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**INVESTMENT ATTRACTIVENESS OF THE REPUBLIC OF
MALI: STATUS AND PROSPECTS**

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Abstract

The paper studies the general current situation of investment attractiveness of the Republic of Mali, outlines the current principles of public investment policies of neighboring West African countries, which compliance is one of the conditions for the effectiveness of investment activities in developing countries with a difficult economic situation. The study reviews the state of investment attractiveness and solvency of the Republic of Mali. The paper highlights the main factors destabilizing the investment attractiveness of the country, the need to adopt economic measures that contribute to the development of the investment environment. The authors also note that today the Republic of Mali has low investment attractiveness, which is caused by low investment rating based on the country's low international credit assessment, which indicates high risks of solvency and the possibility of a default scenario. High risks limit the ability to attract external investment. The authors concluded that for the effectiveness of investment activities and the full flow of investments to the country, it is necessary to form a modern organizational, economic and legal mechanism for regulating investment processes in Mali and gradually move away from a high dependence on international assistance and increase the public debt.

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Keywords: Investment attractiveness, credit rating, country rating



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1. Introduction

The Republic of Mali is the second largest state in West Africa (1,240,192 km²). Until 1958, it was a colony of France (French Sudan), due to which French is the state language. The administrative-territorial division of the country consists of 7 regions and a special administrative unit (district) of Bamako, which is also the capital of the state. From the 12th century A.D. until the 15th century A.D. Mali was a powerful empire covering vast territories. The power of the state was ensured by the location of Africa's trade routes at the crossroads and began to fade after the opening of sea routes around the continent and the movement of trade centers to the coasts (Smirnova, 2019). The distance from the sea to date has hampered the country's development and made it dependent on economic and political relations with neighboring French-speaking countries, especially the republics of the Cote d'Ivoire and Algeria, and the underdevelopment of the economy causes the need for an immediate change in the system of economic mechanisms guaranteeing the financial interests of potential investors (International Trade Administration, 2020).

2. Problem Statement

The economy of Mali is based on agriculture: crop production and animal husbandry. Nearly 68 % of the country's land area is occupied by agricultural land (Mahamet, 2006). The northern part of the country is occupied by the Sahara desert; most of human activity is concentrated in the southern part in the valleys of local rivers. Mali in West Africa is the largest producer of large fish, of which the most valuable is the Nile perch. Agricultural production is archaic, which has been historically developing on the continent since ancient times. Agricultural technologies are almost unused, and frequent droughts since 1960 have led to high risks in agricultural production. Agriculture, animal husbandry, gathering of wild fruits (for example, shea nuts) and fishing account for about 1/2 of the total GDP. The share of agriculture in the GDP of the Republic of Mali is 36 %. At the same time, only about 4 % of the country's land is cultivated. The agricultural orientation of Mali's economy does not allow it actively increasing its gross domestic product, which makes the country extremely backward, where 64 % of Malians are below the poverty line (UN, 2006).

Currently, the industrialization of the country is hindered by the following factors:

- Problem of electrification, high cost of electricity. 80 % of electricity available in the country is generated by local hydroelectric power stations (Sotuba, Felu and Selinge). Besides, wood and coal continue to occupy the main place in the energy balance.
- Poorly developed transport network. Most of the railways and roads require major repairs. The main type of transport is automobile. The length of roads in the country is 15.1 thousand km, of which only 2.76 thousand km with a paved surface. The length of waterways is 1.82 thousand km. The railway built back in 1880–1924 with a length of about 1 thousand km requires major repairs and major modernization.
- The difficulty of admitting foreign investors, especially to the industrial sector of a country other than French capital.

- Despite high capacity of the country for natural minerals, industrial production in the country is not developed. Industry mainly focuses on food processing for the needs of the local population, while the progress in the use of vast mineral resources is slow despite the fact that the country has the reserves of manganese, gold (note: currently up to ten gold mines are operating in the country), bauxite, uranium and other minerals.
- The country's foreign exchange earnings are derived mainly from exports of commodities, which are most vulnerable to volatile world markets and sharp fluctuations in exchange rates. The country's income does not cover the cost of imported goods, given the country's high dependence on France, which supplies quite expensive products.

In addition to these problems, the Malian economy is severely affected by political instability and the activity of local anti-government organizations, as a result of which Mali annually increases its national debt and becomes increasingly dependent on foreign assistance. Besides, the policy of the main partner of the Republic of Mali, France, is aimed at minimizing the admission of other potential investors to the country – non- francophone countries (Mousseau & Sosnoff, 2011). The country's trade legislation is designed in such a way that companies from non-French-speaking countries cannot enter the Mali market on equal terms. At the same time, in addition to the military presence and growing external debt, it is extremely difficult to predict any development prospects in the country under current politics.

3. Research Questions

The subject of the study is the investment attractiveness of the Republic of Mali for external investment.

4. Purpose of the Study

The purpose of the study is to operationalize the investment attractiveness assessment for external investment in the Republic of Mali.

5. Research Methods

The methodology of the study is based on a systematic approach. The methods of dialectics and synergy, subject-logical, functional and situational analysis were used as research tools.

6. Findings

Crop yields in Mali are fluctuating sharply, exacerbating the growing frequency of droughts and locust infestations thus causing enormous damage to the agricultural sector. The main export crops are peanuts (Mali is one of its main producers and exporters in Africa) and cotton. Oranges, bananas, guava, mango, cassava, kenaph (technical culture), corn, vegetables, papaya, millet, wheat, rice, sugarcane, sorghum, tobacco, fonio (cereal culture), cotton, tea and yams are grown on farms. Mali is one of the largest pastoralist countries in West Africa. The breeding of camels, cattle, goats, horses, sheep, donkeys, pigs and birds is quite developed here. At the same time, 85 % of the grown livestock is exported within

the African continent, to neighboring countries. Besides, in the period of droughts, up to 80 % of animals die due to impending feeding and lack of water. Forestry is also developed in Mali – harvesting of industrial wood. About 80 % of Malians specialize in fishing (catching Nile perch, growing tilapia, etc.). The annual volume of fish caught is about 100 thousand tons of fish. The economically active population is 6 million people, where 5 million people work in the agricultural sector.

The share of industry in GDP is about 20 %. The main industry is mining (mining of granite, gold, limestone, marble, table salt and phosphate). Since the 1990s, gold mining has been intensively developing in the country. By the beginning of the 2000s, in terms of its production the country was the third on the African continent after the South African Republic and West African Ghana. Besides, recently the country has been developing industrial food processing and related industries: slaughterhouses, plants for primary purification of crops, for the production of sugar from sugarcane, peanut and cotton oils, canning vegetables and fruits. The country operates woodworking, leather-shoe, tobacco, textile, match and pharmaceutical factories. Industrial production of building materials is developing; factories for the production of agricultural equipment have been built. Handicraft production of small entrepreneurs for pottery and wicker products, leather products, reptiles and valuable tree species is well developed.

Having analyzed the main indicators, it is possible to identify the trend towards improving the political and economic development of Mali in the future, which at the same time requires serious political and economic changes in the country.

The experience of neighboring countries of the Western Africa less dependent on the developed Western countries shows that the inflow of external investments is possible if the nation-wide investment policy changes. For an example, in the neighboring Ghana, the policy to attract large investors for the nationalization of products in its territory positively affects the development of the national economy. So, during the creation of processing industries in Ghana, it is possible to quickly and locally register the special economic status on the basis of an enterprise that will allow lowering taxes to 35 %, which, in turn, will seriously reduce the prime cost of the output. In this case 30 % of the output may be sold in the country of origin, while 70 % may be exported to neighboring and any other countries thus preserving all tax benefits. Such approach allowed the Republic of Ghana a serious inflow of external investments into the country in the presence of political and economic security guarantees for foreign investments. In Ghana, the industrial processing of local raw materials actively develops and non-agricultural primary products, but already processed products are exported abroad. For example, not cocoa beans are exported, but already processed cocoa products in the form of cocoa powder, oil, etc. Internal processing of oil from baobabs, shea nuts, and palm trees is constantly growing.

One of the serious indicators influencing the future of any country is the average age of the population and the ability to create a sufficient volume of the reproducible labor for the development of economy.



Figure 1. Age distribution of the population

Figure 1 shows that the majority of the population of Mali is young, when it is possible to influence the potential of the population, which is able to strive to live in better conditions than its predecessors. Besides, the number of young people receiving higher education is growing, which indicates the possibility of creating a pool of specialists in various areas.

To assess the investment attractiveness of the country at the current stage, it is first necessary to understand how international investors evaluate the country according to international risk classifications. As a rule, any investment project in any country involves assessing the quality of risks to that country and the possibility of attracting long-term investments. Most commonly, any investment involves a medium-and/or long-term investment with a guarantee of a return on these funds with a certain investment profit. Therefore, when investing, risks are assessed and various financial mechanisms are possible to guarantee the reimbursement of investments: these may be government guarantees, guarantee obligations, collateral, insurance. But, in any case, the application of these mechanisms requires a risk analysis. The most important assessment of a country's investment attractiveness is the country risk assessment. In accordance with generally accepted concepts in the financial sphere, the country risk is understood to mean the degree of risk that the actions of a sovereign government will affect the ability of a debtor associated with a given country to fulfill obligations within the existing political, economic and legislative system (Table 1).

Table 1. Country risk (legislation, economy, development, security)

	Country risk
	Low risk
	Average risk
	Sensitive risk
	High risk

Along with the country risk, it is very important to assess a country's credit risk against the developed country credit risk. The credit rating of the country is a professional assessment of special rating agencies¹ regarding the country's overall creditworthiness in relation to specific debt obligations, based on the assessment of risk factors. Credit ratings are calculated based on the past and current

¹ The big three rating agencies: Standart & Poor's, Moody's, Fitch Ratings. In the economic assessment of investment attractiveness they often resort to the assessment of insurance credit organizations, since their assessment depends on the ability to attract investments especially on a long-term basis if there is an insurance guarantee. This paper uses a rating based on the assessment of Hermes international credit insurance organization. <https://www.eulerhermes.com>.

financial history of the country, as well as on estimates of the size of their property and the financial obligations (debts) assumed. The main purpose of such estimates is to give potential creditors/investors the most likely forecast of the timely payment of financial obligations taken (Table 02).

Table 2. Credit rating indicators by risk group

	Credit rating
A1	Very low
A2	Low
A3	Satisfactory
A4	Reasonable
B	Fairly high
C	High
D	Very high
E	Extreme

It is worth noting that in general, the African continent is classified in the global credit rating as group D (very high). For understanding, the United States belongs to Group A, and Russia belongs to Group B. But, if we look at risks within the African continent, the situation by risk groups of West African countries is different relative to each other (Table 3):

Table 3. Economic rating of West African countries²

Country	Approximate population, mln people	Country rating ³	Credit rating ⁴
Benin	10.32	above average	B
Burkina Faso	16.93	above average	B
Islamic Republic of Gambia	1.849	high risk	E
Ghana	25.9	low risk	A3
Guinea	11.75	above average	C
Guinea-Bissau	1.704	high risk	D
Cape Verde	0.499	high risk	D
Cote d'Ivoire	20.32	average risk	A4
Liberia	4.294	high risk	D
Mauritania	3.89	high risk	D
Mali	15.3	high risk	D
Niger	17.83	high risk	D
Nigeria	173.6	above average	C
Saint Helena, Ascension Island, Tristan da Cunha	0.005	high risk	D
Senegal	14.13	average risk	A4
Sierra Leone	6.092	high risk	D
Togo	6.817	above average	D

7. Conclusion

With reference to the foregoing, the following conclusions may be drawn in this paper:

² The rating is based on expert opinions of international credit insurers, created on the basis of the assessment of Hermes international credit insurance organization. <https://www.eulerhermes.com>.

³ Country rating is a set of qualitative indicators of legislation, economy, current development and security.

⁴ Credit rating is the country's solvency rating and an assessment of the probability of default of the local economy.

The Republic of Mali as a whole is of great interest to potential investors in view of the availability of sufficient land, water resources and large mineral deposits.

The main factors hindering the country's economic development remain the country's high dependence on French policies aimed at preventing other non-French capital and high political tensions in the country, the presence of militant groups destabilizing the general situation in the country.

There was a need to create an investment climate for foreign private investment on the basis of capital protection guarantees under the international financial law. At the same time, it is necessary to obtain guarantees from potential investors in the creation of mass jobs, long-term production, compliance with the requirements of the world labor legislation, non-use of child labor and compliance with global environmental requirements and improvement of the following factors:

Political: development of international relations with far and near abroad countries; improvement of the business environment (openness and publicity); development of foreign economic legislation and departure from the protectorate of France on equal conditions for business.

Economic: development of processing industries and desire to move away from the raw material economy; reduction of import dependence and transition from export of raw materials to export of products with added value.

Social: transition to a socially oriented economy with a desire for long-term allocation of up to 50% of the budget to education, health care, reduction of unemployment and poverty in the country.

Technological: introduction of technologies in agriculture and industry where possible, which will ensure rapid growth in labor productivity and reduce dependence on natural disasters.

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