Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 20-Aug-2018 | Report No: PIDC25009

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Mauritania	P167348	Mauritania First Competition and Skills DPO (P167348)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	Apr 23, 2019	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Economy and Finance	Ministry of Economy and Finance		

Proposed Development Objective(s)

Building the foundations for a faster and more sustainable private sector-led growth through modernizing the commercial justice and registry services, removing the barriers to investment and competition in the internet broadband market, and improving the quality and relevance of skills provided by the national education and training systems.

Financing (in US$, Millions)

SUMMARY

Total Financing	30.00

DETAILS

Total World Bank Group Financing	30.00
World Bank Lending	30.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

1. Economic growth has been largely reliant on a volatile extractives sector that has gone through a boom and bust cycle in the past decade. Extractives industries have been the engine of economic development for over a decade, representing an average of 25 percent of gross domestic product (GDP), 82 percent of exports and 23 percent of fiscal revenues. High extractives prices during the 2009-2014 commodity boom has supported a state-driven development model with significant public investment in infrastructure and a large role for public enterprises. However, the boom did little to encourage economic diversification and private sector-led growth. Growth averaged a 4.2 percent during that

period, at par with Sub-Saharan Africa average, and was primarily led by domestic demand for non-tradeable services. The sharp decline in global commodity prices in mid-2014 has brought growth into a grind and exposed Mauritania's vulnerabilities: a non-diversified economy facing significant challenges of job creation in the private sector. The ambitious public investment program along with increased foreign borrowing compounded these rising pressures leading the country to a situation of high risk of debt distress. Rigid exchange rate policies and a lack of monetary policy tools limited the ability of the central bank to address structural imbalances and respond to the terms of trade (ToT) shock, eroding as such the competitiveness of the economy.

2. The bust prompted a severe fiscal adjustment that helped macroeconomic stability, but fell short in accelerating structural reforms to boost growth and promote the private sector. In 2016 and 2017, the Government realized the need to address the underlying macro-economic and structural challenges and have embarked on a fiscal consolidation plan that was successful in stabilizing the economy. It has also opted to initiate reforms to boost the flexibility of exchange rate policies, improve the effectiveness of the monetary policy, and strengthen the supervisory framework for the financial sector. It has done so with support of a new IMF Extended Credit Facility (ECF) program. These combined with reforms in the business environment, irrigation, fisheries and livestock, have led to a moderate recovery with growth reaching 3.5 percent in 2017. Nevertheless, the challenge ahead is to raise Mauritania's growth potential (currently as low as 3.5 percent) by boosting competition and skills and enabling a much larger space for the private sector, while maintaining macroeconomic stability.

3. Slowing economic growth has put an end to the strong poverty reduction. Rising real per-capita GDP enabled Mauritania to reach lower-middle-income status in 2010, and the poverty rate declined by an estimated 11.5 percentage points between 2008 and 2014 . Poverty reduction occurred principally in rural areas and was driven by rural-urban migration, changes in prices of agriculture products, as well as increased spending on social-protection programs and public infrastructure investment. Income inequality declined as the Gini coefficient fell from 35.3 percent in 2008 to 31.9 percent in 2014. While the income gap between rural and urban areas narrowed, the income distribution within each area remained largely unchanged. However, this progress is highly sensitive to growth and climatic conditions. The slowdown in economic activity coupled with high fertility rates (4.54 per woman) and droughts, such as the one observed in 2017, jeopardizes these poverty gains.

Relationship to CPF

4. The DPF is aligned with the objectives and proposed outcomes of the FY18-FY23 CPF for Mauritania. The World Bank Group strategy in Mauritania builds on the findings of the Systemic Country Diagnostic of 2017 , which identified weak participation of the private sector and low human capital including weak labor skills as a common theme across the eight binding constraints for growth and shared prosperity. These constraints are: weak management of extractives, failure to harness the livestock and fisheries sectors potential, rapid and outpaced urbanization, low and inequitable access to social services, inequitable distribution of land, and distorted food prices. The proposed operation seeks to address these constraints and reinforce the country's regulatory environment and skills for improved competition, growth and inclusiveness. The operation is anchored around the second focus area of the CPF "building human capital and inclusive growth" by improving the quality and governance of basic education and vocational training; and the third focus area "strengthening economic governance and private sector-led growth" by improving access of local private firms to commercial justice services and boosting competition and investments within the ICT sector.

C. Proposed Development Objective(s)

5. This program document proposes a first of a programmatic development policy operation (DPO) series consisting of three IDA grants. The series is designed to support the Islamic Republic of Mauritania in building the foundations for a faster and more sustainable private sector-led growth through modernizing the commercial justice and registry services, removing the barriers to investment and competition in the internet broadband market, and improving the quality and relevance of skills provided by the national education and training systems. The proposed operation will be in the amount of SDR XXX million (US$30 million equivalent). It is aligned with the national development plan 2016-2030, and supported by ongoing technical assistance (TA) projects implemented under the World Bank's FY18-FY23 Country Partnership Framework (CPF) for Mauritania.

D. Concept Description

6. The program supported by the DPO series is articulated around three pillars:

7. Pillar 1 supports the modernization of business rights through reforms in commercial justice and commercial registry. This pillar focuses on strengthening access of economic agents to an efficient and transparent commercial justice system and to reliable information on companies and assets. It does so by enabling private sector parties to reach faster and simpler settlements of disputes, render insolvency more efficient and accessible, and redesign a more effective commercial registry to enable the collateralization of assets. These reforms are the backbone for developing a modern economy and leveling the playing field among economic actors. This is done through reducing time and costs to enforce contracts for small and medium-sized enterprises, improving conflict resolution between private operators or with the State and developing access to credit. Ultimately, these outcomes will increase the attractiveness of the country for both national and international investors.

8. Pillar 2 supports reforms for removing barriers to investment and competition in the internet broadband market, and facilitating equitable access to ICT services. Reforms aims to i) open the internet retail and wholesale markets up for competition and for new entrants, ii) promote access to the dominant operators' essential infrastructure and reduces the costs for companies to deploy digital infrastructure, and iii) boost sustainable financing for ICT projects in underserved areas, especially rural ones. Boosting competition in the sector enables the provision of low-cost, high quality access to the population for these services. The reforms are key to unleash the growth potentials stemming from ICT. It constitutes an opportunity to boost the overall productivity of the economy, enhance new business opportunities for private sector development, and utilize technology in service delivery.

9. Pillar 3 supports improving the quality and relevance of skills provided by the national education and training systems through reforms to teachers' management and to labor market-oriented vocational training. This pillar tackles reforms to improve teachers' training and competence, recruitment systems, and effective deployment. It supports measures to overhaul the TVET governance systems especially for financing, training and curriculum. It also crowds-in the private sector in the education sector decision making to boost the relevance of the training offered and align it with labor market demands. These reforms are essential to improve the long-term labor productivity of future workers and are therefore a cornerstone in boosting the competitiveness of the private sector.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

10. The overall reform program is expected to have a positive poverty and social impact. The reforms supported under the DPO series is expected to boost access for vulnerable economic agents and households to key services, be it access to

commercial justice services for small enterprises, access to ICT services in underserved areas, and access to better quality education and vocational training for the youth. The DPO could undertake a more quantitative assessment for these positive trends during appraisal.

11. Access to commercial justice services (Prior action #1) enables private sector parties to reach faster and simpler settlements of a dispute through newly introduced mediation services. These alternative modes of settling commercial disputes are typically cheaper and faster than conventional judicial process. While large corporations have the means to pursue a classical judicial process without affecting their daily operations, smaller companies will benefit from having a lower cost option to settle their commercial disputes. It will also be a tool to encourage them to formalize their dealings.

12. Access to ICT services: Prior actions #4 and #5 removes competition barriers in the ICT sector and enables internet service providers to access the market and provide internet alongside the existing operators. Such competition is expected to improve the quality of the services and to reduce prices. Cheaper services will be affordable to poorer households, while better quality services enable the development of complementarity services like internet banking and e-learning. International experience has indicated that such ICT and its complementary services can empower poorer households and vulnerable groups, like women and youth, with new economic opportunities and access to markets. Furthermore, the third operation of the DPO series is expected to focus on expanding the ICT sector to connect underserved areas especially rural areas. These areas have the largest shares of poverty in Mauritania.

13. Access to better quality education and TVET: Prior actions #7 to 10 improves the quality of inputs into the national education and training systems, which reflects positively on human capital formation. The DPO reforms push towards improving the competence of teachers and enforcing their presence in classrooms at internationally accepted standards. These problems are mostly acute in geographical areas that tend to have a larger share of poor households. Reforms are expected to be enforced there, which will improve the basic education quality provided to these vulnerable groups. Also, TVET training caters for a large pool of poorer individuals who are seeking to learn a hands-on trade instead of traditional education and university track. This trend is widely common in SSA. As such, improving the quality of such training and linking it to labor market requirements will enable this group to build better skills and improve their chances to access jobs. This will have an important effect on their welfare and wellbeing and could contribute to reducing poverty.

14. The overall reforms are also expected to boost competition, crowd-in private sector investments, and consequently improve growth prospects in the medium run. This will have a significant trickledown effect on poverty. The World Bank estimates that the average growth-poverty elasticity is -3.165 for the US$1.9 international poverty line (in purchasing power parity terms) (lower poverty line), and -2.026 for the US$3.1 dollars' international poverty line (upper poverty line) . Under these estimates and given the expected boost in growth resulting from the reforms supported under the overall DPF program, poverty is expected to decline from 24.4 percent in 2017 using the upper poverty line (6.1 percent using the lower line), to 20 percent in 2021 (4.7 percent using the lower line). These forecasts remain sensitive to fluctuations in agricultural sector prices, the mechanization of agriculture, climate hazards, reforms in the fishing industry, and urbanization policies.

Environmental Impacts

15. The reforms and policy actions supported by the proposed operation are not likely to have significant impact on environment, forests, and natural resources. Over the last 14 years, the Government has made significant strides in developing a framework for environmental management and mainstreaming environmental sustainability in projects, starting first with the environmental protection decree no. 94.2004 of November 4, 2004 concerning Environmental Impact Assessment (EIA). The Mauritanian EIA regulatory framework allows for public consultations and disclosures. The

decree no. 2007-105 of April 13, 2007 (modifying the decree No.2004-094) specifies the content and the procedures of preparing a limited EIA and a comprehensive/detailed EIA, as well as how to monitor their implementation. The Ministry of Environment is institutionally saddled with reviewing and clearing EIA documents.

16. As per OP 8.60, the World Bank assessed whether specific country policies supported by the DPF are likely to cause significant effects on the country's environment, forests, and other natural resources. The assessment concluded that the policies supported by the proposed DPF are not likely to have negative impacts on the country 's natural assets. All the actions supported throughout the operation are policy-oriented; they do not support direct investment in environmentally impactful investments or involve policy actions with significant environmental consequences. The assessment of potential impacts related to actions supported by the DPF will rely on the existing national legal and regulatory framework, and will be monitored and addressed through the national procedures in place in Mauritania.

17. The reforms included in this operation will not cause significant direct environmental effects as they are primarily aimed at i) removing barriers for companies to access more efficient commercial justice services and building the foundations for a reliable and transparent information on companies and collateralized assets through commercial registry; ii) removing barriers to investment and competition in the internet broadband market, and facilitating equitable access to ICT services; and iii) improving quality and relevance of skills provided by the national education and training systems.

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APPROVAL

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