reduction by funding these databases to ensure a greater sustainability of the statistical system.

#### **4.8. Is institution building enough for poverty reduction?**

As long as the poor have weak endowments, the development of the institutional architecture will not benefit them as one can hope. It is thus not enough to import the modern formal institutions from the developed world to ensure an efficient poverty fight. The difficulty lies in that the poor are not represented in the political system, and they depend on the good will of the elites.

Developing education is a crucial element in breaking this vicious circle. However, as we have stressed previously, it is not enough to focus on the supply of education. Demand of education, which depends on households endowments and returns to education is also crucial. The Government must at the same time promote human capital accumulation and the environment that incite the poor to invest in education (transfers linked to children education, credit for the poor educated). A more efficient and progressive tax system could help the Government find additional resources for its poverty fighting programs (in addition to foreign aid).

### **CONCLUSION**

Despite good growth records since the 1994 devaluation, Mali has not succeeded in reducing poverty. Poverty remains widespread. Most of the poor in Mali (and the poorest among the poor) live in rural areas. In addition to monetary poverty, rural populations benefit less from public goods provided by the State (mainly health, education, roads, safe water and energy). Beyond the rural-urban division, the incidence of poverty is different in the nine Malian regions. Except the differences in economic performances, migrant remittances sometimes explain why some regions are less poor (e.g. Kayes).

Even if the attained aggregate growth rate could be slightly improved, this will not be enough to reduce significantly poverty. High initial inequality seems to be a serious obstacle for a significant impact of growth on poverty reduction. In Mali, disparities in initial endowments explain why the benefits of agricultural growth do not accrue to all the farmers. The wealthier among rural households (those who succeeded in income diversification, mainly by producing cotton, rearing livestock, and generating off-farm income) derived the highest share from output growth. Poor households remained highly specialized in food crops. The gains in cereal production remained low, because the increase of productivity resulted in a decrease of the relative prices of food.

Promoting pro-poor growth aims at ensuring simultaneously an improvement of income per capita and a better distribution of the benefits accruing from economic growth. The conditions for pro-poor growth are closely tied to reducing the disparities in access to human and physical capital. These disparities explain that people benefit very unequally from the returns to assets, reproducing income inequality on a larger scale and probably also inhibiting overall growth prospects.

Agricultural growth is essential because it could increase their income directly and indirectly through the development of non farm rural production of goods and services. However, agricultural growth is obviously not enough to ensure poverty reduction.

Liberalization in some agricultural sectors (the cotton sector for example) could amplify the inequalities in the rural sector and would be inefficient in poverty reduction, even if it induces higher yields or output. Indeed, poor farmers need inputs, credit, information and training and would not be able to produce cash crops without an external help.

The low credit availability in the rural areas is a serious impediment for social mobility. Poor households who do not have assets, thus do not have collateral or social capital for obtaining loans. Except the scarcity of collateral, high transactions costs make it also prohibitive to lend in some areas.

These capital constraints limit their opportunities in the non-cropping sector such as livestock rearing and non-farm activities. Since diversification is often a way for poor rural people to stabilize their incomes, this means that by being confined to subsistence agriculture, the poor are not able to increase their revenues, nor to stabilize them.

The views expressed in what precedes would be incomplete if we do not add that even if most of the poor are rural, poverty reduction is not only a problem of rural development. Poverty reduction strategies should be global and dynamic.

First, rural household incomes do not come only from farm activities, but also from the remittances of the members living in the urban areas. Moreover, the potential of some rural areas seem so low (low density, non-existence of infrastructure, energy...), that migration becomes necessary, at least for a part of households' members. Even in the best case if productivity improves significantly in agriculture, underemployment would result in farm activities.

However, migration is not without causing problems since urban labor markets are already tiny, and migrants have bigger difficulties to find jobs due to their lack of human and social capital. Helping the poor rural households sending their children to schools via targeted social transfers could improve their living conditions in the urban areas. It might be in fact the only way to do it as primary education seems to have no effects on the income of rural producers.

Except the issue of access to education, which is a very important one, there also seems to be a problem of quality or inappropriateness of what the educational system offers in comparison to what would be needed in regard to the Malian reality.

Households often do not send their children to schools due to the following reasons:

- the lack of sufficient resources,
- the fact that children are needed to generate income for the household,
- the lack of incentives due to the very low returns to education.

Jobs using human capital are very scarce and thus rationed: mainly civil service and a few big firms hire educated workers. This is due to the structure of the Malian economy where production is mainly informal and technology not sophisticated. Production is not skill intensive and thus the demand of human capital is limited.

The promotion of physical capital accumulation in poor countries for decades had two main negative impacts. First, it reduced the potentialities to subsidize human capital accumulation, and it decreased the private cost of investment, which impacted negatively on the use of natural resources. The result was a less pro-poor and sustainable growth. The new risk is to make the same error with human capital, by trying to invest heavily in education, without improving its effectiveness, and without focusing on the incentives for poor people to invest in human capital accumulation. Even if we build hundreds of schools, why should the poor send their children to schools if the returns will be small or even null (in the rural areas)?

The availability of credit for young educated to help launching small enterprises could contribute to soften the link between family background and educational outcomes, and thus enhance social mobility. The management of such a system raises of course a series of problems.

There is a risk in a study like ours to elaborate a wish-list of different proposals after the diagnosis realized. Two main problems remain: are there enough resources for these proposals, and is there a management capacity to ensure their success?

Previous experience has led donors to often have ideas they consider as good, but which often collapse for mismanagement or inappropriateness in regard to the country or region context.

Thus, maybe the main conclusion is the large role for the state in promoting pro-poor growth. The strategy of reducing its power and influence promoted by the structural adjustment programs has been a failure in fighting poverty. Since the reduction of poverty clearly needs an increase in the provision of public goods (and a better distribution of these goods between regions), and reduction of inequalities, this could not be done without an effective and functioning state. Inequality reduction does not only mean income redistribution (via tax policy), mainly relevant for developed countries, but mainly in kind transfers, public works and assets provision, especially for rural poor households.

The state intervention would also be relevant for preserving the environment by creating substitution activities for the poor in the sectors where natural resources degradation is becoming a serious issue (deforestation, degradation of the soils due to cotton production).

Political economy issues concerning Mali but also its development partners (given its considerable aid dependence) are a central issue in the poverty debate. A commitment of the Malian government is essential, but donors also should reform their practices to avoid giving wrong incentives to the Malians and designing programs outside the national strategic planning process.

The administration capacity (at the central, regional and local levels) is also an important issue. The information system is neither efficient nor sustainable, and the management capacities are weak. More specifically, the capacities to work out policies and strategies in a concrete way are scarce, misused and lack incentives. There is a problem of civil service global reform. Wages are so low that it seems unrealistic to get better public service delivery without increasing the incomes of civil servants. Even if tax pressure could be increased, donors should be ready to provide more budget support for well designed targets (like increasing school enrollment ratio). This kind of support has to be stable and long lasting (HIPC debt relief should be used in this way, not insisting unilaterally on “investment” and recruitment of low-paid, under-skilled young people).

An effective decentralization could help improving the situation of the most disfavored regions. However this process is still a burgeoning one, and raises a series of difficulties like the low educational level of elected bodies and the lack of management skills.

The poverty reduction strategy paper is intended to work out policies to resolve some of these problems, as such the PRSP is a solid document, tackling all the important problems. Diagnosis is generally sound and exhaustive, but still split into different topics (education, health, governance, sectoral policies, etc.). The PRSP does not take into account the possibility of income improvement of rainfall food crops producers through offering them migration possibilities outside the sector. Moreover, the links between policies, resources and outcomes are weak in the PRSP.

Maliens have tried to respect the rules of the game set by IFIs for the PRSP elaboration, but the implementation is another issue. Moreover it is not clear yet if this document will really be the sole reference document of co-operation between Mali and its partners, even if all the stakeholders seem to admit it. IFIs could easily maintain their old conditionalities since they have their own lending instruments (PRGF, PRSC) and donors could modify their discourse but continue their programs and projects designed before the PRSP elaboration. Furthermore, the change to budget support is not easy for many of them, even if they are really committed to.

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## APPENDICES

### Appendix 1 : Determinants of agricultural production

More specifically, total agricultural production in Mali is linked to agricultural output prices (with an elasticity ranking from 0.5 to 0.6), but also to industrial production (MANU) and imports of consumption goods (IMPBIS). PROAGRI corresponds to total agricultural production (lagged), DROUGHT is a dummy variable for periods affected by unusual low rainfall and PRICEINDEX is the price index for agricultural products. Berthélémy & Morriison (1989, p. 104) explain that peasants produce more when they find manufactured goods they want in the market, or when new goods are presented to them.

**Table 22: Mali, determinants of total agricultural production (1963-1985)**

	(1)	(2)	(3)
Intercept	-1.3 (2.7)	-1 (1.6)	0.8 (1.6)
MANUt	0.5 (4.4)		
MANUt-1		0.5 (2.5)	
IMPBIS <sub>t-1</sub>			0.2 (4.9)
PROAGRI <sub>t-1</sub>	0.5 (4.0)	0.4 (2.2)	0.3 (2.3)
DROUGHT	-0.07 (3.0)	-0.03 (0.9)	-0.07 (3.2)
PRICEINDEX <sub>t-1</sub>	0.5 (3.0)	0.5 (2.2)	0.6 (3.7)
R <sup>2</sup>	0.87	0.79	0.89

Source: Berthélémy & Morriison, 1989, p.101