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PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

April 12, 2017
Report No.: 115136

Operation Name	Mauritania Fiscal and Diversification Reforms DPO
Region	AFRICA
Country	Mauritania
Sector	Central Government (34%); Other Agriculture, Fishing and Forestry (33%);Other domestic and international trade (33%)
Operation ID	P163057
Lending Instrument	Development Policy Credit
Borrower(s)	Islamic Republic of Mauritania
Implementing Agency	Ministry of Economy and Finance
Date PID Prepared	April 12, 2017
Estimated Date of Appraisal	
Estimated Date of Board Approval	November 15, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

1. **Favorable terms-of-trade, which recently drove Mauritania's growth, has turned and the country is now struggling to recalibrate its state-driven growth model.** The extractive industries have been the engine of Mauritania's economic development for over a decade and a half, representing an average of 25 percent of GDP, 82 percent of exports and 23 percent of fiscal revenues. During the 2009-2014 commodity boom, mining exports doubled, pushing Mauritania's average annual real GDP growth rate to 4.2 percent, close to the average for Sub-Saharan Africa. High commodity prices prompted a surge in foreign direct investment (FDI), which further increased demand for non-tradeable services and caused the real exchange rate to appreciate. Substantial resource revenues and foreign aid have contributed to a state-driven development model, which facilitated significant public investment in infrastructure, but did little to encourage economic diversification in the private sector. The decline in global commodity prices has reduced Mauritania's growth rate and exposed a number of critical macroeconomic vulnerabilities.

2. **The end of the commodity super-cycle prompted the need to adjust external and fiscal imbalances**. As commodity prices rose, extractives exports accounted for an increasingly large share of foreign-exchange inflows. Nevertheless, these earnings were more than offset by the capital goods and services imports required by the extractive industries and the public investment program (PIP), and by the repatriation of profits to foreign-owned companies. This resulted in net foreign-exchange outflows, which exceeded both private remittances and official transfers. As a result, it added strains to the reserves of the central bank and increased the country's vulnerability to the reduction in commodity linked FDIs. Foreign-exchange controls, rigid exchange-rate policies, and a lack of monetary policy tools limited the central bank's ability

to address structural imbalances and respond to ToT shocks. Moreover, the concentration of domestic revenues in the mining and oil sectors, coupled with a reliance on foreign grants and intermittent pressures on public spending, prevented the build-up of fiscal buffers when commodity prices were high. The expansion of the government's ambitious PIP, and increased foreign borrowing, compounded rising fiscal pressures as commodity prices fell. Despite a series of major tax reforms launched in 2011, public debt rose from 75.5 percent of GDP in 2007 to 94.8 percent in 2016 leading the country to a high risk of debt distress.

3. **In this context, the proposed operation will assist the authorities in addressing those vulnerabilities by supporting structural fiscal reforms and encouraging economic diversification.** Pillar A supports measures designed to increase the flexibility and responsiveness of fiscal policy, as well as reforms to mitigate systemic fiscal risks. The operation will support efforts to reduce tax expenditures, diversify the revenue base away from the extractive industries, rationalize the public investment program (PIP) and consolidate its management process, and tackle key fiscal risks and transparency issues related to parastatals. Pillar B focuses on strengthening the framework for public-private partnerships (PPPs), improving land-tenure systems and securing property rights to facilitate credit access, and bolstering livestock exports. By spurring economic activity outside the extractive industries, these reforms are expected to contribute to a more sustainable growth pattern and to gradually ease external pressure.

II. Proposed Objective(s)

4. **The program development objective (PDO)** is to support fiscal consolidation and private sector participation in non-extractives sectors.

III. Preliminary Description

7. **This operation proposes the Second Fiscal and Development Reforms credit in the amount of US$20 million to the Islamic Republic of Mauritania.** This is the second credit in the proposed DPO series, which consists of two single-tranche credits to be disbursed over 2016-2017. The amount of the second operation is yet to be determined as part of the upcoming country partnership framework FY17-FY20.

8. **The proposed operation is structured around two pillars:** (1) Support fiscal consolidation by increasing domestic revenues, enhancing fiscal transparency and increasing the efficiency of public spending; (2) Support private sector participation in the non-extractives sectors.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

9. **The overall reform program is expected to have a positive impact on poverty.** The reforms supported under the DPO series are expected to boost macro stability and private sector participation and as a consequence growth in the medium run. This will have a significant trickledown effect on poverty. More direct effects can also be depicted as reforms improves the

efficiency of public investment and improves fiscal balance to ensure more allocation towards social and poverty reduction programs. It also help stimulate job creation through increase in private sector participation notably I urban areas where the largest concentration of poor is. Finally it tackles directly reforms that are expected to increase productivity in livestock, a sector that has been traditionally the main driver for poverty reduction.

10. **The reforms to the tax-exemption regime supported under Prior Action 2 could have an adverse impact on poor households, though this will depend on the specific exemptions targeted for elimination.** Using Mauritania's 2014 household survey, the World Bank team simulated the distributional impact of eliminating VAT exemptions on 144 consumer products, including staple foods and utilities. The results indicate that while these exemptions systematically benefit wealthier households more than the poorer ones, the size of these exemptions as a share of household spending is largest among households in the second-lowest income quintile. Consequently, eliminating all 144 VAT exemptions would increase the tax burden on households that are near or below the poverty line, increasing the headcount poverty rate by as much as 2.7 percent. However, the negative poverty impact is almost entirely driven by the removal of VAT exemptions on staple foods (e.g., rice, flour, and oil), while removing VAT exemptions on electricity and water services appears to have no effect. Therefore, the proposed operation does not support the elimination of all 144 VAT exemptions. Instead, it supports efforts to identify and eliminate only those exemptions that have no significant impact on poor households.

11. **The operation's support for the elimination of specific tax exemptions will be informed by further distributional analysis.** In 2016, the government eliminated the VAT exemption on imported rice, which was both the largest source of VAT tax expenditure and the exemption with the most important implications for the poor. This decision was made before discussions regarding the DPO series had begun. The government could lessen the impact of the rice exemption's removal by selling domestically produced rice at subsidized prices in the state-owned EMEL supermarkets. Going forward, the World Bank will assist the MEF in quantifying the distributional effect of tax reforms through an expanded poverty and social impact analysis. The World Bank is also supporting the government's targeted cash-transfer and social safety-net programs, which could be used to directly offset the impact of future tax reforms on poor households.

12. **The property-rights agenda supported under Prior Action 8 is expected to have a positive and direct impact on poverty and social development.** The proposed operation supports the government's efforts to develop a sound legal and institutional framework for allocating and protecting rights to land and other property. The supported reforms are expected to have especially beneficial implications for poor households and informal firms, which tend to be most vulnerable to the insecurity and conflict generated by ill-defined or unenforceable property rights. Moreover, greater title security will promote investment in land improvements, facilitate borrowing against equity, and shield the property of the poor from illegal infringement or expropriation.

Environmental Aspects

13. **The reforms supported under the proposed operation are not expected to have significant negative effects on Mauritania's environment.** Measures designed to promote investment, such as those supported under Prior Actions 3, 4, and 6 could have negative environmental implications if the resulting investment projects are not subject to appropriate environmental safeguards (see Annex 4). The World Bank team will continue working to ensure that adequate environmental safeguards are integrated into all DPO-supported measures when needed.

14. **Procurement reforms supported under Prior Actions 3 and 4 will respect Mauritania's existing environmental safeguards.** The current system for assessing and minimizing the environmental impact of public investment projects is fundamentally sound. Key legislation includes the country's overarching environmental law (#2000-045) and related implementation decrees, as well as the decree on environmental impact assessments (#2007-105) and its accompanying procedural manual. Regulations mandate that infrastructure projects be subject to environmental impact assessments and categorized according to their anticipated level of environmental damage. The Ministry of the Environment oversees this process, but its limited financial and human resources reduce its effectiveness, and assessments are often restricted to projects financed by development partners. To strengthen environmental safeguards, a new PIP framework was approved in 2016, which reflects international good practices for environmental and social impact assessments. The new framework provides for more active MEF engagement, including funding environmental feasibility studies.

15. **The PPP agenda supported under Prior Action 6 will include similar environmental protections.** The new PPP framework has strengthened environmental safeguards for PPPs. Supported by a World Bank TA project for PPPs, the new law and its implementing regulations establish environmental and social requirements for PPPs that reflect international good practices. The Minister of the Environment is now a permanent member of the PPP steering committee that oversees the integration of environmental safeguards. Going forward, private partners will be required to complete a full economic and social impact assessment before a project commences. Furthermore, the PPP Unit will be required to include a senior environmental specialist, who will assess technical proposals for PPP infrastructure project. FIAS[1] TA will build the capacity of line ministries and the PPP Unit to assess environmental and social impacts.

16. **Compliance with OIE standards will attenuate the inherent environmental risks involved in expanding livestock production, which is supported under Prior Action 10.** In addition, Mauritania is currently participating in the World Bank's Regional Project for Livestock Support in the Sahel, under which it will introduce an environmental and social management framework for the livestock subsector.

V. Tentative financing

Source:	($m.)
BORROWER/RECIPIENT	0.00
IDA Grant	20.00

[1] World Bank Facility for Investment Climate Advisory Services.

Source	Amount
Borrower/Recipient	
IBRD	
Others (specifiy)	
Total	20.00

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