Small change for a high price: Conditional debt relief in Mali

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Introduction

As the third poorest country in the world according to UNDP's Human Development Index, Mali faces significant challenges in providing basic services such as clean water, health care and education to its citizens.

The country is highly vulnerable to exogenous shocks such as fluctuations in the prices of cotton and gold, commodities that represent almost all of the country's revenues. Inversely, the price of oil has great influence on Mali as the country spends a large amount of scarce resources on importing fuel. For both imports and exports, as a landlocked country dependent on neighbouring states, regional stability is crucial. The ongoing conflict in Côte d'Ivoire has heavily affected the Malian economy. Climate change is also a threat to the food security in the country, as agricultural activity in the semi-arid zone is heavily dependent on predictable rainfalls and drought is a constant threat.

In the last three years, Mali's debt stock has been reduced significantly as a result of the country's participation in the Heavily Indebted Poor Countries (HIPC) initiative and later on the Multilateral Debt Relief Initiative (MDRI). This note looks at the implications of debt in Mali, and the consequences that follow having a large debt burden and obtaining debt relief. It also looks at future prospects and challenges in financing poverty reduction, including in relation to new lenders such as China.

HIPC

The Heavily Indebted Poor Countries Initiative (HIPC) was created following massive world wide public pressure from debt activists in 1996. The recognition that poor countries would not be able to repay the debt forced donors to act, and help countries struggling with unsustainable debt burdens. To participate in the HIPC program, a country must be classified as a Low Income Country and follow an IMF program, such as in Mali's case, a Poverty Reduction Growth Facility (PRGF) arrangement. The countries qualified to benefit from partial debt relief through HIPC have to commit to implementing substantial reforms commonly called conditionalities, as a means of passing through the different stages of the HIPC process to finally achieve the completion point and obtain debt relief. Mali reached completion point of the enhanced HIPC initiative in March 2003. Not all of Mali's creditors participated in the HIPC initiative. Algeria, Central Bank of West African States (BCEAO), Economic Community of West African States (ECOWAS), Foundation for Sustainable Economic Development (FSED), Iraq, United Arab Emirates, China, Libya and the Saudi Fund did not take part at the time of completion point.

Status before the MDRI

According to the Global Development Finance 2006, in 2004 Mali's outstanding debt was $3,316 million, and for the same year, Mali paid a total sum of $103 million in debt service and received $168 million in new loan disbursements.[1] This means that more than 60 % of what Mali received in fresh loans went straight back to donors as debt service, leaving Mali with less than 40 % of fresh resources to combat poverty. Mali spent $367.4 million, 42,7 % of government's revenue, on poverty-reducing expenditures during the same year[2].

MDRI

In the summer of 2005, the G8 summit in Gleneagles drew together not only G8 leaders, but also activists from all corners of the world campaigning for debt relief. Under a great deal of attention from the media, leaders from the world's richest countries came to an agreement that further debt relief was needed for the world's poorest countries to reach the Millennium Development Goals. The Multilateral Debt Relief Initiative (MDRI) allows for debt relief from the World Bank, the IMF and the African Development Bank (ADB). Although campaigners wished to see more creditors involved in the initiative, the only financial institution that joined later on was the Inter-American Development Bank (IDB).

However, debt relief through the MDRI can only be released once the heavily indebted countries taking part have reached HIPC completion point. Mali was among the 18 countries that were selected as a recipient of debt relief from the MDRI initiative. As Mali reached HIPC completion point in 2003, well before the MDRI was established, the country was qualified for the initiative from day one.

How much was cancelled?

The creditors taking part in the HIPC initiative and MDRI have altogether pledged to cancel US$1,652 million (end-2005 Net Present Value (NPV) terms).[3] This equals about half of Mali's debt in 2004 as mentioned earlier.[4] If we take a closer look at what the largest donors have delivered so far, the percentage is closer to 40 %.

(Millions of U.S. dollars, end-2005 NPV terms)[5]

Creditor	Total delivered assistance under the HIPC initiative and MDRI
World Bank	760
IMF	108.5
African Development Bank	295.8
Paris Club (HIPC only)	139.8
Total	1304.1

[1] World Bank, 2006. *Global Development Finance*. p. 268
[2] IDA & IMF, 2006 "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) - Status of Implementation" Table 3A http://www.imf.org/external/np/pp/eng/2006/082106.pdf
[3] Ibid. Table 4
[4] World Bank, 2006. *Global Development Finance*. p. 268
[5] All figures from: IDA & IMF, 2006 "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) - Status of Implementation" Tables 6A, 7A, 8A, 10 http://www.imf.org/external/np/pp/eng/2006/082106.pdf

Debt service after MDRI

The projections of the World Bank estimate debt service after MDRI to drop from US$ 10 million in 2006 to US$ 2 million in 2007 and 2008, compared to US$ 19 million in 2005 and US$ 17 million in 2004.[6] This is a substantial reduction, but does it mean that Mali today has a sustainable debt burden? According to a report by the Malian ministry of foreign affairs from 2006, the amount of debt remaining after delivered HIPC and MDRI amounts to 774,8 Billion CFA BCEAO Francs (US$ 1,590 million)[7].

Conditions

In order to achieve HIPC completion point, Mali has had to comply with a number of conditions laid down by the IMF and the World Bank. These conditions are tied to the Poverty Reduction Strategy Paper (PRSP), a main condition for participation in HIPC. Mali was to "*prepare a full poverty reduction strategy paper (PRSP) through a participatory process, assessed as satisfactory by IMF and IDA staffs*"[8]. The requirement to develop a PRSP has been heavily criticised mainly because the participatory process in usually considered weak.

Reform of the health and education sectors were part of the requirements for participation in the HIPC arrangement. And Mali also had to *"ensure satisfactory implementation of structural reforms, entailing the reforms of the cotton sector and the pursuit of the privatisation program, especially of public unities*"[9]. This is the most controversial part of the HIPC arrangement. The conditions connected to liberalisation, and in particular privatisation, have been extremely unpopular and difficult to implement in Mali.

As mentioned earlier, one of the conditions for Mali to participate in the HIPC initiative was to show satisfactory performance under the PRGF arrangement. The PRGF agreement with the IMF also includes conditions of privatisation associated reforms, including the controversial sectors of agriculture, banking and telecommunications mentioning specifically the companies dealing with cotton production, CMDT (Compagnie Malienne pour le Développement des Textiles), Inter Bank of Mali (BIM) and the telecom company SOTELMA. This reinforces the power of the conditions put forward, creating pressure from each and every donor that makes the delivery of aid conditional on a country's performance under the HIPC arrangement. In this way, many bilateral donors are also putting pressure on southern governments to privatise.

Mali experienced a failed partial privatisation of the electricity and water company Energie du Mali (EDM) from the year 2000. The French company SAUR, who had 60% ownership, failed to run the company according to contract. There was a dispute between partners, and in 2005 the Malian state, which possessed the remaining (40%), had to intervene and renationalise.[10]

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[6] IDA & IMF, 2006 "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) - Status of Implementation" Table 6B http://www.imf.org/external/np/pp/eng/2006/082106.pdf
[7] EU & Republic of Mali, May 2006. "Rapport annuel conjoint 2006" p. 6 http://www.confedmali.gov.ml/attachment/RAC2006.pdf
[8] IMF & World Bank, 2003. "Republic of Mali, Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, Completion Point Document" p. 6 http://www.imf.org/external/pubs/ft/scr/2003/cr0361.pdf
[9] Ibid. p. 6
[10] Ibid.

In Mali, the privatisation of the cotton sector has been an issue for many years now. Mali has resisted pressure from the IFIs and has managed to delay privatising the entire CMDT. The date is now set for 2008, and it remains to be seen whether this date will be further postponed.[11] As a step towards privatisation, the state subsidised fixed price of cotton that ensured farmers a predictable income, was removed. The fixed price was set at 210 CFA BCEAO Francs, 10 Francs higher than the production cost at 200 Francs, and 50 Francs higher than global market prices at 160 Francs. To finance this, the Malian state used 50 billion Francs, which equals about US$ 102 million. Moctar Coulibaly from the Malian NGO AMADIP says that this is not a lot when you take in to account that 3,5 million Malians live off the cotton industry. Especially, knowing that European agriculture is subsidised, American agriculture is subsidised, the price of cotton on the world market is subsidised.[12]

Representatives from Malian civil society feel that these privatisations constitute a continuing pauperisation. *"Companies are sold to foreign multinationals that only take the income out of the country,"* says Moctar Coulibaly.[13]

Since 2006, gold has been the largest export article ahead of cotton, equalling 69 % of export revenues in 2006 due to the favourable high price level. Nevertheless, the export of gold does not have an important multiplier effect on the national economy as "the majority of generated added value slips away from national operators."[14] The gold mines are owned largely by foreign companies: AngloGold Ashanti, a multinational with shareholders in North America and South Africa, UK among others, the Canadian company IAMGOLD and Randgold Ressources operating from the tax heaven Jersey.[15] The Malian government retains about 20 % of ownership, and the World Bank group's International Finance Corporation (IFC) is part owner in one of the mines. These foreign companies are reaping the harvest and taking most of it out of Mali. There are not many job opportunities for Malians involved in the extraction of gold.

Malians have experienced massive job losses for instance in the case of the privatisation of the railway which is now managed by the Franco-Canadian company Transrail. 700 heads of household lost their jobs directly and each one of these had on average 5 people to provide for. In addition to that, Transrail has chosen to focus on the transportation of goods and not people, and in the process they have shut down 16 out of 26 railway stations. This has been disastrous to the people living in these towns and a long the rails as some villages were founded with the railway as their raison d'être. Ever since its construction starting in the late 19th century, the railway has been a source of income generating activity. People and women in particular, have been dependent on the arrival of trains to conduct small scale trade. An ongoing rural exodus and urbanisation has inevitably increased further through the privatisation of the railway, increasing the pressure on already scarce resources in the region of Bamako in particular, the capital of Mali.

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[11] Oxfam, November 2006. "Kicking the Habit: How the World Bank and the IMF are still addicted to attaching economic policy conditions to aid" http://www.oxfamfrance.org/pdf/rapport_conditionnalites_en.pdf
[12] Interview with Moctar Coulibaly, AMADIP, 19 June 2007
[13] Interview with Moctar Coulibaly, AMADIP, 19 June 2007
[14] EU & Republic of Mali, May 2006. "Rapport annuel conjoint 2006" p. 5 http://www.confedmali.gov.ml/attachment/RAC2006.pdf
[15] http://www.iamgold.com. http://www.randgoldresources.com, http://www.anglogoldashanti.co.za

What has money been spent on?

How has money freed up by debt relief been spent? The Malian government has pledged to spend the money on roads and access to water[16]. Moctar Coulibaly from the Malian NGO AMADIP says that from their point it is impossible to track the money that has been freed up. *"There is nothing concrete that allows one to see an improvement. It is much more in the discourse than in reality"*, he says, adding that the situation is worse today than before and that everyday life is getting tougher for Malians.

The lack of dependable infrastructure is a great challenge to Mali which is a vast country, and a lot of resources are needed to put in place both smaller and larger roads that can be depended upon all year, including during and following the rain season, to reach remote areas like for instance the region of Kayes. In addition to that, the densely populated capital is in dire need of improved infrastructure. A third bridge to cross the Niger River will soon be constructed in Bamako. But where will the funding for all this come from? Part of the answer is China.

New lenders

China intervenes mostly in the sector of infrastructure. *"The Chinese can finance up to 100 % of a project and guarantee that it will be followed through"*, says Moctar Coulibaly stating this as the main reason why Chinese investment is preferred. Chinese enterprises win the bidding on the market. They come in with their own personnel from China, regrettably only hiring unqualified labour locally in Mali. The planned third bridge of Bamako is an example where the Chinese partner takes care of necessary technical and geographic exploration as well as engineering. Mali will finance the road that links the bridge to the national highway[17].

The World Bank has cautioned low income countries, and stated that the countries that have benefited from the MDRI might easily fall in to another debt crisis. Yet, the alternatives to engaging in new loan agreements are not many.

Promises, promises and more promises…

When the World Bank put forward their participation in the MDRI through IDA in March 2006, Paul Wolfowitz, World Bank President at the time, characterized the initiative as following: *"This is a historic agreement combining increased financing with debt relief, which will help poor countries meet the Millennium Development Goals"*[18]. But it remains to be seen whether the debt relief from MDRI will really be followed up by increased financing. NGOs have recently published several reports establishing the disappointing fact that European countries, as well as the G8 countries are missing their aid targets, and are not providing the resources necessary to reach the MDGs[19]. Pledges to increase Africa's aid

[16] Eurodad, April 2007. "Multilateral debt: One step forward, how many back?" http://www.eurodad.org/debt/report.aspx?id=112&item=01234
[17] Essor, 21 May 2007 http://www.essor.gov.ml/jour/cgi-bin/view_article.pl?id=15600
[18] World Bank, March 2006. Press Release No:2006/327/PREM http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/MALIEXTN/0,,contentMDK:20867307~menuPK:50003484~pagePK:2865066~piPK:2865079~theSitePK:362183,00.html
[19] - Concord, April 2007. "Hold the Applause! EU governments risk breaking aid promises" http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Hold_the_Applause.FINAL.pdf
- Oxfam, May 2007. "The world is still waiting: Broken G8 promises are costing millions of lives" http://www.oxfam.org/en/files/bp103_g8_world_is_still_waiting.pdf/download

in particular seem to have been easily forgotten by the people who made them. This fact is also recognized by the World Bank, which states that: *"The expansion in global aid has stalled, and two years after the Gleneagles summit the trends in real aid flows suggest that DAC donors' promises of higher aid to Sub-Saharan Africa appear increasingly unlikely to materialize. Seven years after the Millennium Summit at which the MDGs were adopted, there is yet to be a single country case where aid is being scaled up to support achieving the MDG agenda".*[20] This is in spite of the fact that sub-Saharan Africa remains off track on all of the MDGs.[21]

Where does Mali stand?

After a difficult year in 2004 with drought and an invasion of crickets, growth in 2005 went up to 6,1% due to stronger gold and agricultural production. In 2006 a good harvest kept growth high at 4,6%. The effect of this has not yet been seen as reducing poverty. Overall, Mali is far from reaching the MDGs. Nevertheless, there has been some progress, particularly related to the issue of access to water.[22]

Conclusion

The recognition that Mali's heavy debt burden is standing in the way of poverty reduction and reaching the Millennium Development Goals (MDGs) should be one of the reasons for the creditors to give further debt relief in order to free up funding for poverty-reducing expenditures, and not only that: They should make it unconditional. As Moctar Coulibaly says, "*the conditions are much more serious than the debt itself*."[23]

Unconditional debt relief coupled with increased aid could be a leap forward when it comes to reducing poverty in Mali. Not only because a struggling country like Mali should not pay back assistance from the world's richest, but also because of the harmful conditions that are attached to the debt. Malian civil society has seen little improvement resulting from the debt relief given through the HIPC initiative and MDRI. What they have seen, is the devastating result of conditions.

The coalition of Malian NGOs working on debt and development issues CAD Mali is currently conducting an audit of Malian debt during 1992-2002. The committee is to present the results of its investigations December 2007. For more information, consult their website: http://www.cadmali.org/

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[20] World Bank, April 2007. Global Monitoring Report 2007, p. 14 http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTGLOBALMONITOR/EXTGLOMONREP2007/0,,menuPK:3413296~pagePK:64218926~piPK:64218953~theSitePK:3413261,00.html

[21] Ibid. p. 4

[22] EU & Republic of Mali, May 2006. "Rapport annuel conjoint 2006" p. 26 http://www.confedmali.gov.ml/attachment/RAC2006.pdf

[23] Interview with Moctar Coulibaly, AMADIP, 19 June 2007