

**PROJECT INFORMATION DOCUMENT (PID)**  
**APPRAISAL STAGE**

Report No.: PIDA24327

<b>Project Name</b>	Mauritania Public Sector Governance Project (P146804)
<b>Region</b>	AFRICA
<b>Country</b>	Mauritania
<b>Sector(s)</b>	General public administration sector (100%)
<b>Theme(s)</b>	Public expenditure, financial management and procurement (75%), Economic statistics, modeling and forecasting (25%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P146804
<b>Borrower(s)</b>	Islamic Republic of Mauritania
<b>Implementing Agency</b>	Ministry of Economic Affairs and Development
<b>Environmental Category</b>	C-Not Required
<b>Date PID Prepared/Updated</b>	05-Jan-2016
<b>Date PID Approved/Disclosed</b>	05-Jan-2016
<b>Estimated Date of Appraisal Completion</b>	20-Jan-2016
<b>Estimated Date of Board Approval</b>	29-Mar-2016
<b>Appraisal Review Decision (from Decision Note)</b>	

## I. Project Context

### Country Context

Mauritania is a large, sparsely populated country bridging the Arab Maghreb and Western sub-Saharan. It has become a lower middle income country with a Gross National Income (GNI) per capita of US\$1,270, driven by a thriving extractive sector and high international commodity prices. The recent decline in mineral export prices and lower international demand has, however, highlighted the contribution of exceptionally favorable external factors to Mauritania's strong growth performance over the last few years. Annual real Gross Domestic Product (GDP) growth is projected to decelerate markedly to 3.2 percent in 2015 from 6.4 percent in 2014. Over the medium term, real GDP growth is expected to return to trend rates observed prior to the commodity price boom (2011-2014), slowing down to 4.5 percent in 2016 and 2017.

A comfortable fiscal position and increased public spending in recent years have not translated into significant progress in social development outcomes. Total public spending doubled between 2009 and 2014 in nominal terms, or by 57 percent in real terms. Yet, the most recent poverty data (2015) shows a modest decrease in absolute poverty between 2008 and 2014 from 46.8 percent to 41.2 percent and extreme poverty from 16.5 percent to 9.9 percent. Many other development indicators

are trailing significantly behind. Infant-child mortality remains high, at 122/1,000 versus a national Millennium Development Goal (MDG) target of 45/1,000. Maternal mortality is at 560/100,000 live births against an MDG target of 232. Access to electricity is only 20 percent compared with the 32 percent Sub-Saharan Africa (SSA) average, and 50 percent of the population have access to improved water sources versus a 64 percent average for SSA. Food security remains an issue, particularly in rural areas. Net primary school enrollment remains low, at 55 percent.

The Mauritanian public sector is characterized by weak implementation capacity and there are few controls in place to ensure that funds are spent and services delivered effectively and efficiently. The scores on nearly all Worldwide Governance Indicators (WGI) have worsened over the last ten years, with significant declines in Government Effectiveness (from 58th percentile vs. 28th for the Sub-Saharan African average in 2003, to 19th percentile vs. 27th SSA average in 2013); Regulatory Quality (from 51st to 26th percentile) and Control of Corruption (from 61st to 28th percentile against an SSA average of 30th percentile). These challenges are also reflected in the Country Policy and Institutional Assessment (CPIA) ratings and the scores in the 2008 and 2014 Public Expenditure and Financial Accountability (PEFA) assessments which show significant weaknesses in Mauritanian public financial management systems and little progress over time. Public sector shortcomings are also reflected in the social sectors. In the health sector, only three percent of health centers have the necessary diagnostic capacity to administer the eight basic tests, and less than one percent of them have all of the 14 essential medicines available at all times. In the education sector, an acute lack of qualified teachers and high rates of absenteeism have resulted in poor educational outcomes and high drop-out rates amongst children of the poorest quintile.

The Government of Mauritania (GoM) recognizes the apparent paradox of strong economic growth accompanied by stagnant social indicators and has put in place programs to ensure shared growth and poverty reduction. The achievement of these objectives depends on a public sector that can plan, budget, execute and account for public resources in an effective manner. In a context of declining growth, urgent efforts to improve public sector management and optimize public spending are needed to ensure that Mauritania does not miss the opportunity it now has to consolidate social stability, create jobs and reduce poverty.

The following section outlines recent advances and remaining challenges in areas that will be critical to improving public sector effectiveness and efficiency in Mauritania. The proposed project aims to support some of these reforms, in close coordination with other donors. It builds on recent analytical work by the World Bank and others and dialogue with the authorities and donors.

### **Sectoral and institutional Context**

The GoM has undertaken a number of public sector reforms in recent years and some results have been achieved. Budget execution has improved since 2012 through the introduction of several Public Financial Management (PFM) reforms. These reforms have reduced the time taken to execute payment orders (through an electronic expenditure chain system, Réseau Automatisé de Chaîne de la Dépense, RACHAD) and facilitated the use of electronic government financial management information systems (GFMS) by most ministries. A civil service staffing census was carried out and undocumented salary payments were eliminated. A new procurement law and improvements to the institutional framework for procurement laid the foundations for more effective controls over public spending. Tax revenues increased by 160 percent between 2011 and 2013 as a result of a fiscal census and improved tax collection measures. An electronic land registry

for Nouakchott was also set up and land titles were scanned and verified, with double and false titles eliminated.

Notwithstanding progress, many of these reforms have not been fully implemented and priority should now be given to closing the remaining implementation gaps which are outlined in the following paragraphs.

Increased transparency and controls over public expenditures is needed for accountability and improved service delivery

Though budget execution rates are high, the quality of public spending is affected by irregularities in the composition of expenditures and poor systems for monitoring and controlling public spending. There are significant differences between budgeted and actual expenditures within and among budget categories, with under-spending in some and overspending in others. There is also uncertainty about the eligibility of spending. Furthermore, almost a third of government spending is devoted to 'unspecified expenses', with no information available on which sectors receive these funds or what type of expenditures they finance. One reason for this is the weak enforcement of internal controls and poor monitoring by senior managers. Budget information systems do not provide the authorities with a clear real time overview of budget execution. A rapid GFMS diagnostic carried out by the World Bank in August 2014 found that existing electronic financial management information systems were largely uncoordinated, fragmented and not effectively used. Many systems depend on multiple data sources and manual re-entry, there are redundancies and lack of interfaces between systems, and some suffer from reliability and data quality issues. The result is that reports from different systems often show significant variations due to errors from re-entry or reconciliation delays and this, in turn, introduces uncertainty into budget analysis and monitoring.

The parastatal sector plays a central role in managing public expenditures and providing social services, yet government scrutiny over the performance of State Owned Enterprises (SOEs) and public agencies is limited. There are over 150 SOEs and Autonomous Government Agencies (AGAs) in Mauritania with a value added equal to 14-15 percent of GDP and a workforce of approximately 8,000 staff in 2008. They receive large government subsidies while continuing to incur significant losses and delivering poor services. A 2013 World Bank study highlighted the growing fiscal risk that parastatals represent for the country. It found that the number of public agencies had grown since 2010 and subsidies to SOEs and AGAs had increased sharply, from 5 Bn Ouguiya in 2005 (US\$17.2 million) to over 70 Bn in 2013 (US\$240 million) (nearly equal to the annual receipts from taxes and royalties in the extractive industries). State oversight and monitoring of SOEs and AGAs by the Government is virtually non-existent. The Central Ownership Unit, the General Directorate for Financial Oversight (Direction de la Tutelle Financière, DTF) hosted in the Ministry of Economic Affairs and Development (Ministère des Affaires Economiques et du Développement, MAED), lacks capacity and appropriate systems and processes to carry out its oversight mandate. The result is a poorly governed sector which represents a significant drain on public resources.

The internal and external oversight institutions of the State are ill-equipped to effectively audit public accounts: The General Financial Inspectorate (Inspection Générale des Finances, IGF) is generally well staffed with 28 auditors and inspectors, yet its reach does not extend beyond the capital city, due in part to an extremely limited budget (US\$15,000 for 2014). The IGF has little

freedom in determining and executing its work-program, reacting instead to ad-hoc demands from the MAED, which take up much of its capacity. There is no systematic follow-up on IGF recommendations. The General State Inspectorate (Inspection Générale d'Etat, IGE) reports to the Prime Minister and is vested with responsibility for performance and functional audits. Despite having relatively strong capacity, coordination with other control organs is poor and implementation of IGE recommendations is uneven. The internal audit units of key public service ministries, such as health and education, have an important role to play to ensure both fiduciary compliance and quality control over programmatic activities. However, these units are underfunded and they lack practical tools and training and are therefore only able to cover less than ten percent of their intended targets. The 'Commissaires aux Comptes' are internal auditors that report to the MAED and are responsible for each SOE or AGA. Few, if any, of them have the necessary capacity to oversee the finances of these institutions and they rarely submit any reports. The Supreme Audit Institution (Cour des Comptes) is hampered by limited resources and is experiencing significant delays. It has recently finalized the 2005-06 audit and is currently working on the 2007 report on the execution of the State Budget. Given the shortcomings of the internal and external state oversight institutions, public institutions, including SOEs and Agencies, tend to rely on private auditors.

The Mauritanian auditing and accounting profession is also very weak, with the consequence that audited accounts and financial statements of companies and public institutions are unreliable. This is outlined in the recent Report on the Observance of Standards and Codes (ROSC) on Accounting and Auditing (2014). The Mauritanian Accounting System presents significant departures from the International Financial Reporting Standards (IFRS) and accordingly financial statements prepared using the system provide information that is of lower quality and less utility. Furthermore, the poor organization and weak governance of the professional accountancy body, the National Order of Accountants (Ordre National des Experts-Comptables, ONEC) undermines its ability to enforce compliance with international auditing and accounting standards. Larger companies and institutions resort to hiring auditors from other countries for their accounting and auditing needs. Lack of reliability of certified accounts can affect companies' abilities to access finance, as well as the State's ability to assess tax liabilities. Given the reliance by public institutions on the use of private auditors, the State has an interest in strengthening standards as a way of increasing control over public resources.

Despite the introduction of a modern Procurement Code and the strengthening of institutional foundations for managing and controlling procurement, the Mauritanian procurement system is inefficient and limited in effectiveness. A recent assessment of the Mauritanian Procurement System shows that the legal framework is incomplete -many of the operational regulations and standard bidding documents are still missing. Other weaknesses identified by the review include a lack of operational knowledge in core procurement institutions, an unclear and inefficient institutional set-up with sometimes overlapping mandates, a lack of controls and procurement audits, a complete absence of civil society participation in public procurement processes and ineffective mechanisms for reporting allegations of corruption. The Procurement Regulatory Authority (Autorité de Regulation des Marchés Publics, ARMP) does not publish any information on public procurement contracts it reviews during the year. In summary, the procurement system is heavy, inefficient and expensive, leading to significant delays without increasing controls or improving value for money. Globally, weaknesses in the procurement system appear not to have affected budget execution rates substantially. However they are likely to have prompted a rise in the level of expenditures managed by the parastatal sector which is not subject to national procurement

legislation.

#### Broadening the tax base and modernizing tax administration, including mining taxation

Mauritania currently has the necessary fiscal space to finance its Poverty Reduction Strategy, but this is highly dependent on volatile mining taxes. Mauritania has experienced first-hand the rapid price fluctuations associated with its main commodities, iron ore and gold: 2011 saw a record year of sales with more than US\$2 billion, whilst sales figures dropped some 15 percent in 2012 despite higher production volumes. Revenues from extractives were 14.9 percent of GDP in 2012, then dropped to 11.2 percent in 2013 and are projected to decrease further to just 5.6 percent in 2015. Gold prices peaked in 2012 at almost US\$1,900/ounce in 2011 but came down to US\$1,200 in 2014. Likewise, iron ore, which is Mauritania's main export, peaked at nearly US\$190/tn in 2011 and was down to just under US\$ 60/tn in 2014.

The authorities understand the urgent need to expand the tax base and improve tax collection in order to limit the country's vulnerability to mining tax volatility. The Government's commitment to taxation reforms since 2010 has yielded significant results. The widespread use of taxpayer identification numbers has increased the number of declaring firms and this, combined with coordination with the customs authorities and better tax audits, has led to a tripling in the number of tax payers between 2010 and 2012. New progressive tax rates were introduced in 2014 and excise taxes and taxes on capital gains have increased. The Government has also closed mining taxation loopholes by creating the legal basis for taxing the transfer of mining assets between non-residents. There is, however, still scope to both further broaden the revenue base and enhance the tax administration system. For example, the legal texts, including the Tax Code (1974) are outdated and require revision; communication to taxpayers remains insufficient; the General Tax Directorate (Direction Générale des Impôts - DGI) lacks competent and skilled tax experts and controllers and the process for paying taxes remains cumbersome and unclear.

Property taxation is an area with particular potential and represents a priority for the Government. In its effort to expand the tax base, the Government has started to increase the collection of property taxes in tandem with a more modern property registry. While property taxes increased threefold between 2010 and 2014, the proportion of property taxes remains very low. In 2014, fees and taxes were levied on just over 3,000 properties out of 26,000 with registered titles, raising only one percent of total taxes (US\$4.3 million). Challenges to recovering property tax are closely linked with the absence of a proper fiscal cadaster and formal land titles, with many property owners relying on temporary or traditional titles and many properties covered by multiple conflicting titles. The Government has committed to establishing a single cadaster and land registry.

The extractive sector is, and will continue to be, an important lever of economic growth in Mauritania but government revenue collection has been hampered by a variety of tax exemptions and weak administration. Mineral and petroleum exports combined represent some two-thirds of total national exports and approximately 25 percent of government revenues. Over the past decade, the value of export of minerals has increased tenfold, and investment in exploration of minerals increased six times. The virtual monopoly held by the state-owned National Industrial and Mining Society (Société Nationale Industrielle et Minière, SNIM) was disbanded in the 1990s and the IDA-financed Mining Sector Capacity Building Projects (Projet de Renforcement Institutionnel du Secteur Minier, PRISM 1 and 2) from 1999 to 2013 facilitated the inflow and diversification of operators and foreign private investors. Despite inherent price and production uncertainties, the

mining sector is expected to see modest short term increases due to committed investment plans. Furthermore, Mauritania has strong potential for expansion through the development of identified reserves and diversification into new commodities if commodity prices improve.

Improvements to the mining tax administration system are needed to enable the Government to optimize revenue gains in the extractive sector. The lack of a unified tax code for mining operations represents a challenge to effective revenue mobilization by Government agencies. Despite the remarkable increase in government revenue prior to 2013, various comparative financial models show that Mauritania's effective tax rate of around 30 percent of mining profits ranks amongst the lowest on the continent. Currently, operators are subjected to a variety of tax terms, incentives and exemptions which were introduced over time and which are, at times, contradictory or even detrimental to economic growth in Mauritania. This situation has arisen because of information asymmetries whereby the authorities often lack information necessary for fiscal policy design and negotiation of mining agreements (including information about the mineral resource potential and the economies of mining operations). Low levels of capacity and weak inter-ministerial collaboration further constrain effective tax collection and verification. Mineral tax administration only gained importance after 2010 (following the disbanding of SNIM and the initial tax holidays granted to private investors) and accordingly the experience and skills of sector regulators and tax authorities are limited. The annual Extractive Industries Transparency Initiative (EITI) reporting of revenue flows to government has also exposed challenges. The consolidation of information on tax revenue is compromised by the dispersion of data on companies' tax payments across a multitude of agencies. These challenges are symbols of the weak tax administration in which tax inspectors and technical experts have no tradition of collaboration. As a result, tax assessments lack effectiveness and audits fail to fulfill the intended control function.

## II. Proposed Development Objectives

The Project Development Objective (PDO) is to improve monitoring and transparency of selected government entities and the administration of property and mining taxation.

## III. Project Description

### Component Name

Improving Transparency and Control in Public Resource Management

### Comments (optional)

The objective of this component is to support the authorities' efforts to enhance transparency and improve controls over the use of public resources through an updated and more integrated GFMIS, increased monitoring of SOEs and AGAs, improved Accounting and Auditing Standards, better internal and external oversight and a more efficient public procurement system.

### Component Name

Strengthening the Administration of Property and Mining Taxation

### Comments (optional)

This component will help the GoM to broaden the tax base and modernize tax administration in order to create a more predictable and stable source of revenue for the State. It involves support to the tax department to improve their communication and service to taxpayers; an update and expansion of the fiscal census; and support to increase fiscal revenues from property taxes and fees through the development of a modern national property registry and cadaster. It will support

improved mining sector taxation by using a tax model and a risk based methodology for mining sector tax audits to combat base erosion and profit shifting.

**Component Name**

Project Management

**Comments (optional)**

This component will support the Recipient to hire and maintain a Project Implementation Unit (PIU), including personnel and equipment to ensure technical support to the implementation of the planned activities. The component will also finance operating costs and some equipment including: a vehicle; office rental; office equipment; travel; operating expenditures; external audits of project accounts.

**IV. Financing (in USD Million)**

Total Project Cost:	11.30	Total Bank Financing:	10.30
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
BORROWER/RECIPIENT			1.00
International Development Association (IDA)			10.30
Total			11.30

**V. Implementation**

MAED will have overall technical responsibility for the project. The Ministry has a multi-sectoral mandate and is responsible for economic planning, investment planning and monitoring (including externally financed projects). It is also the main contact point for most development partners, including the World Bank, and has extensive experience with managing development projects.

A Project Implementation Unit (PIU) will be set up in the General Directorate for Investment Project Management (Direction Générale des Projets et Programmes d'Investissements, DGPPI) in the MAED to ensure overall fiduciary responsibility and technical coordination of the activities. Its core staffing will include: (i) a Project Coordinator (with either a PFM or Mining technical profile); (ii) a Senior Technical Specialist (with either a PFM or Mining Profile), which will complement the Project Coordinator in terms of technical skills and also function as a deputy coordinator; (iii) an Accountant; (iv) a Procurement Officer; (v) an M&E specialist; and (vi) an Administrative and Finance Officer, as well as two to three support staff (driver, guards, maintenance personnel). The PIU will report directly to the Minister on operational matters and will also support the project steering committee in ensuring oversight and monitoring of progress.

A Steering Committee will be established to provide strategic oversight of all the project activities. The Committee will meet on a quarterly basis and will be chaired by the Director General of Investment Project Management in MAED with the technical support from the PIU and the focal points of the institutions in charge of executing the project's technical work, namely: the Budget Directorate, Tax Department, Land and Property Registry, Mining Taxation Unit, Mining Conventions Commission (CCM), IGE and heads of internal control units in the ministries of Health and Education, Investment Planning (MAED), Information Technology (M), the ARMP and the Court of Accounts (chamber for SOEs). The focal points will be directly involved in the project activities and will facilitate their day-to-day management and monitoring by establishing a regular channel of communications and exchanges between the PIU and the beneficiary institutions.

The Project Implementation Manual (PIM) will define the roles and responsibilities of each stakeholder in the project including the relationship between institutions, rules, and procedures, as well as processing times to react to specific requests from the World Bank or the Government. The PIM is currently under preparation and will be finalized by the PIU - in close collaboration with the beneficiaries - before project effectiveness. A national consultant will be hired to finalize the draft PIM in consultation with the project's implementing agencies, as well as facilitate its validation by promoting full ownership of its content by all the stakeholders involved.

Financial management and disbursement arrangements: Financial management and disbursement will be managed by the PIU. The unit will be created before effectiveness and will be staffed by technicians with prior experience in managing World Bank projects. The implementation unit is expected to meet the Bank's requirements stipulated in OP/BP 10.00 before effectiveness.

The PIU will prepare an annual budget based on an agreed annual work program and annual procurement plan. Annual budgets will be submitted to the World Bank for non-objection before adoption and implementation. The current accounting standards in use in Mauritania for ongoing IDA-financed projects will be applicable. Project accounts will be maintained on an accrual basis, supported with appropriate records and procedures to track commitments and to safeguard assets. Annual financial statements will be prepared by the DGPPI. The Administrative and Accounting Procedures Manual will provide a clear description of the approval and authorization processes in respect of the rule of segregation of duties. An in-depth review of the legal and technical organization of the MAED internal audit department to design a capacity reinforcement action plan will be undertaken

The following disbursement methods may be used under the project: reimbursement, advance, direct payment and special commitment as specified in the Disbursement Letter and in accordance with the World Bank Disbursement Guidelines for Projects, dated May 1, 2006, Disbursements would be transactions-based whereby withdrawal applications will be supported with Statement of Expenditures (SOEs). All replenishments or reimbursement applications will be fully documented. Documentation will be retained at DGPPI for review by World Bank staff and auditors.

A Designated Account (DA) for the project will be opened in the Central Bank of Mauritania and a Project Account (PA) will be opened in a commercial Bank in Nouakchott on terms and conditions acceptable to the World Bank. The DA will be used for all eligible payments financed by the credit as indicated in the specific terms and conditions of the Financing Agreement. The DGPPI will prepare quarterly Interim Financial Report (IFRs) for the project in form and content satisfactory to the World Bank.

## VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01		<b>x</b>
Natural Habitats OP/BP 4.04		<b>x</b>
Forests OP/BP 4.36		<b>x</b>
Pest Management OP 4.09		<b>x</b>
Physical Cultural Resources OP/BP 4.11		<b>x</b>
Indigenous Peoples OP/BP 4.10		<b>x</b>



Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

**Comments (optional)**

**VII. Contact point**

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