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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED GRANT

IN THE AMOUNT OF SDR 18.6 MILLION (US$26 MILLION EQUIVALENT)

TO THE ISLAMIC REPUBLIC OF MAURITANIA

FOR THE

SECOND FISCAL CONSOLIDATION AND PRIVATE SECTOR REFORM DEVELOPMENT POLICY FINANCING

November 21, 2017

Macroeconomic and Fiscal Management Global Practice
Africa Region

ISLAMIC REPUBLIC OF MAURITANIA - GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of *October 31, 2017*)

Currency Unit: Mauritanian Ouguiya (MRO)

US$1.00 = MRO 354.085

US$1.00 = SDR 0.71190085

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BCM	Central Bank of Mauritania
BoP	Balance of Payments
CA	Contracting Authorities
CAD	External Current Account Deficit
CAS	Country Assistance Strategy
CDR	Code of Real Property Rights (*Code des Droits Reels)*
CFAA	Country Financial Accountability Assessment
CPF	Country Partnership Framework
DGERSE	Directorate of Studies, Reforms, and Monitoring and Evaluation *(Direction Générale des Etudes, des Réformes, du Suivi et d'Evaluation)*
DPf	Development Policy Financing
DSA	Debt Sustainability Analysis
DTF	General Directorate of Financial Oversight
ECF	Extended Credit Facility
EPA	Administrative Public Agencies (*Etablissements Publics à Caractère Administratif*)
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GFMIS	Electronic Public Financial Management Information System
GNP	Gross National Product
GoM	Government of Mauritania
GRS	Grievance Redress Service
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
JSAN	Joint Staff Advisory Note
LDP	Letter of Development Policy MDGs
MDGs	Millennium Development Goals
MEF	Ministry of Economy and Finance
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health
MRO	Oughyia
MTEF	Medium-Term Expenditure Framework
NPL	Non-performing Loan
OIE	World Organization of Animal Health
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PHRD	Japan Policy and Human Resources Development Trust Fund
PIM	Public Investment Management
PIP	Public Investment Program
PPP	Public-Private Partnerships
RACHAD	Automated expenditure-chain system
ROSC	Report on the Observance of Standards and Codes
SCAPP	National Strategy for Accelerated Growth and Shared Prosperity
SDR	Special Drawing Rights
SNIM	National Mining Company (*Société Nationale des Industries Minière)*
SOE	State Owned Enterprise
TA	Technical Assistance
TBs	Treasury Bills
ToT	Terms of Trade
UNDP	United Nations Development Program
US$	United States Dollars
VAT	Value-added Tax

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ISLAMIC REPUBLIC OF MAURITANIA
MAURITANIA SECOND FISCAL CONSOLIDATION AND PRIVATE SECTOR REFORM DEVELOPMENT POLICY FINANCING

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SUMMARY OF PROPOSED GRANT AND PROGRAM

ISLAMIC REPUBLIC OF MAURITANIA
MAURITANIA SECOND FISCAL CONSOLIDATION AND PRIVATE SECTOR REFORM DEVELOPMENT POLICY FINANCING

Borrower	The Islamic Republic of Mauritania
Implementation Agency	Ministry of Economy and Finance (MEF)
Financing Data	IDA Terms: Regular Development Grant Amount: SDR 18.6 million (US$26 million equivalent).
Operation Type	Second operation in a programmatic series of two development policy financings.
Pillars of the Operation and Program Development Objective(s)	The program development objective (PDO) is to support fiscal consolidation and private sector participation in non-extractives sectors. **Pillar A: Support fiscal consolidation by increasing domestic revenues, controlling public enterprises expenditures and increasing the efficiency of public spending.** **Pillar B: Support private sector-led diversification in the non-extractive sectors.**
Result Indicators	**Pillar A: Support fiscal consolidation by increasing domestic revenues, controlling public enterprises expenditures and increasing the efficiency of public spending** • Tax revenues increase by 1.2 percent of GDP. Baseline (2015): 17 percent of GDP; Target: (2019): 18.2 percent of GDP. • Share of public investment projects selected and executed based on new framework. Baseline (2016): 0; Target (2018): >75%. • Percentage of the total value of contracts awarded without competition has been cut in half. Baseline (2016): 47 percent of total procurement bids. Target (2018): 23.5 percent of total procurement bids. • Decline in public enterprises and agencies extra-budgetary spending and carry-forwards (in percentage of GDP). Baseline (2016): 1.2 percent of GDP. Target (2018): 0.2 percent of GDP. **Pillar B: Support private sector-led diversification in the non-extractives sectors** • The executive PPP Unit has reviewed and assessed PPP projects according to the new regulatory framework. Baseline (2016): 0, Target (2018): half of the PPP portfolio. • Increase in Increase in the number of formal properties titles. Baseline (2015): 27168; Target (2018): >31000. • Improvements in the formalization of the livestock sector as highlighted by: The increase in the percentage of verified products in total products of slaughterhouses. Baseline (2016): 0%; Target (2018): 8%. The Increase in the percentage of formal livestock transactions (as per the new law) at the borders. Baseline (2016): 0%; Target (2018): 10%.
Overall risk rating	High
Climate and disaster risks (required for IDA countries)	(i) Are there short- or long-term climate and disaster risks associated with the proposed operation as identified by the SORT environmental and social risk rating tool? No
Operation ID	P163057

PROGRAM DOCUMENT FOR A PROPOSED GRANT TO THE ISLAMIC REPUBLIC OF MAURITANIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes a second development policy financing (DPF 2) of a programmatic series of two IDA grants.** The series is designed to support the Islamic Republic of Mauritania as it adjusts to a protracted terms of trade (ToT) shock. The country's extractive industries face a challenging external environment marked by a new normal for international commodity prices. The DPF series supports the Government as it strives to implement a policy of fiscal consolidation, and promote private sector-led diversification in the non-extractive sectors. The proposed operation will be in the amount of SDR 18.6 million (US$26 million equivalent). It is aligned with the reform program of the Government and its national development plan 2016-2030 (National Strategy for Accelerated Growth and Shared Prosperity - SCAPP), and supported by ongoing technical assistance (TA) projects implemented under the upcoming World Bank's FY18-FY22 Country Partnership Framework (CPF) for Mauritania.

2. **Favorable terms of trade, which until recently drove growth, ended in 2015 and the country is now trying to adjust to a less favorable external environment.** Until 2014, the extractives industries were the engine of economic development for over a decade and a half, representing an average of 25 percent of gross domestic product (GDP), 82 percent of exports and 23 percent of fiscal revenues. During the 2009-2014 commodity boom, mining exports doubled, pushing the average annual 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 effective exchange rate to appreciate. Substantial resource revenues and foreign aid contributed to a state-driven development model, with significant public investment in infrastructure, but did little to encourage economic diversification and private sector-led growth. The sharp decline in global commodity prices has reduced growth and exposed a number of critical macroeconomic vulnerabilities. The recent gradual rise in the prices of extractives can help ease and smoothen the impact of this adjustment.

3. **The end of the commodity super-cycle prompted the need to adjust external and fiscal imbalances**. The country first used limited fiscal buffers and borrowing to weather the commodity price downturn. However, an ambitious public investment program (PIP) along with increased foreign borrowing compounded rising fiscal pressures as commodity prices remained low. Foreign exchange controls, 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 ToT shock. Despite a series of major tax reforms launched in 2011, public debt rose from 75.5 percent of GDP in 2007 to 97.7 percent in 2016 leading the country to a high risk of external debt distress. In 2016, 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. Reforms in the real sectors were also implemented notably in the business environment, energy and agriculture through irrigation, fisheries and livestock. Nevertheless, the challenge ahead is to accelerate structural reforms to push for further diversification and enhance competitiveness while maintaining macroeconomic stability through an enhanced monetary and exchange rate framework that responds more effectively to shocks.

4. **Slowing economic growth has put an end to the strong poverty reduction of the boom years.** Rising real per-capita GDP enabled Mauritania to reach lower-middle-income status, and the poverty rate declined by an estimated 11.5 percentage points between 2008 and 2014.[1] Poverty reduction occurred principally in

[1] See: World Bank (2016) "Islamic Republic of Mauritania: Poverty Dynamics and Social Mobility 2008-2014."

rural areas and was driven by rural-urban migration and changes in relative prices, as well as increased spending on social-protection programs and public infrastructure investment. Income inequality declined, and the Gini coefficient decline substantially 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, these results are highly sensitive to growth. The slowdown in economic activity coupled with continued high fertility rates jeopardizes these poverty gains.

5. **The program supported by the series aim to support fiscal consolidation and private sector participation in non-extractives sectors.** It is articulated around two pillars:

6. **Pillar A of the programmatic series supports the government's ongoing fiscal consolidation by increasing domestic revenues, controlling public enterprises expenditures and increasing the efficiency of public spending.** The series supports measures designed to increase the flexibility and responsiveness of fiscal policy, as well as reforms to mitigate systemic fiscal risks. This second operation will support efforts to reduce tax expenditures, diversify the revenue base away from the extractive industries, rationalize the PIP, reform public procurement, and tackle key fiscal risks and transparency issues related to parastatals.

7. **Pillar B supports the private sector-led diversification in the non-extractive sectors.** The series supports the diversification of economic activity outside the extractive industries and undertakes regulatory reforms that leverages more private-sector activities with the objective of achieving a more sustainable growth pattern and gradually easing external pressure. The reforms supported by this second operation focus on strengthening the regulatory framework for public-private partnerships (PPPs), better define property rights to improve the business climate and facilitate credit access, and bolstering livestock sector formalization and productivity. To ensure the successful implementation of the supported reforms, the operation leverages a range of World Bank TA projects in the areas of good governance, PPP reform, land tenure, and the development of the regional livestock sector.

8. **The macroeconomic policy framework provides an adequate basis for the proposed operation.** This assessment is affirmed by: favorable medium term growth prospects underpinned by continued strength in fishing and agricultural production and sustained public and private investments in energy, extractives and ports infrastructure among others; the successful implementation of a prudent fiscal policy that resulted declining debt ratios; the agreement to an International Monetary Fund (IMF) Program which aims to support reforms in foreign exchange markets, enabling more active monetary and liquidity-management policies, and also reinforces financial stability. Downside risks remain substantial and include upward pressures on external financing, stalled implementation of planned fiscal and monetary reforms, and failure to limit non-concessional borrowing.

9. **The proposed DPF series is closely aligned with the SCAPP and is an integral part of the upcoming Country Partnership Framework (FY18-FY22).** It has been prepared in coordination with other partners, including the IMF and the African Development Bank (AfDB) and builds on the results of the Systematic Country Diagnostic (SCD 2016), lessons from the first DPF and various technical assistance projects in Mauritania as well as results from past and ongoing analytical work. Risks, while manageable, remain substantial notably in terms of macroeconomic environment and institutional capacity.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

10. **Economic activity is slowly rebounding in 2017 driven by progressive improvement in private consumption and the gradual recovery of international iron and copper prices.** In 2017, GDP growth is estimated at 3.5 percent, up from 2.0 percent in 2016 and 1.4 percent in 2015. Nevertheless, this rebound remains fragile as liquidity constraints in the domestic market, arising from fiscal consolidation and an ineffective monetary policy, continue to dampen the momentum of growth. On the supply side, fisheries, trade and livestock remain the main growth drivers. They offset the weak performance of the construction sector, affected by reduced public investment, and subdued mining production in the wake of the operational problems of the public mining utility (SNIM)[2]. In this context, non-extractive GDP is expected to grow by 4 percent in 2017, up from 2.5 percent in 2016, counterbalancing a 0.1 percent decline in real growth of the extractives sector (Table 1).

11. **Inflation remains moderate, but growing pressures are emerging from increasing imported food prices.** Latest data reveals that core inflation remained moderate at 2.2 percent during the first nine month of 2017 (9M-17) (y/y). However, headline inflation reached 2.7 percent, up from 1.1 percent a year earlier. This rise reflects a 3.5 percent increase in food prices, partly due to the shortage of fish following the decision of the Government not to renew artisanal fishing licenses to foreign fishermen, and to the progressive depreciation of the ouguiya since 2015. As food represents an average of 51 percent of the consumption basket, rising food prices are likely to have a significant negative impact on the purchasing power of poor households.

12. **The Government has intensified its effort to adjust to the enduring ToT shock and has successfully implemented a fiscal consolidation policy, which, in 2016, resulted in a notable fiscal adjustment of 3 percent of GDP.** This policy brought down the fiscal deficit from 3.1 percent of GDP in 2015 to 0.5 percent of GDP in 2016 (Table 2). More importantly, it succeeded in achieving a 0.5 percent of GDP in primary surplus (including grants), down from a 2.0 percent of GDP deficit a year earlier.

13. **The adjustment relied primarily on cuts in recurrent and capital expenditures and some revenue-raising reforms**. Fiscal restraint across the general government resulted in 1.4 percent of GDP of cumulative fiscal savings, driven by a decline in transfers to State Owned Enterprises (SOEs) and expenditures on goods and services. The Government also took a combination of policy actions that reduced public investment by 2.4 percent of GDP compared to 2015 and slowed down the accumulation of public debt. This included i) delaying roads projects that were not financed by the Arab Summit grants; ii) using windfall revenues from gasoline excises[3] to finance existing projects rather than new ones; and iii) tightening controls over the disbursement plans of implementing agencies for foreign-financed projects. In parallel, the revenue mobilization strategy of the Government focused on broadening the tax base and strengthening tax administration controls. This included raising the Value-added Tax (VAT) rate and excise taxes on certain consumer goods[4], tightening controls over customs and income tax collection, reforming the quota system for the fishing sector, and seeking grants following the 2016 Arab Summit in Nouakchott. These measures

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[2] *Société Nationale des Industries Minière (SNIM).*

[3] These receipts are part of the special accounts in Mauritania called FAID (*Fond d 'Assistance et d 'Intervention pour le Dévelopepment*). The reference price is fixed and hence any downward departure from that price provides revenue gains for the Government. Any upward movement of international prices reduce those revenues and could even turn into losses or subsidies. Those excises are not registered under consumption taxes as they are earmarked and placed in this special vehicle/fund, which is then spent on infrastructure and development projects.

[4] These measures were taken in the last quarter of 2015.

cumulatively boosted budgetary revenues by 1 percent of GDP. However, they were totally offset by falling SOE dividends[5], corporate income tax, gasoline excises, and declining budgetary income from the petroleum sector.

Table 1: Key Macroeconomic Indicators

	2013	2014	2015	E2016	P2017	P2018	P2019	P2020
Real Economy	annual change unless otherwise indicated							
Real GDP growth	6.1	5.6	1.4	2.0	3.5	3.6	4.6	5.2
Per Capita real GDP growth	3.5	3.0	-1.0	-0.4	1.1	1.2	2.2	2.8
Extractives GDP growth	15.1	4.2	-5.3	-1.1	-0.1	0.3	2.6	3.2
Non-extractives GDP growth	5.6	5.8	2.4	2.5	4.0	4.1	4.9	5.5
o/w primary sector growth	-1.0	2.2	5.9	3.5	3.6	3.6	4.6	5.2
o/w services growth	3.4	10.0	4.1	2.5	3.9	4.3	5.0	5.7
Prices	annual change unless otherwise indicated							
GDP deflator	3.0	-9.2	-4.9	4.1	4.2	3.5	3.7	3.2
CPI Inflation	4.1	3.5	0.5	1.5	3.0	3.6	4.6	4.2
Iron Price (US$/dmt)	135.4	97.0	55.9	58.4	71.7	62.0	57.1	54.6
Copper Prices (US$/mt)	7332	6863	5510	4868	6030	6430	6462	6471
Oil Price (US$/bbl)	104.1	96.2	50.8	42.8	50.3	50.2	50.5	51.1
Gold Prices (US$/ troy oz)	1411	1266	1161	1249	1254	1291	1313	1341
Fiscal Accounts	Percent of GDP, unless otherwise indicated							
Expenditures	25.8	29.5	32.7	28.2	27.4	27.1	27.5	27.5
Revenues	30.1	25.8	29.6	27.7	27.7	27.3	27.9	28.4
Primary Budget Balance (excl. grants)	4.6	-2.8	-3.8	-1.3	0.2	0.3	0.7	1.1
Primary Budget Balance	5.2	-2.7	-2.0	0.5	1.3	1.5	1.9	2.4
Budget Balance (excl. grants)	3.6	-3.8	-4.9	-2.4	-0.8	-1.0	-0.8	-0.4
Budget Balance	4.3	-3.6	-3.1	-0.5	0.3	0.2	0.4	0.9
Public Debt (including Kuwait debt)	70.0	77.8	94.3	97.7	94.2	92.9	92.2	89.5
Domestic	4.1	6.2	5.7	4.7	4.8	4.8	5.0	6.1
External	65.9	71.5	88.6	93.0	89.4	88.2	87.3	83.4
Public Debt (excluding Kuwait Debt)	52.5	59.3	73.8	76.8	74.5	74.3	73.4	68.5
PV of Public Debt /GDP					59.6	58.4	58.2	55.4
Balance of Payment	Percent of GDP, unless otherwise indicated							
Current Account Balance	-22.0	-27.3	-19.7	-14.9	-11.1	-9.8	-8.9	-8.8
Trade of Goods Balance	-6.9	-13.2	-11.5	-10.5	-4.3	-3.9	-3.3	-3.0
Imports	-53.2	-49.1	-40.2	-40.1	-39.5	-39.7	-40.0	-40.5
Exports	46.3	35.9	28.7	29.6	35.2	35.8	36.7	37.5
Services (Net)	-14.7	-13.6	-8.1	-7.1	-9.2	-9.1	-8.9	-8.3
Income (Net)	-2.9	-2.6	-3.7	-2.5	-0.3	-1.8	-1.5	-1.4
Foreign Direct Investment	19.7	9.3	10.4	5.7	9.2	6.5	6.5	5.7
Gross Reserves (million US$, eop)	996	639	823	825	802	817	858	910
in months of goods imports	3.9	2.9	5.1	5.2	4.8	4.9	5.2	5.4
in months of imports (goods & services)	3.1	2.3	4.2	4.4	3.9	4.0	4.2	4.4
Exchange Rate (avg)	296	302	324	352				
GDP (nominal - billion MRO)	1,696	1,626	1569	1666	1797	1927	2090	2269

Source: MEF, *Office National des Statistiques*, Central Bank of Mauritania (BCM), IMF Article IV, UN Population, World Bank Pink. Sheet and World Bank Staff calculations. * Commodity prices for 2017 reflect those of April 2017.

[5] Primarily those of SNIM, the public mining utility, given losses incurred from low international iron prices.

Table 2: Key Fiscal Indicators

% of GDP (on cash basis)	2013	2014	2015	2016	P2017	P2018	P2019	P2020
Total Revenues	30.1	25.8	29.6	27.7	27.7	27.3	27.9	28.4
Revenues excluding Extractives and Grants	24.2	25.7	27.8	25.8	26.6	26.1	26.7	27.1
Tax Revenues (excl. extractives)	14.6	15.8	17.0	16.3	16.3	17.3	18.1	18.7
Income and corporate tax	5.1	5.8	6.1	5.6	5.5	5.8	6.1	6.6
Tax on goods and services	6.7	7.3	7.9	8.0	8.1	8.4	8.6	8.6
Tax on trade	1.9	2.3	2.5	2.3	2.4	2.6	2.8	2.9
Other tax	0.9	0.4	0.6	0.4	0.4	0.5	0.6	0.6
Non-tax revenues	9.7	4.4	9.1	8.0	7.6	7.1	7.1	7.1
Revenues from fishing	3.8	2.2	2.8	3.3	3.6	3.6	3.8	3.8
Dividends from SOEs	0.7	0.5	0.9	0.6	0.8	0.6	0.6	0.6
Special Accounts	3.8	0.7	3.0	2.6	1.7	1.6	1.4	1.4
Others	1.3	1.1	2.4	1.5	1.5	1.3	1.3	1.3
Extractive Revenues	5.2	5.4	1.7	1.5	2.6	1.7	1.5	1.3
Mining Revenues	3.9	4.0	0.8	0.8	1.5	1.6	1.2	1.2
Petroleum Revenues	1.2	1.5	0.8	0.7	1.1	0.1	0.1	0.1
Grants	0.7	0.1	1.8	1.9	1.1	1.2	1.2	1.3
Total Expenditure	25.8	29.5	32.7	28.2	27.4	27.1	27.5	27.5
Recurrent Expenditures	15.8	17.7	18.5	16.6	16.2	16.1	16.0	15.9
Wage Bill	6.1	6.8	7.6	7.4	7.3	7.3	7.2	7.2
Goods and Services	3.5	4.0	4.0	3.5	3.7	3.6	3.6	3.5
Transfers and Subsidies	4.1	4.5	4.3	3.3	3.1	3.2	3.2	3.2
Interest Payments	0.9	1.0	1.1	1.0	1.0	1.3	1.5	1.5
External	0.7	0.7	0.8	0.8	0.8	0.9	1.0	1.0
Domestic	0.2	0.2	0.3	0.2	0.2	0.4	0.5	0.5
Others	1.0	1.5	1.5	1.3	1.1	0.7	0.5	0.5
Capital Expenditure	10.0	11.8	14.0	11.6	11.0	11.0	11.5	11.6
through external resources	2.9	3.6	5.0	2.7	2.9	3.6	3.9	4.0
through domestic resources	7.1	8.2	9.0	9.0	8.2	7.4	7.6	7.6
Restructuring and net lending	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.0
Primary balance (excl. extractives)	0.1	-8.1	-3.7	-1.0	-1.3	-0.2	0.4	1.1
Primary balance (excluding grants)	4.6	-2.8	-3.8	-1.3	0.2	0.3	0.7	1.1
Primary balance	5.2	-2.7	-2.0	0.5	1.3	1.5	1.9	2.4
Budget balance (excluding extractives)	-0.9	-9.1	-4.8	-2.0	-2.3	-1.5	-1.1	-0.4
Budget balance (excluding grants)	3.6	-3.8	-4.9	-2.4	-0.8	-1.0	-0.8	-0.4
Budget balance	4.3	-3.6	-3.1	-0.5	0.3	0.2	0.4	0.9

* Extractives revenues include various tax revenues from extractives companies, royalties and dividends. Source: Ministry of Economic and Finance, World Bank Staff Calculation. Mauritania does not have fiscal data on accrual basis.

14. **The Government has maintained the same prudent fiscal policy in 2017.** The latest data reveals that higher international commodity prices and domestic inflation have boosted the overall budgetary revenues excluding grants by 0.8 percent of GDP in 2017. More precisely, growth in the revenues from the extractives and fishing sectors, as well as taxes on goods and services and on international trade, has offset the decline in corporate income taxes resulting from weak economic activity in 2016. On the expenditure side and with the objective of reducing public debt accumulation, the Government has maintained its policy of containing public investments through slower disbursement of externally-financed projects, leading to a further decline

in capital expenditure over the year (Table 2). This outcome has been accompanied by further tightening in recurrent expenditure, despite the one-time costs associated to the public enterprises' (EPA) treasury integration reforms[6] - which required MEF to adjusts the wage bill and transfers to cover EPA employees' salaries, unbudgeted costs and arrears-, and the costs of a referendum on constitutional amendments. As a result, public expenditure has dropped further by 0.8 percent of GDP. This policy has resulted in a projected budget surplus of 0.3 percent in 2017, down from a 0.5 percent deficit in 2016. Again, and for a second consecutive year, the primary balance has remained in surplus, at an estimated 1.3 percent of GDP, over the same period. The budget is predominantly financed through external concessional borrowing in the form of project finance and budget support. The domestic financing market remains underdeveloped[7] and is largely influenced through liquidity conditions among banks and SNIM.

15. **While public debt levels remain elevated, fueled by a legacy of active borrowing for public investment and nominal currency depreciation, fiscal consolidation has started putting the debt to GDP on a declining trend in 2017.** The public debt stock grew rapidly in 2013-2016, reaching 97.7 percent of GDP in 2016 (Figure 1). The impact of external borrowing to finance infrastructure investment and cover external deficits was compounded by nominal currency depreciation and the contraction in nominal GDP generated by the terms of trade shock. Moreover, as 96 percent of public debt is external, the vulnerability of the public debt stock to exchange rate risks is very high (Figure 2)[8]. Nevertheless, with a primary budget surplus recorded for a second consecutive year, public debt is expected to decline by 3.4 points by end-2017 and reach 94.2 percent of GDP. Since most of the debt is on concessional terms, debt-service obligations remain manageable at about 3.7 percent of government revenue.

Figure 1: Composition of Public Debt (% of GDP)

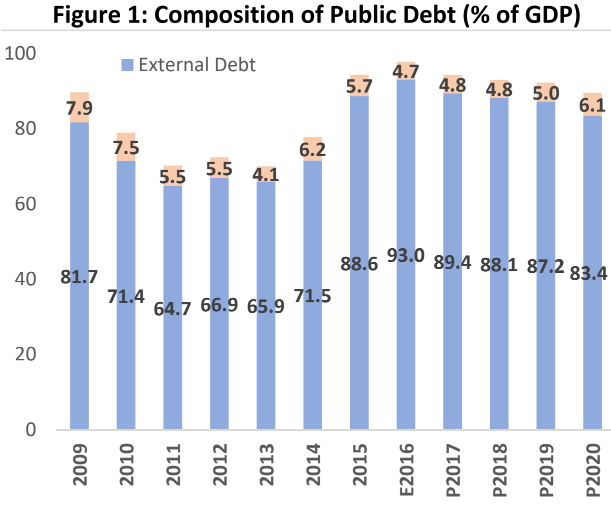
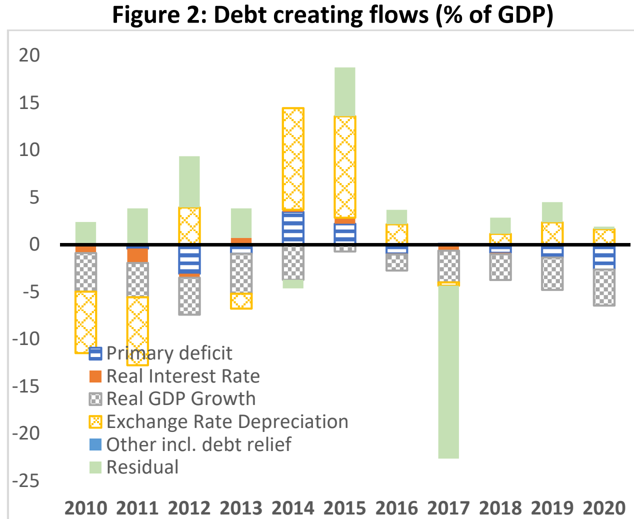


Figure 2: Debt creating flows (% of GDP)



Source: World Bank Staff computation. 2010-2016 based on Debt Sustainability Analysis (DSA) 2017; 2017-2020 based on Government Reforms Plan and World Bank baseline. (refer to Tables 1, 2,3).

16. **External pressures have notably eased in 2017 as international prices of iron recuperate and fiscal consolidation continues, but external financing remains a challenge.** The tightening of fiscal policy in response to the ToT shock was effective in reducing imports, notably equipment for construction. Aided by

[6] These reforms are supported by the DPF and are explained in details in Section 4.2 Pillar A.2 below.

[7] The domestic market is constituted in its entirety of short term financing instruments essentially Treasury Bills (TBs) of less than 6 months maturity. Two types of TBs exist, the banking TBs held by commercial banks and the non-banking TBs held by non-bank agents mostly SNIM, which holds primarily TBs with less than 1 month maturity.

[8] This includes accumulated arrears on a passive bilateral debt to Kuwait (22.4 percent of GDP) and a non-concessional loan from Saudi Arabia (6.7 percent of GDP) contracted by the central bank (BCM) to build foreign reserves.

a sharp rise in the value of iron and fishing exports (up by 31 and 37 percent, respectively, in 2017) the trade deficit decline to 4.3 percent of GDP. As a result, the external current account deficit (CAD) has dropped to 11.1 percent of GDP, down from 14.9 percent in 2016. Nevertheless, the substantial size of the CAD requires an important mobilization of financing, the main sources of which remain FDI and external public borrowing. In 2017, despite lower external pressures and a 71 percent increase in FDI[9], the sharp slowdown in foreign borrowing disbursements related to public investment projects, has contributed to a moderate decline in foreign reserves, from 5.2 months of imports in 2016 to 4.8 months in 2017.

17. **Rigidities within the foreign exchange regime have continued to weigh on the vulnerabilities of Mauritania to external shocks.** For a long time the BCM was very interventionist on the exchange rate markets. To deal with pressures on liquidity and exchange rate, and in the absence of monetary policy instruments, the central bank resorted to rationing by not sterilizing operations and imposing caps on supply and prices of foreign exchange while mandating banks to remit their foreign exchange earnings. With the collapse in commodity prices and the severe contraction of domestic liquidity, rigid exchange rate policy was therefore not able to absorb the shock and facilitate external financing. This prompted the BCM to adopt a crawling peg to the US$ in September 2014 and to resort, at the peak of the ToT shock in June 2015, to a US$300 million non-concessional Saudi loan to boost its foreign currency reserves and defend the exchange rate at the cost of an increase in public debt. While reserves immediately increased from 2.9 to 5.1 months of imports, this was not the most effective policy response. In effect, the real effective exchange rate (REER) appreciated by 8.2 percent during the same period, as the US dollar strengthened vis-à-vis the euro. This led to an overvaluation of the currency, which the IMF currently estimates to have reached between 14 and 21 percent[10] in 2017.

18. **The lack of an effective monetary framework has made exchange rate policy choices and adjustment to shocks more difficult.** The central bank lacks the policy instruments needed to implement an effective monetary policy. As a result, adjustment to tight domestic liquidity was implemented primarily through reduced allocation in the BCM administered foreign exchange market as opposed to policy interventions to manage systemic liquidity and dynamics such as those in the interbank market. Indeed, policy interest rate and the reserves requirements are ineffective tools in Mauritania since they influence modestly commercial interest rates and have not changed for years. Also, the BCM has limited ability to intervene directly with commercial banks since it faces problems with quality of collaterals and have no direct credit and deposit facilities. Without these instruments in place, it will be difficult for the central bank to have an effective monetary policy that can accommodate the effects of both external and domestic shocks (including fiscal policy choices), manage market liquidity elasticity, and serve as a lender of last resort. Given such passive monetary policy, this explains the reluctance of adopting further exchange rate flexibility with all the implication on the need for liquidity management.

19. **The BCM has been cautiously taking measure to address this situation recently, but more structural reforms are still needed**. With support from IMF TA, a three-year reform plan was adopted in 2016 to address deficiencies in the design and implementation of monetary and exchange rate policy. The plan consists of i) revisiting the foreign exchange auction systems and procedures to allow for a smoother market determination of prices; ii) addressing the framework for analyzing systemic liquidity and guiding monetary policy decisions; and iii) introducing new monetary instruments including deposit and lending facilities to influence liquidity conditions and interest rates, broadening the range of eligible collateral and introducing a framework for emergency liquidity support; iv) strengthening of the banking regulatory environment with

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[9] The increase in 2017 is boosted primarily with additional investments needed in the petroleum sector to terminate the operations in the Chingetti field as per contractual obligations. Petroleum production will stop in effect starting 2018.

[10] IMF article IV, October 2017. These are estimates calculated in June 2017.

a new Banking law and investments in the information systems of the central bank[11], and improvements in policy analysis capabilities. The BCM has so far partly implemented these reforms. In 2016, it has stopped direct foreign currency sales to private sector and better enforced foreign exchange regulations[12] as part of its drive to allow for a more flexible determination of the exchange rate. It has also allowed for a continued devaluation of the Ouguiya. Between January 2016 and September 2017, nominal depreciation reached 5.8 percent, bringing the exchange rate closer to its medium-term equilibrium[13]. These decisions, which were facilitated by easing pressure on the balance of payment, led to an improvement in foreign exchange market in 2017 as forex demands was served fully along with faster delivery of foreign currency to banks. However, the more structural elements of the reforms plan have been lagging. The Government has been cautious in undertaking those reforms, which could lead to a more expansionary monetary policy and flexible exchange rate, without proper BoP funding from an IMF program. Instead, the Government has been focusing so far on fiscal policy to ensure macroeconomic stability. The agreement with the Fund over a program will therefore speed up those reforms.

20. **Financial sector risks are elevated as commercial banks are affected by the tight liquidity situation, and the banking supervision framework remains weak.** The financial sector suffers from structural weaknesses including weak asset quality, low profitability affecting the viability of some banks, and highly concentrated deposits and credits including loans to entities related to bank owners. Non-performing loans (NPLs) remain on a declining trend and reached 23 percent of gross credit in 2017, down from 45 percent in 2010. This trend reflects some improved supervision, as well as ongoing efforts to write-off old NPLs. However, the share of NPLs remains high, data reliability remains an issue and the cost of provisioning significantly diminishes banks' profitability. Meanwhile, the headline capital adequacy ratio remains relatively high at 23.7 percent in 2016. Credit net of provision to GDP, a measure of credit depth, has been steadily increasing from 18 percent in 2013 to 25 percent by June 2017. However, this level remains low compared to peer countries. Tight domestic liquidity, economic slowdown, and some aggressive and concentrated credit strategies have all exacerbated the situation and as a result some banks have been reported to find difficulties in meeting the mandatory reserves requirement. Despite some improvement, the current prudential regulation and supervision framework remains not sufficiently developed to deal with bank failures. To indicate the magnitude of this systemic risk, banks who did not meet the minimum reserve requirements more than one-third of the time in 2017 represented 55 percent of market share. In contrast, only three banks were able to meet those requirements throughout the year. Compliance with the liquidity ratio is less problematic but remains significant. Five banks with 26 percent market share regularly violated the minimum liquidity ratio, three of them on a very regular basis. While the BCM has started imposing sanctions, the repetitive nature of the infringements raises concern and puts in question the compliance framework of the financial sector and the capacity of the BCM to enforce it. Financial sector risks will also be tackled as part of the upcoming IMF program.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

21. **Growth is expected to rise progressively to 5.2 percent by 2020 as terms of trade improve and the Government implements its reforms agenda.** The growth outlook for 2018-2020 is positive and based on a timely implementation of structural reform measures that the Government has committed to[14]. This includes

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[11] This is currently being supported through World Bank financing and TA of the core banking and payment systems.

[12] Including foreign exchange position ratios, repatriation requirements, and uses of services acquired on the market.

[13] Between September 2014 and September 2017, the nominal depreciation of the currency has reached 17.8 percent. The bulk of the correction occurred in 2016 though as financing pressures remained subdued in 2017

[14] The government reform plan, which is a DPF baseline macro-framework, is based on a combination of i) fiscal consolidation i.e a 1 percent of GDP adjustment to primary balance, ii) the streamlining of the US$1.2 billion priority projects plan, with an expected reduction in debt disbursement from US$400 to US$300 million yearly (numbers reflect agreement in the 2018 budget law); iii) a

ensuring macroeconomic stability, reforming the business environment, and improving competitiveness (Table 1). As growth reaches full potential (4.6 percent), inflation is anticipated to pick up to 4.2 percent during the outlook period. This will be compounded by a gradual increase in import prices owing to enhanced exchange rate flexibility.

22. **Growth drivers in 2018-2020 rely primarily on improvement of both primary sectors and extractives, and a boost in services.** The boost in productivity of primary sectors, which represent around 27 percent of GDP, are expected to be one of the main drivers of growth in 2018-2020. This builds on reforms of the fishing quota system and on recent investments in ports infrastructure and fishing processing plants. Also, the continued expansion of irrigated surfaces and the elimination of state monopoly over commercialization of domestic rice are expected to increase production and attract further private investments into the sector. As for livestock, the increased formalization of the sector, partly through reforms supported under the DPF series[15], is expected to attract more private investments into the sector and increase its value added. Two positive developments in the extractives sector, which account for around 28 percent of GDP, are expected to further enhance medium term growth prospects. First, the anticipated expansion in extractives production linked with the US$300 million expansion of the Tasiast gold mines, investments in upgraded machinery for SNIM iron mining capacity, and developments in the quartz sub-sector, where production is scheduled to start in 2018. Second, increased FDIs linked to new off-shore gas findings and uranium. These developments are expected amidst more favorable commodities prices that continue to recover albeit at a slower pace than during the commodity boom period[16]. Finally, Mauritania has been one of the top performers in Africa on doing business reforms in 2016 and 2017. This is expected to boost economic activity in the services sector. This sector, which represents 35 percent of GDP, will also benefit from reforms in the financial sectors including the expansion of the payment systems, planned private sector line of credits, and expected loosening of liquidity in the domestic markets following monetary policy reforms supported under the IMF program.

23. **On the expenditure side, private consumption is expected to gradually pick up as economic activity rebounds and supported by private and public investments.** The Government is expected to continue a prudent but growth-friendly fiscal policy. The growth path is aligned with the fiscal multiplier effect as fiscal consolidation coupled with PIP reforms (improved project selection) are expected to change the composition of spending and allow for more capital spending and higher economic returns for selected projects. Simulations for Mauritania shows that growth in the baseline scenario increases by an additional 0.3 percent from the projected increase of the public investment by 2020 given the fiscal multiplier for public investment. Moreover, the new national development plan (SCAPP) and ongoing reforms in PPP frameworks are expected to catalyze additional financial support from development partners[17] and foreign investors, supporting further the economic recovery. These include high returns investments like transmission lines and renewable energy projects.

24. **The authorities are committed to maintaining a prudent fiscal policy stance over the outlook period to reduce imbalances and keep the high debt ratio on a declining trend.** The Government's fiscal consolidation target is to enhance the primary surplus excluding grants by around 1 percent of GDP by 2020. This will maintain a balanced budget and a declining debt-to-GDP ratio, which would reach 89.5 percent of GDP by

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more accommodative monetary policy, and iv) structural reforms to promote growth and private sector participation. These are also aligned with the parameters of the IMF program currently being negotiated.

[15] Refer to section 4.1 for more detailed discussion of these reforms.

[16] During the commodity boom 2009-2014 iron prices averaged US$135/ton compared to US$58/ton in the projection period 2018-2020; while those for copper averaged US$7301/ton during the boom compared to 6454 in outlook years.

[17] Development partners like the World Bank Group, the AfDB, the AFD and Arab Donors have increased their allocated financial support to Mauritania to align with rising demand generated by the SCAPP.

2020 (Table 2). To achieve this, the Government is pursuing tax reforms, including the elimination of tax exemptions and the introduction of new international taxation rules in 2017, both supported through the DPF series[18], and the introduction of a new corporate income tax law in 2018. These measures will be accompanied by tax administration reforms designed to tighten oversight and boost domestic revenue mobilization. The Ministry of Economy and Finance (MEF) is also introducing important reforms of public enterprises and SOE expenditures[19]. These reforms are expected to generate 1 percent of GDP in budgetary savings and strengthen fiscal management. While efficiency gains are sought, the Government also intends to maintain fiscal space for growth-enhancing spending and the expansion of social safety nets to protect the poorest[20]. Moreover, through a more rigorous selection process for public investment projects and procurement, supported by the DPF, the pace of capital spending is expected to continue to slow down, while quality would improve. This reform is already showing results, as the new selection process has already helped in scaling back and streamlining a list of US$1.2 billion of foreign financed infrastructure projects originally planned for 2018-2022. With these reforms, public investment is expected to grow only by 0.6 percent of GDP by 2020[21]. Given the economy's dependency on commodities, more reforms are needed to improve extractives fiscal management and institutions. Mauritania has some experience with the short-lived Oil Fund. Building on that, a more comprehensive approach need to encompass all extractive revenues, apply fiscal rules, and utilize monetary policy to manage these inflows, conduct a counter-cyclical fiscal policy and avoid the appreciation of the real exchange rate. The World Bank is planning analytical work to accompany the Government in these new reforms.

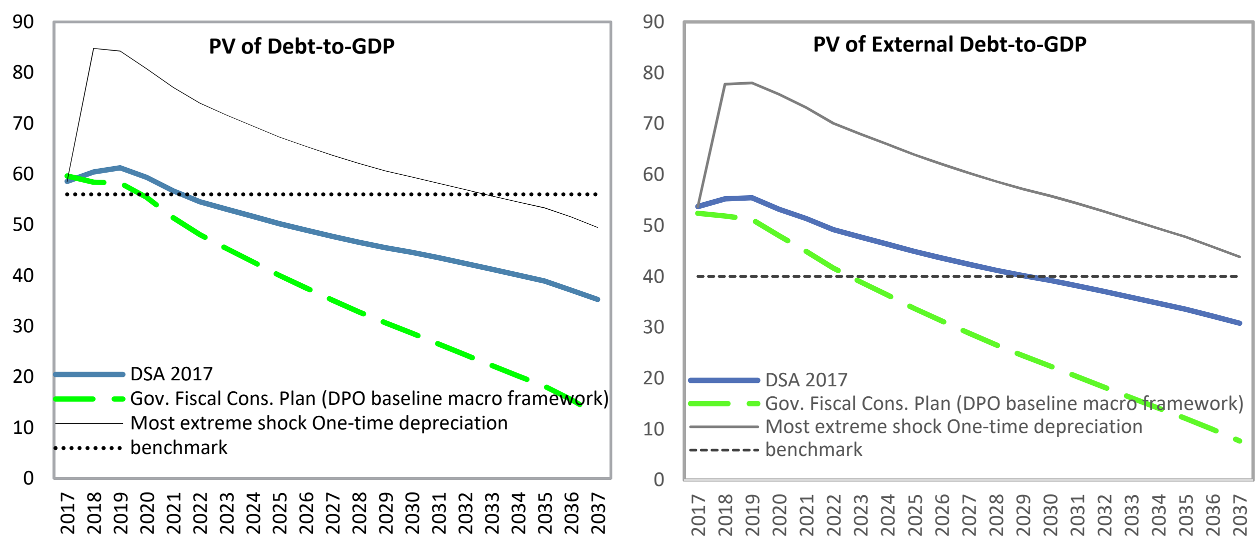
25. **Mauritania is at high risk of external debt distress, and the successful implementation of the Government's fiscal consolidation program will be vital to ensure medium-term debt sustainability.** The 2017 DSA reveals that the country continues to be at high risk of debt distress. This is due in part to a sharp increase in the public external debt stock between 2012 and 2015 to finance infrastructure investment and boost the central bank's reserves. A contraction in nominal GDP in 2015 due to the ToT shock and the continued depreciation of the nominal exchange rate compounded this trend (Figure 2). This DSA, which assumes no fiscal consolidation and a US$1.2 billion of mostly non-concessional borrowing foreign financed projects, illustrates the impact that stalled reforms would have on the debt dynamics. Under the 2017 DSA scenario[22] (Figure 3), the present value of the debt-to-GDP ratio and the debt-service-to-revenue ratio would drop below their indicative thresholds by 2022 and 2020, respectively.[23] However, with proper implementation of the Government ongoing reform plan, which is a DPF baseline scenario, a faster decline in the debt ratios is expected. This difference between the two scenarios (DSA 2017 and Government reform plan) is primarily linked to the budgetary savings from planned fiscal consolidation measures and a slower and more realistic disbursement of foreign-financed PIP lending. Assuming that fiscal reforms continue to be implemented in timely fashion, and given projected exchange-rate dynamics, the public-debt-to-GDP ratios

[18] Refer to section 4 for more information. These are expected to bring 1 percent of GDP of additional revenues.
[19] The reforms on public enterprises is supported by the DPF. Refer to later paragraphs for these reforms and those linked to SOEs.
[20] For example, with support from the World Bank, the Government is expected to expand a new conditional cash transfer program and roll it over throughout the whole of the country during the projected outlook period.
[21] Given the economy's dependency on commodities, more reforms are needed to improve extractives fiscal management and institutions. Mauritania has some experience with the short-lived Oil Fund. Building on that, a more comprehensive approach need to encompass all extractive revenues, apply fiscal rules, and utilize monetary policy to manage these inflows, conduct a counter-cyclical fiscal policy and avoid the appreciation of the real exchange rate. The World Bank is planning analytical work to accompany the Government in these new reforms.
[22] This is the Joint WB-IMF DSA of the article IV. It assumes an 80 percent rise in foreign borrowing disbursement for the PIP compared to recent historical average. This scenario does not consider recent agreement with the MEF to streamline the PIP.
[23] A single non-concessional short-term loan from Saudi Arabia in 2015 that starts repayment in 2018 and matures in 2023 is responsible for the breach of the debt-service-to-revenue threshold.

would fall steadily from 2018 onward, ultimately dropping below their indicative thresholds by 2020. (Figure 3).

26. **Debt sustainability is sensitive to economic shocks, but the largely concessional nature of its debt stock contributes to mitigate these risks, provided that a prudent borrowing policy is maintained[24].** Debt-service obligations are low (1 percent of GDP) and maturities are relatively long. The country has no access to international capital markets, and it meets its financing needs primarily through grants and concessional loans from bilateral and multilateral development partners (61 percent of the debt stock, excluding the Kuwaiti debt, is owed to multilateral development donors). However, debt trajectory is highly sensitive to GDP growth and changes in the external environment. A decline in annual GDP growth rate to 2-3 percent over the medium term coupled with weakening BoP conditions could force the authorities to resort to non-concessional borrowing for boosting central banks reserves similar to the 2015 episode. In this case, this would wipe out the gains from fiscal consolidation and put the Debt-to-GDP ratio on an upward trend again. A second set of risks is linked to non-concessional borrowing to finance the PIP considering the growing development and infrastructure needs. An extensive borrowing under unfavorable terms could result in breaching the debt-service to GDP threshold again and would thus echo the 2017 DSA scenario outcome. This underscores the importance of maintaining a cautious borrowing policy that favors concessional resources and the selection of projects with the highest returns to maintain debt sustainability. The Government has decided in October 2017 to borrow US$136 million on non-concessional terms to finance an electricity transmission line and a wind energy farm. These projects, deemed by a preliminary assessment of the World Bank to have positive economic returns, are part of a non-concessional borrowing envelope under the upcoming IMF program.

Figure 3: External Debt Indicators, Estimated and Projected, 2017-2037



[24] The net present value of the public debt stock is estimated at 58.7 percent of GDP due to the concessional nature of the debt.

External Debt Composition (2016)	US$ (billion)	Share of Total Debt (%)	% of GDP
Monetary Authorities	0.4	9.8	9.2
General Government	4.0	90.2	85.1
Banks	0.0	0.0	0.0
Other Sectors	0.001	0.0	0.02
Total External Debt	4.5	100	94.3
Short Term	0	0	0.0
Long Term	4.5	100	94.3

Source: MEF, Joint WB-IMF DSA 2017, World Bank Staff Calculation.

27. **Driven by a gradual improvement in the external environment and continued containment of public investment, the external CAD is expected to narrow further.** It is projected to gradually improve from 11.1 percent of GDP in 2017 to 8.8 percent of GDP in 2020 (Table 1). This anticipated decline will be supported by rising commodity prices, new mining investments, improved competitiveness, and sustained fiscal consolidation. Continued inflows of official transfers linked to donor support to the SCAPP are also expected to support the current account. Nevertheless, the external CAD would remain relatively large, reflecting a diminished but persistent savings-investment gap outside the central government. In parallel, ongoing reforms towards a more flexible market determination of the exchange rate are expected to help reduce pressures on the central bank's reserves. External financing is projected to be met broadly equally through FDI and debt-creating flows. FDI is expected to be sustained over the outlook, driven by foreign investments in mining and gas, and through investments in planned PPP projects such as the expansion of the petroleum storage facilities of Nouakchott[25]. Meanwhile, long-term disbursements are expected to remain stable at around US$320 million per year, reflecting the foreign-financed public investment pipeline. In this context, reserves are expected to gradually increase to 5.4 months of imports by 2020. Under financing from the IMF program, reserves will be further boosted to around six months of imports.

Table 3: Balance-of-Payments Financing Requirements and Sources

in Million US$	2013	2014	2015	2016	2017	2018	2019	2020
Financing Requirements	1626	1665	1257	749	727	840	799	820
Current Account Deficit	1262	1471	956	707	558	516	482	502
Long Term Debt Amortization	73	81	97	117	137	225	224	226
Amortization of Saudi Arabia BoP-support Debt	0	0	0	0	0	67	68	68
SNIM Long Term Debt Amortization	0	52	66	60	31	32	25	24
Other Short Term Capital Outflows	0	0	0	0	0	0	0	0
Errors and Omissions	291	61	138	-135	0	0	0	0
Financing Sources	1626	1665	1257	749	727	840	799	820
FDI and portfolio investments (net)	1126	502	502	271	465	341	350	325
Capital Grants	5	16	31	8	0	0	0	0
Short term debt disbursements	0	0	0	0	0	0	0	0
Long term debt disbursements (excl. IMF)	176	257	270	322	194	334	313	339
Other sources (*)	376	529	321	126	52	180	177	208
Deposit from Saudi Arabia at the Central Bank	0	0	300	0	0	0	0	0
Change in reserves (- means accumulation)	-54	357	-184	-2	22	-15	-41	-52
Drawdown of oil account	-4	4	16	24	-6	0	0	0

[25]This US$150 million project is expected to be launched in 2018 as part of the PPP reforms supported by the DPF series.

IMF credit (net)	0	0	0	0	0	0	0	0

(*) includes SNIM disbursement, commercial banks and exceptional financing. Note: FDI in 2017 includes investments to terminate the operations in the Chingetti oil field as per contractual obligations. Source: BCM, IMF article IV, World Bank Staff Calculation.

28. **Reforms on monetary policy and financial stability are expected to accelerate in 2018-2020, with the support of the IMF.** These reforms focus primarily on improving the functioning of the foreign-exchange markets by introducing a new auction system for foreign currencies with more market determined prices with the objective of increasing exchange rate policy flexibility and support external sustainability. Moreover, the central bank is expected to introduce new monetary policy instruments that will allow it to control more actively liquidity in the markets. These instruments include fixing the policy interest rate, lowering reserve requirements, and creating new lending and emergency facilities within the central bank. Private sector credit will likely benefit from these reforms as more liquidity will be available on the domestic market. Finally, reforms will focus on strengthening banking supervision and tightening the regulatory framework to reinforce financial stability. This includes the introduction of a new banking law in 2018, tightened on-site supervision, further compliance of regulations to Basel standards, and increased capacity building for staff.

29. **Downside risks to the fiscal consolidation plan are linked to weak controls of public entities and contingent liabilities arising from underperforming SOEs.** The history of extra-budgetary spending by public enterprises coupled with chronic underperformance of SOEs is the most notable risk to fiscal consolidation[26]. The MEF does not have a comprehensive assessment of potential SOEs' arrears or contingent liabilities. However, important steps have recently been taken by the authorities to start addressing these issues, some with support of the DPF series. This includes i) the integration of public enterprises expenditures into the central treasury management system to eliminate extra-budgetary spending; ii) the integration of SOEs' foreign financed investment projects into the national budget and their submission to the newly designed PIP selection procedure; iii) the payment of arrears on behalf of the national roads maintenance public company (ENER) pertaining to sub-contractors; iv) the merger of ENER with ATTM, two SOEs performing public infrastructure works[27]; and v) the liquidation of SONIMEX, the national company that had a monopoly over the commercialization of domestic rice. With support from World Bank TA, the MEF also started in 2016 collecting more systematically financial data on both public enterprises and SOEs. This dataset remains incomplete given miss-reporting and poor financial recording at some entities. Once completed, the dataset will be a useful tool to identify the magnitude of contingent liabilities of the broader public sector.

30. **The external sector vulnerabilities are high.** Downside risks would also arise from potential upward pressures on the CAD resulting from lower iron prices, or from a steeper recovery in international oil prices as Mauritania is a net oil importer. Furthermore, lower-than-expected FDI inflows could rapidly erode this financing buffer, potentially forcing a steeper reaction on the exchange rate or push the central bank to return to bilateral external borrowing to close the financing gap. Given the limited borrowing space, this scenario could put debt-to-GDP back on an upward trend.

31. **While downside risks are high, the macroeconomic framework for 2018-2020 is adequate for the proposed operation**. Downside risks from underperforming SOEs, external sector vulnerabilities, non-concessional borrowing, and financial sector risks all increase the fragility of the macroeconomic situation. This adequacy of the macro framework assumes continued implementation of the government fiscal consolidation plan, which aims to reestablish a sustainable debt trajectory through measures to expand the tax base, control spending of public enterprises, enhance public investment management (PIM) and

[26] The document refers to the *Entreprise Publique a caractère Administratif (EPA*) as "public enterprises », and to the *Sociétés Nationales* as "SOEs". Both have separate administrative boards. However, EPAs have less autonomy than SOEs.
[27] *Établissement National de l'Entretien Routier* (ENER) and Assainissement Travaux Transport et Maintenance (ATTM).

procurement, and contain investment-related external borrowing and non-concessional borrowing. The plan would boost the primary surplus (excluding grants) throughout the outlook period and maintain a balanced budget. It would also slow the accumulation of external debt and improve its concessionality and quality through PIP reforms and, given projected exchange-rate dynamics, would return the public debt stock to a downward trajectory from 2017 onwards. Accelerated implementation of exchange rate and monetary policy reforms are expected to complement the MEF's reform strategy.[28] With an improvement in the external environment, these measures should enable the BCM to meet its external financing requirements while keeping its foreign-exchange reserves above 5 months of imports. Finally, further structural reforms designed to expand private-sector participation in the non-extractive economy are expected to accelerate diversification and enhance competitiveness over time. If implemented successfully, these measures will directly help address the structural causes of macroeconomic imbalances over the medium term. However, stalled implementation of the planned fiscal and monetary reforms, and failure to limit non-concessional borrowing represent important downside risks to external and debt sustainability. In this regards, the upcoming IMF program will be instrumental to mitigate those downside risks.

2.3 IMF RELATIONS

32. **IMF management has approved a Three-Year Arrangement (2018-2021) with Mauritania under the Extended Credit Facility (ECF) and a Board date has been set for December 6, 2017.** The proposed program of around US$160 million, would provide financing to support reforms in the foreign-exchange market and external adjustments. The program is articulated around four strategic pillars: (i) enabling more active monetary and liquidity-management policies and improving the functioning of foreign-exchange markets to increase policy flexibility and support external sustainability; (ii) sustaining the fiscal-consolidation process by enhancing tax administration and improving public investment management to keep the public debt stock on a downward trajectory; (iii) strengthening banking supervision and tightening the regulatory framework to reinforce financial stability and boost private-sector credit; and (iv) advancing the structural reform agenda to improve the business environment, enhance competitiveness, and accelerate diversification. The size and structural content of the program reflect the importance of mitigating the external vulnerabilities of the country during the macro adjustment period. It also confirms the authorities' commitment to reforms as demonstrated by the successful completion of the DPF program. IMF Executive Directors are expected to discuss the program on December 6, 2017. The World Bank team is closely coordinating with IMF counterparts and regularly exchanging views on the adequacy of the macroeconomic policy framework and the status of the structural reform agenda[29]. The objectives of both programs are aligned with the DPF 2 focusing on the structural elements both in terms of fiscal policy and private-sector participation beyond the extractive industries.

3. THE GOVERNMENT'S PROGRAM

33. **The Government's program is set forth in its 2016-2030 National Strategy for Accelerated Growth and Shared Prosperity (*Stratégie de Croissance Accélérée et la Prospérité Partagée*, SCAPP).** The overarching objective of the SCAPP is to enable Mauritania to achieve middle-income status by 2030. The SCAPP is based on three strategic axes: (i) improving the investment climate, with a focus on strengthening the private sector and easing credit constraints; (ii) unlocking the potential of high-growth industries such as agribusiness,

[28] As part of the BCM reform plan, the Government is planning to increase exchange rate flexibility, improve liquidity management, and loosen its monetary policy stance.
[29] At this stage the World Bank shares a great deal of the macro framework especially in terms of the fiscal and external sector targets (in value terms). However, divergence exist though on the growth and deflator level from 2015 onwards. The trend remains broadly the same though.

fisheries and livestock; and (iii) building new infrastructure, especially in the transportation, energy, water treatment and urban development sectors. The DPF series builds on SCAPP reforms designed to enhance macroeconomic management and promote economic diversification. Key SCAPP reform areas include:

34. **Macroeconomic Management.** Maintaining macroeconomic stability and optimizing natural-resource use are fundamental to the country's long-term growth and resilience to external shocks. In this context, the Government is committed to a prudent fiscal policy that widens the tax base, reins in recurrent spending, selects public investment projects efficiently, and puts the public debt stock on a declining trend. The Government will also launch an inventory of all public and private capital assets, implement a land-reform program, and adopt a new property-rights law. The public investment portfolio is being thoroughly assessed, and both the PIM and procurement systems are being strengthened and rationalized.

35. **Private-Sector Development.** Diversifying the economy away from the extractive industries will require a robust and competitive private sector. To enhance the business climate, the authorities are taking steps to promote public-private dialogue, develop a formal PPP framework, increase the efficiency of the justice system, streamline import and export procedures, encourage economic liberalization, promote public-private dialogue, and strengthen tax policy and administration.

36. **Economic Growth.** The government's efforts to accelerate economic growth focus on expanding agricultural production, building agribusiness value chains, developing small-scale irrigation infrastructure, and addressing the risks posed by climate change. The government's policy framework emphasizes the diversification of agriculture and livestock production. Key priorities include boosting grain yields and promoting value addition in both the crop and livestock subsectors.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

37. **The proposed operation tackles both fiscal policy reforms to maintain macroeconomic stability, and regulatory reforms to cascade private participation in non-extractive sectors. It is built around two pillars:**

- ***Pillar A supports structural fiscal-policy reform and is estimated to contribute to 2 percent of GDP in fiscal gains.*** Reforms focus on (i) revoking undue exemptions under the investment code and introducing compressive international taxation rules to prevent transfer pricing and erosion of the tax base; (ii) introducing PIP management and Procurement reforms to reorganize public investment frameworks, reduce excess debt accumulation, and reduce crowding-out the private sector by halving the direct procurement contracts to SOEs; and iii) integrating the expenditures of all public enterprises and agencies in the central treasury management system to eliminate permanently extra-budgetary spending. These measures will support fiscal-consolidation efforts and enable the Government to adjust its fiscal policy stance to a new external environment marked by low commodity prices. Proposed reforms ensure macroeconomic stability, a necessary condition for boosting private sector growth.

- ***Pillar B supports regulatory reforms that cascades private-sector activity***. Reforms focus on (i) enacting a new PPP regulatory framework that stirs non-extractive FDIs and domestic investments opportunities in infrastructure and service provision, enabling the Government to launch 2 projects as soon as 2018; (ii) passing regulation to legally define property rights, for the first time in Mauritania, a regulation that will improve the business climate and promote investment in land, facilitate borrowing against equity, and shield the property of the poor from illegal infringement or expropriation; and (iii) strengthening the regulatory environment to formalize, boost productivity, and encourage competition in the livestock sector, the largest and most pro-poor sector. These measures are designed to improve the enabling environment that will promote private economic activity especially in the non-extractive sectors. Indeed, a more diversified economy is key to spur a more sustained growth and create job opportunities for Mauritanians.

38. **The design of the DPF series reflects the government's administrative capacity constraints and complex policy challenges.** The proposed operation's prior actions are selective to avoid overwhelming the government's limited administrative resources. The prior actions are thoroughly grounded in recent analytical work (Table 5.1 in Annex 5), and the operation employs a two-year programmatic structure to ensure that the supported reforms are fully consolidated. The operation is anchored by multiple complementary World Bank TA projects.

39. **The proposed DPF 2 builds on the lessons learned during the implementation of the DPF 1, especially measures to improve multi-stakeholder coordination.** The DPF 1 revealed the need to (i) strengthen inter-departmental and inter-ministerial communication and technical coordination; and (ii) regularly consult with private-sector stakeholders. The DPF 2 incorporates these lessons by identifying the Directorate of Public Investment and International Cooperation (DGPICE) and the Directorate of Studies, Reforms, and Monitoring and Evaluation (*Direction Générale* des *Etudes, des Réformes, du Suivi et d'Evaluation*, DGERSE) as the primary institutional mechanisms for policy coordination within the MEF, and by establishing a framework to strengthen inter-ministerial communications through active engagement with the secretaries general of the relevant institutions. The DPF 2 also supports regular policy dialogue between the public administration and representatives of the private sector, including firms and professional associations. Table 4 presents a comparison between indicative triggers in DPF 1 and prior actions in DPF 2.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Support fiscal consolidation by increasing domestic revenues, controlling public enterprises expenditures, and increasing the efficiency of public spending

A.1: Reducing tax expenditures and mitigating profit shifting and base erosion risks

40. **Tax exemptions in Mauritania tend to be inaccurately targeted and are commonly used by companies that are not complying with associated obligations.** Therefore, they may not effectively advance their objectives of attracting additional investment or protecting poor households. Thirty-seven percent of the value of tax exemptions are targeted to investors, while 21 percent are VAT and duty exemptions designed to reduce the tax burden on poor households. The remaining exemptions affect both investors and consumers. This includes exemptions on petroleum products, which represents 23 percent of total exemptions, and a reduced rate on payroll taxes for workers in the mining sector that accounts for 17 percent. A 2014 World Bank survey of investors in Mauritania found that almost 80 percent of respondents would have invested the same amount in the absence of tax incentives. Moreover, household survey data reveal that some VAT exemptions, especially for food and utilities, fail to benefit many of the country's poorest households.

41. **Moreover, Mauritania's income tax is affected by base erosion and profit-shifting (BEPS) activities due to an inadequate regulatory framework and procedures to address the different sources, domestic and international, of base erosion.** This includes transfer mispricing by affiliates of Multinational Enterprises (MNEs)**.** While the country has prepared some initial revisions to introduce anti-abuse measures into its legal framework in 2015/2016, these reforms are incomplete. Notably, legislation aimed at curbing transfer mispricing cannot be administered successfully without corresponding reporting obligations for MNE

affiliates[30]. Moreover, excessive related party interest deductions are an important element of tax base erosion schemes in the region and globally. To counter this risk, the authorities introduced an initial set of thin-capitalization rules in January 2016. However, the new measures rely on a debt/capital ratio and are easily circumvented. As part of the G20/OECD BEPS project it has thus been recommended to move towards rules, which ensure that an entity's interest deductions are directly linked to the entity's taxable income, which makes these rules reasonably robust against aggressive tax planning.

42. **Eliminating poorly targeted, redundant, or otherwise ineffective tax expenditures could yield additional fiscal revenues.** Tax expenditures have costed the Government an estimated 4.9 percent of GDP in 2013 or 30 percent of non-extractives tax revenues.[31] The authorities estimate that tax expenditures linked companies benefiting from the investment code account for around US$150-200 million annually, amounting to a total of US$550 million in tax expenditures for the relevant audit period from 2014-2016. It is reported that a large number of companies that received preferential status in 2014 and 2015 are not in compliance with the investment and employee targets determining eligibility for their tax breaks. This applies particularly with respect to entities that are dormant and, in some cases, suspected of customs fraud, or have reached less than 25 percent of their investment targets in the pre-determined time frame.

43. **Country experiences[32] also suggest that the introduction of transfer pricing regimes, with effective documentation rules, can play a significant role in reducing profit shifting and collecting additional revenue**. Initial transfer pricing audits will likely target a small number of the largest companies operating in Mauritania, notably those in the extractive industries. There, collections from mining royalties based on sales may also be reduced as a result of transfer mispricing. In 2013, the 10 most profitable companies accounted for 55 percent of income tax, with mining companies accounting for around 28 percent of total income tax collected and telecommunication firms for 23 percent (IMF 2014). Better compliance management of large MNE affiliates relying on a strengthened transfer pricing will thus be important for revenue collection, particularly from income taxes. Statistics reported by the tax administrations of countries with recently established transfer pricing regimes also provide insight into the potentially important revenue at stake[33].

44. **With the support of the DPF 1, MEF introduced a benchmark tax model for tax exemptions and compiled a registry of firms exempted from taxes under the investment code and free-zone law.** The benchmark model enables the authorities to strengthen fiscal transparency by systematically evaluating and publishing all tax incentives. The model also help policymakers identify the most expensive elements of the incentive regime, and it provides a sound analytical foundation for a robust tax-policy dialogue between the public and private sectors. The registry of exempted firms enables the authorities to monitor compliance with the rules and criteria of the exemptions. Greater transparency in the allocation of tax incentives sheds light on the extent to which they may distort competition in the domestic economy.

45. **The measures supported by the DPF 2 would consolidate transparency gains, encourage the elimination of poorly targeted tax expenditures and strengthen anti-abuse rules to protect the tax base.** The first action builds on the analytical groundwork during the implementation of DPF 1 and the preparation of DPF 2, where the authorities have audited all companies that have benefited from an investment agreement accorded based on the investment code. Specifically, this audit reviewed whether the companies

[30] World Bank (2016), Transfer Pricing and Developing Economies: A Handbook for Policy Makers and Practitioners, Washington DC
[31] World Bank (2016). Due to data limitations, this assessment does not include all preferential tax regimes.
[32] See Word Bank (2016) and Beer and Loeprick (2015). These studies find that on average estimated profit shifting among MNE subsidiaries in a sample of more than 15,000 MNE affiliates is reduced by 52 percent 2 years after the introduction of mandatory documentation requirements.
[33] The Kenyan Revenue Authority, for instance, collected US$85m in additional tax revenues in 2013 from transfer pricing. (see World Bank 2016, p.9-12).

have met the investment and employment benchmarks they agreed to. The audit classified the companies into three categories: compliant firms, partial breach, and full breach. After review at the Council of Ministers, companies in full breach of their agreements have received a letter from the MEF revoking, as of January 1, 2018, their preferential tax and customs treatment accorded, while those with partial breach have been given 90 days to adjust their situation or face similar decision. The DPF 2 thus supports the decision to eliminate or amend these inefficient tax exemptions that do not respect their intended objectives. The revocation will apply to all relevant direct and indirect tax benefits granted under the investment code and decisions will be published to enhance fiscal transparency. The second action supports a decision by tax authorities to introduce comprehensive transfer pricing documentation and disclosure requirements as well as an effective interest deduction rule, which limits an entity's net interest deductions to a fixed percentage of its profit, measured using earnings before interest, taxes, depreciation and amortization (EBITDA). This rule, enacted by the Government as a provision in the 2018 budget, intends to mitigate tax base erosion risks. The rule would include appropriate options to mitigate negative investment climate impacts (carry forward of denied deductions; a group ratio let-out)[34].

Prior Action 1: *The Ministry of Economy and Finance, based on a policy communique to the Council of Ministers, has notified the companies in full breach of their investment agreements that their tax and customs incentives, awarded under the 2012 Investment Code, will be revoked, effective January 1, 2018.*

Prior Action 2: *The Ministry of Economy and Finance has adopted the legal provisions for a comprehensive transfer pricing documentation and disclosure requirements as well as an effective anti-abuse provisions, which limit an entity's net interest deductions to a fixed percentage of its profit, measured using earnings before interest, taxes, depreciation and amortization (EBITDA).*

46. **The tax expenditure measures supported under the DPF 2 are expected to bolster domestic revenue mobilization.** Publishing the estimated cost of tax expenditure in the annual budget law will increase fiscal transparency, strengthen regulatory oversight, and allow for a more informed public debate on tax policy. Suspending preferential tax and customs treatment accorded under the investment code for companies in breach of their obligations will yield additional tax revenues, which will help compensate for the decline in extractive industry revenues. A more efficient tax expenditure system will also reduce economic distortions and promote competition in the domestic economy. Finally, international and regional experience suggests that effective transfer pricing rules and anti-abuse provisions can reduce tax base erosion through profit shifting by Multinational Enterprises, which account for the largest share of income taxes in the country. Given the reforms supported by the DPF series, tax revenues are expected to increase by 1.2 percent of GDP in 2019[35].

A.2 Public Investment Management

47. **The PIM system suffers from structural weaknesses that threaten fiscal stability and limit the PIP's contribution to growth.** Recent studies have revealed three critical deficiencies in Mauritania's PIM framework.[36] First, the lack of technical, macroeconomic and financial filters during the project-selection phase weakens the planning and prioritization process. Second, the fragmented project-management

[34] These rules would allow business to i) carry forward disallowed interest deduction for use in subsequent tax years. The objective is to reduce the impact of earnings volatility and to help entities that are loss making or that are facing interest expenses linked to long-term investments with little or no taxable income at early stages of operations; ii) a group ratio rule is aimed at ensuring that entities linked to MNE groups that are highly leveraged with third party debt (for non-tax reasons) can deduct interest up to the level of the net interest/EBITDA ratio of its worldwide group.

[35] In year t, income tax is collected based on the activities in year t-1. Hence, the effect of the envisaged reforms is planned for 2019 since the rules will only start applying in 2018.

[36] See, e.g., PEFA 2012 and PER 2016.

system does not include both domestic and foreign-financed projects, preventing policymakers from systematically evaluating the PIP as a whole. Third, technical inefficiencies in project execution and procurement systems reduce transparency and result in costly implementation delays. Capital spending is expected to remain high as the Government strives to address the vast infrastructure needs, underscoring the importance of strengthening institutional arrangements for PIM to reduce fiscal risks and increase value for money in public investment.

48. **The proposed series supports a two-stage reform process.** The first stage is to reform the institutional framework for formulating and selecting public investment projects, while the second stage focuses on streamlining project execution through more efficient procurement management. These stages are complementary and tackle the whole public investment cycle.

49. **Under DPF 1, the Government developed a new legal framework for PIM that reinforced budgetary discipline and established a more rigorous project selection process**. In 2016, the Government adopted a decree[37] describing the economic and social criteria for project selection, defining the role of public investment within the macroeconomic framework, and creating a joint decision-making process for MEF, the line ministries, and other agencies involved in PIM. The decree lays out systematic procedures for selecting projects based on their financial feasibility, their social, economic and environmental impact, and their relevance to the policy agenda. It also expands the scope of the PIP to include projects and programs undertaken by parastatals that receive direct budgetary transfers or benefit from sovereign guarantees. The decree was accompanied by a procedural manual detailing the PIP's project implementation and monitoring and evaluation mechanisms, including timeframes for undertaking key activities and the responsibilities of the agencies involved. As a result, an inter-ministerial committee for the PIP, which includes a strong presence of the Ministry of Environment, was established and has already met several times to define the public investment portfolio based on the new criteria for the budget law 2018. The decree and manual have also been provided to line ministries to be considered during the preparation phase of the new investment projects. By applying the filters imposed by this new process, the volume, concessionality and quality of the PIP was revisited including the US$1.2 billion foreign financed priority projects. This resulted in cancelation of some low-returns projects, a re-examination of the disbursement profile, renegotiation with donors on financing terms and re-prioritization of some sectors. The Government has also reformed its system of budget classifications, and it submitted a consolidated 2017 budget law to Parliament that, for the first time, included a comprehensive investment budget encompassing both domestic and foreign-financed projects. This was rolled over in the 2018 budget law.

50. **The proposed operation supports the second stage of the reforms, by addressing major weaknesses in public procurement, which reduce value for money of public investment, augments fiscal risks, and crowd-out the private sector**. The 2012 procurement reforms only modestly improved value for money in public investment, and many of the provisions of the new Public Procurement Law[38] were not been correctly implemented because the implementation decree is inconsistent with the objectives of the law.[39] In this regard, several weaknesses have been observed: i) Government have been slow to establish new investment procedures; ii) supervision remains weak, as procurement responsibilities in the various contracting authorities (CA) have not yet been assigned to specific officials; iii) sectoral commissions continue to exercise total control over the procurement process, limiting the role of CA and disconnecting them from the project execution process; and iv) the procedures for small expenditures below the thresholds for formal compliance with the procurement law remain opaque. These deficiencies in the

[37] Decree # 2016-179.
[38] Law # 2010-044 "*Code des Marches Publiques*."
[39] Decree # 2011-178 "*Organization des Organs de Passation de Marche Publique*."

procurement system are compounded by the extensive use of direct contracting, which is not adequately transparent and enables SOEs to edge out private firms.

51. **As such, DPF 2 supports efforts to harmonize the institutional and regulatory framework for public procurement and improve the efficiency of its processes**. Reforms under the second operation focus on addressing the regulatory distortions created by the inconsistent execution of the procurement law. As such, the proposed reforms will regulate the contracting arrangements between the Government and SOEs, speed up the procurement and award process, and limit single sourcing. The operation also supports reforms to address the organizational arrangements for public procurement, especially the role of CA, by strengthening CA's ownership in the procurement process and the award of its contract. These measures are part of wider public procurement reform consolidation agenda being implemented by the DGERSE with World Bank TA support (see Table 5). The agenda was launched and endorsed at a high-level ministerial retreat held in February 2017 by the World Bank and the authorities, which was presided over by the Prime Minister.

Prior Action 3: *The Council of Ministers has adopted a decree correcting deficiencies in the implementation of the Public Procurement Law, including clarifying regulations governing the composition, organization, and operations of the procurement commissions and designating specific officials responsible for procurement in each Contracting Authority, and has published it in the official gazette.*

Prior Action 4: *The Council of Ministers has adopted the implementation decrees for Law 2005-020 reorganizing the project award and project management processes, and regulating the contracting arrangement between Government and SOEs, and published it in the official gazette.*

52. **The reforms supported by the proposed operation will reinforce the efficiency and integrity of the public investment project cycle**. Enhancing project screening and prioritization, through subjecting projects to the new PIM legal framework supported by DPF 1, and developing a comprehensive investment portfolio, will enable the Government to more effectively manage the size and quality of the investment budget. This will consequently have a positive impact both in terms of addressing the issue of the accumulation of public debt linked to foreign financed projects and in terms of ensuring better growth returns from the growing public investment portfolio. Meanwhile, adopting a new public procurement framework, under DPF 2 reforms, and strengthening public investment execution and oversight will yield permanent and continuous cost savings, increase the transparency of the contract tendering process, and allow for greater private sector participation in infrastructure projects. In effect, it is expected that non-competitive procurement bids, those especially awarded to SOEs, to be halved once the new decrees have been enacted and implemented.

A.3 The Parastatal Sector

53. **The parastatal sector in Mauritania is large and complex.** The parastatal sector comprises 165 entities and is divided between 50 SOEs[40], over 100 enterprises with administrative character (EPAs), and other public agencies. The reforms under this DPF series targets primarily the latter two categories, which are labelled “public enterprises” in the document. EPAs and public agencies provide health, education, social, and public administrative services and, while few have their own resources, are almost entirely financed by budgetary transfers. Furthermore, surveys reveal a general dissatisfaction with the high cost and poor quality of the public services offered by these parastatals[41]. The EPAs and public agencies are a major source of fiscal

[40] Mauritanian SOEs include national companies (*sociétés nationales*), industrial and commercial public establishments (*établissement public à caractère industriel et commercial*), and partially state-owned companies (*sociétés d’économie mixte).*
[41] World Bank, 2016. “Islamic Republic of Mauritania: Public Expenditure Review.”

risks and their numbers increased rapidly during the commodities prices boom years. As such, the success of fiscal consolidation plans relies on the ability of government to effectively manage and control the sector.

54. **The EPAs and public agencies sector represent a notable budget burden and is an increasingly important source of fiscal risks.** The fiscal burden from the EPAs and public agencies is substantial. Subsidies to this sector account for 3.5 percent of GDP. This represents 19 percent of recurrent expenditures and around 12 percent of budgetary revenues including those from extractives. Most these entities are fully reliant on government transfers to operate, they run large deficits, and several perform redundant tasks with line ministries. Given that EPAs and public agencies payments are executed outside the MEF's treasury and accounting systems, little control is exercised on their expenditures. This further increases fiscal risks since it allows for notable extra-budgetary spending; which the MEF is forced to close at the end of the fiscal year. Such lack of payment integration with treasury also allows public agencies to carry forward spending items across fiscal years. This also aggravate fiscal risks as often these items are not accounted for in the government budget. Moreover, the lack of control has allowed for the expansion of recruitment across these EPAs especially under the form of daily contractuals, and ghost workers, with no supervision from the civil service. This led to the expansion of the public-sector wage bill and a ballooning of the operational costs of these entities.

55. **EPAs and public agencies are also subject to weak financial and performance oversight.** The MEF and sector ministries oversee respectively the financial and operational performances of the EPAs and public agencies. However, they lack both an adequate procedural framework and the administrative capacity necessary to effectively execute this function. These factors contribute to poor performance and a lack of accountability among parastatals, which intensifies overall fiscal risks. Moreover, severe transparency gaps are observed. Annual reporting by EPAs is not standardized and consists solely of the presentation of receipts and expenditure records. EPAs do not apply uniform internal control procedures, and a lack of standardization and integration between the financial management and human-resource systems complicates centralized monitoring. The officials who audit EPAs are civil servants, and some lack appropriate auditing qualifications.

56. **Reforms designed to improve oversight, strengthen administrative controls and enhance transparency in the parastatal sector are critical to the effective management of fiscal risks and the generation of budgetary savings.** The Government has taken ambitious steps to strengthen budgetary controls and promote greater transparency in the parastatal sector by taking a decision to integrate all eligible EPAs and public agencies into the government's central treasury management system (RACHAD), as well as the publication of audited financial statements by the largest SOEs. These reforms, supported by the DPF series, take place over three phases. Starting in January 2017 fifty EPAs in Nouakchott, which together account for 24 percent of total public subsidies (0.9 percent of GDP), have been incorporated into the system. In January 2018, the treasury system is expected to integrate another 10 public agencies, which represent 55 percent of public subsidies (0.8 percent of GDP). Finally, in January 2019, 56 small EPAs in the interior of the country, which comprise 14 percent of subsidies (0.5 percent of GDP), will be linked to the system once the necessary internet infrastructure is in place. Eligibility is defined as all EPAs and public agencies in Mauritania with the exception of public hospitals, given the nature of their operations and their high level of self-generated revenues[42], and political institutions such as the Parliament, the commission of human rights and the courts of account. Expanding the RACHAD system to encompass all EPAs and public agencies will tighten budgetary controls and reduce fiscal risks related to extra-budgetary spending, carry-forwards and transfers. In effect,

[42] With support from "Expertise France" and the World Bank governance TA, the MEF is currently undertaking a study on the public hospitals treasury operations and will put forward a plan for their consolidation and streamline. The plan is expected to be executed in 2018.

it will stop automatic transfers from central budget to EPAs and agencies and force them to present detailed budgets, with full and true costs along with revenues, for approval along with the central government budget.

57. **The first phase of the reforms under DPF 1 has been successfully completed.** As of January 1, 2017, 50 EPAs had been fully integrated into RACHAD. This action resulted so far in a decline in extra-budgetary spending by 0.15 percent of GDP. The MEF has taken a major additional step by integrating the wage bill of all the EPAs, regardless of eligibility or phase, into the central treasury management system. The Government has also published on the Treasury website the latest audited financial statements for the five largest commercial enterprises with a public ownership stake of over 50 percent, including the national mining and electricity companies, a step that has been acclaimed by civil society.

58. **The second operation will support the expansion of these reforms to include public agencies**. MEF is also preparing to analyze the financial status of public hospitals and health centers, and will explore the possibility of designing a special mechanism to integrate their finances into the Treasury. The authorities will also assess the compatibility of electronic payment systems and infrastructure to accelerate the integration of EPAs in rural areas into the national public financial management (PFM) framework.

Prior Action 5: *The Minister of Economy and Finance has issued a policy communique instructing the expansion of the treasury management system (RACHAD) to encompass the revenues and expenditures of all eligible public agencies starting January 1, 2018, as a means to reduce fiscal risks and enable budgetary savings.*

59. **Ongoing efforts to expand the coverage of the treasury management system have already had a positive impact on the government's fiscal position**. Incorporating personnel costs has revealed recruitment irregularities and allowed the authorities to more effectively manage the public-sector wage bill. EPAs and agencies staff now receive regular monthly salary payments through the same system used by civil servants. This reform has also increased tax revenues by allowing for automatic deduction of the income tax and social-insurance contributions, which were previously uncollected. Furthermore, the reform allowed for a detailed mapping of these entities, an exercise that led to a MEF decision to eliminate and merge seven redundant EPAs. As such, expanding RACHAD to all EPAs and public agencies is expected to have a highly positive impact on the financial stability of the parastatal sector and will provide opportunities for further consolidation of these public entities.

60. **Strengthening financial control over parastatals will be essential to effectively manage fiscal risks.** The reforms are expected to bring 1 percent of GDP in budgetary savings from decline in extra-budgetary spending and carry forwards. In effect, the reforms will bring tighter controls over EPA's and public agencies' operational and investment spending. It will also bring closer monitoring that enables policymakers to ensure that public subsidies and transfers deliver adequate value for money. This will not only standardize financial reporting and boost transparency, but will prevent expenditures from exceeding budget ceilings, reduce the risk of arrears accumulation and contingent liabilities, and eliminate carry forwards. All of them are essential ingredients for managing fiscal risks and implement a successful fiscal consolidation policy.

Pillar B: Support private-sector-led diversification in the non-extractive sectors

B.1 Public-Private Partnerships

61. **PPPs are expected to play an increasingly important role in the coming years**. As low global commodity prices continue to depress fiscal revenues, the authorities are increasingly turning to the private sector to implement priority infrastructure projects and close the country's infrastructure gap. In addition to their positive budgetary impact, well-designed PPPs can accelerate technology transfer and promote the diffusion

of knowledge, with positive implications for growth and diversification. The PPP agenda also presents an opportunity to both develop the local private sector and attract FDI to sectors beyond the extractive industries. However, deficiencies in Mauritania's legal and regulatory framework are a major obstacle to the creation of PPPs.

62. **Both the private and public sector have shown considerable interest in expanding the use of PPPs, and the Government has begun compiling a portfolio of viable PPP projects.** The SCAPP identifies PPPs as an important model for financing public investment and boosting private-sector participation outside of the extractive industries. A consortium of commercial banks has already established a PPP forum to encourage regular dialogue and ensure a participatory approach to PPPs. Moreover, the Government is in the process of finalizing a portfolio of commercially and economically viable projects capable of attracting both domestic and international investors. It is awaiting to complete the operationalization of the partnerships' regulatory architecture to formally launch this portfolio and start executing projects in 2018. In this regard, a World Bank TA will accompany the authorities throughout some pilot PPP projects (see Table 5).

63. **As part of the DPF 1 reforms, the Government created a regulatory framework for PPPs.** The Government has prepared and adopted a PPP law governing all aspects of the PPP cycle, including project identification, feasibility, environmental impact, and fiscal and economic risk. The authorities designed the framework through a transparent and participatory process that incorporated lessons from the international experience. On December 2016, Parliament passed this law. The law was intended to reassure private investors on stability of the legal process in Mauritania, delimit their rights and obligations, and outline clearly the major parameters of future contractual agreements between the Public and Private sectors. The Government also issued two executive decrees establishing the institutional arrangements for PPPs, both organizing mechanisms for PPP leadership, supervision and political control. Throughout 2017, the Government reviewed at least two projects out of 11 identified in the portfolio using the new framework.

64. **DPF 2 supports the Government in completing the PPP governance architecture by approving executive legal texts linked to the PPP law.** The Government has adopted in November 2017 executive decrees that i) defines the PPP process including the roles and responsibilities of key government agencies and all safeguards measures; ii) defines the fiscal responsibilities of the ministry of finance to account for risks, ensure fiscal sustainability, and provide veto powers in case of elevated budgetary risks; and iii) develops a specific framework for municipal PPP. These decrees have benefitted from technical inputs from World Bank TA (see Table 5). To operationalize the framework, the Government has gone a step forward and created an executive PPP unit based at the MEF. This unit is tasked to work with line ministries to update the PPP portfolio, assess projects, contract design, risk-allocation, project preparation as well as continuous monitoring of risks and maintenance of records. Executive orders have defined the unit's composition, authority and activities, and funding was allocated in the 2018 budget to ensure that it adequately fulfills its mandate. Recruitment of its members, including an environmental specialist, has been finalized through a competitive national process. A World Bank TA is currently providing staff training and assisting in developing guidelines and regulations for key areas such as contingent liabilities, fiscal risk assessments, and environmental safeguards for PPP projects.

Prior Action 6: *The PPP law is made operational through i) the adoption and publication in the official gazette of the PPP executive decree by the Council of Ministers that defines the institutional, procedural, and governance set-ups for PPP projects and ii) the adoption and publication in the official gazette of the order by the Minister of Economy and Finance setting thresholds for operation requiring inter-Ministerial approval.*

65. **The executive decrees and the dedicated PPP unit constitute important institutional pillars for the operationalization of the PPP framework and will help the Government in improved project**

implementation. An effective PPP framework will allow the Government to advance more effectively its ambitious investment agenda, close the infrastructure gap, while containing the growth of public spending. Encouraging greater private investment, both through private domestic sources or FDI, will also accelerate technology transfer and facilitate economic diversification away from the extractive industries.

B.2: Property Rights

66. **Mauritania's outdated legal framework for private property rights is a serious obstacle to its social and economic development.** Mauritania currently does not have a consolidated and modern legislation defining private property and its legal implications. The main legal sources defining private property are found in a complex web formal legislation, some of which dating back to 1932, before the country's independence. More recent legislation, such as a 1983 Ordonnance relating to land property and administration, has clarified some aspects related to immovable property. Finally, sharia law and traditional practices also impact on the definition and legal implications of private property. This creates substantial overlaps, gaps, and ambiguities in the definition, transfer, and adjudication of property rights. Because of the lack of a modern, consolidated property rights legislation, and weak administrative capacity, critical processes such as obtaining formal property title are expensive and time-consuming.

67. **Insecurity over property rights to immoveable assets has deeply negative economic implications.** Property rights are a cornerstone of modern economies. Without clear procedures for property rights registration and transfer, and a clear definition of what it implies, there is no market economy. Insecure property rights over immoveable assets impacts the private sector in at least two ways. First, it discourages investment in fixed assets such as land and physical infrastructure, and may constitute a binding constraint for formal investors. Secondly, it limits access to finance, as property that lacks an official title typically cannot be leveraged as collateral in formal financial institutions. The inability to borrow against equity imposes a major credit constraint on both firms and households. While the authorities are developing a broader land policy agenda with the assistance of the donor community, the issue of property rights in the urban environments remains a separate and tangible barrier to economic growth. The urban property rights issues are the constraint that the DPF series will support the Government to alleviate.

68. **A sound legal framework for property rights is crucial to investment, diversification, and the growth of the formal private sector.** At present, even the small number of formal land titles for property in Nouakchott are effectively provisional. Few titles have been used as collateral, and banks typically do not consider other assets as acceptable guarantees. Moreover, the prevalence of employment in the informal sector eliminates the possibility of payday loans.

69. **Taking these issues into consideration, the Government has established a property rights reform committee[43] to modernize and consolidate property rights and has enacted a new property rights law.** The committee's primary objective is to consolidate the various rules and practices defined in formal legislation, traditional ownership systems, and sharia law into a single law for Property Rights (*Code des Droits Reels,* CDR). The committee completed its task and the law was passed by Parliament and promulgated in September 2017. The CDR deals with the definition and legal effect of rights over immoveable assets[44]. It not

[43] The committee is headed by the Director General for Land and Property at the MEF, and includes the Director General for Private Sector Development and representatives from the Ministry of Justice. The committee has already produced a draft of the legislation with TA from the World Bank, which was shared for stakeholder consultations in April 2017 and adopted by the Parliament on May 24, 2017.

[44] The rights defined in the CDR include: property; usufruct; usage and habitation rights; emphyteutic rights; surface right; servitudes and land services; collateral pledges; privileges; and mortgages, as well as the four following rights proceeding from sharia law: *Al Houbs* or *Alwaqf*; *Almouqharasa*; *El Oumra*; *Chefaa*.

only consolidates property rights legislation into one coherent text, but also modernizes it, by introducing concepts such as co-proprietorship, and clarifying contractual rights such as emphyteutic leases, co-ownership, condominium, mortgages, and collateral pledges. The CDR does not deal with the socially and politically sensitive issue of rural communities' land claims. Resolving the question of who has the right to use and own which piece of land is beyond the scope of the CDR, and is the subject of a longer-term multi-donor engagement with the Government of Mauritania. The CDR comes downstream from such process, once ownership has been ascertained, to essentially give legal power and content to the concept of property.

70. **DPF 2 will support the adoption of the new CDR and the alleviation of titling procedures.** The adoption of the new CDR fills a critical legal and policy gap in terms of property rights. This action will be complemented by regulations aimed at ensuring effective implementation, starting with urban centers, where private sector concentration is stronger, as well as demand for titling, where there is a higher density of poor population. Moreover, analytical work[45] and stakeholder concertations have highlighted that the main bottlenecks in the titling procedure are linked to the weak capacity of the department for land and property (*Direction Générale des Domaines et du Patrimoine de l'Etat* - DGPE) and to the multitude of stakeholders and unclear workflow between them. This is particularly manifest when it comes to validating plot development (or "*constatation de mise en valeur"*), where severe delays are common.These are all preventing the DGPE from scaling up their operations and, as a result, severe delays in obtaining formal titles are becoming more and more common. To alleviate the process of obtaining property titles, the DPF 2 will therefore support a decision to revise and simplify the procedures of the inter-ministeral technical committee for land valuation to grant final concessions in urban areas. For example, this new procedure will introduce clauses for mandatory periodical meetings and better exchange of information and worflow division among others. This will reduce the time-span for the valuation decision, the last step before title obtention. This decision will also be aligned with the TA on land reforms and governance, which will provide support to implement a land policy reform roadmap agreed with the Government in 2016. The land reform roadmap plans (i) to strengthen the DGPE capacities, through training and identifying their human resources needs and (ii) to support the Mauritania Land Sector Review and pilot operations both in urban and rural areas. These analytical work and field activities will feed the policy dialogue on land through regional workshop and a national event to be held in 2018. An updated land policy is expected as a result of this process. The implementation of the land policy roadmap will benefit from additional resources from the Public Governance project (PGSP) which the ongoing restructuring envisages to expand its activities on land.

71. **Complementary reforms to improve credit information and strengthen creditor rights, currently supported through TA, will help ensure that these legal reforms achieve their objectives.** Integrating the various financial registries and databases operated by the BCM's Credit Risk Department (*Centrale des Risques*)—including the land registry, the tax administration's fiscal identification number registry, and the company registry—would enhance the quality, comprehensiveness, integrity, and accessibility of credit information. In addition, efforts to expand the land registry and enhance its capacity to track mortgages will provide a faster, more secure, and transparent way for creditors to identify existing liens. With the property rights law in place and enacted, efforts to strengthen creditor rights through targeted outreach and training will be necessary to leverage the full benefit of the reforms.[46] These reforms are outside the scope of the DPF but are complementary as the World Bank-supported business-climate reforms and governance TA will be also assisting the authorities in enhancing the institutional infrastructure of the financial sector and will help in the effective implementation of the policy reforms.

[45] Refer to Samoullier (2016). "Revue des circuits et procédures d'enregistrement de la tenure de la terre et de la propriété foncière ». Document de travail, Projet Gouvernance.
[46] Outreach efforts will actively engage the commercial jurisdictions charged with enforcing these rights.

Prior Action 7: *The Recipient has enacted a new Law for Property Rights (Code des Droits Réels) that reconciles and consolidates the current property rights regimes, and published it in the official gazette.*

Prior Action 8: *The Minister of Interior and Decentralization, the Minister of Housing, Urban Development, and Land-Use Management, the Minister of Budget, and the Minister of Economy and Finance have issued and published it in the official gazette a joint order laying down the new simplified modalities for processing demands for the final concession on property in urban areas, with the objective of expediting the property title granting process.*

72. **The new property rights framework is expected to increase the amount of registered land titles and occupation permits in urban centers, expand credit access, and strengthen private investment.** It will also contribute to reducing the number of court cases related to property rights disputes, which are currently high in Mauritanian jurisdictions. Enforceable property titles will alleviate credit constraints by enabling more individuals and firms to borrow against equity. Enhancing the security of property rights will also increase private investment, encourage property development, and promote the adoption of new concepts such as shared built property. Well-defined property rights are critical to diversification, especially in the non-extractive primary sector, as well as the government's efforts to improve the business environment and spur private-sector-led growth.

B.3: The Livestock Sector

73. **Livestock is Mauritania's dominant agricultural subsector, it plays an important part in boosting household welfare and has the greatest potential to attract non-extractive private investments.** Agro-pastoralism is the main livelihood for 60 percent of rural household. It is dominated by the livestock subsector, which accounts for an average of 75 percent of agricultural value added and about 23 percent of real GDP[47]. The sector includes an estimated 1.6 million head of cattle, 16 million sheep and goats, and 1.4 million camels. Livestock production is primarily based in the country's Saharan and Sahel-Saharan zones and plays a crucial role in both the production models and consumption patterns of many smallholder farmers. Meat and dairy are the major livestock value chains, but poultry and leather are also important activities with significant growth potential. Currently, the livestock subsector meets 30 percent of domestic demand for fresh milk and dairy products and 100 percent of demand for red meat, with live-animal exports averaging 35,000-40,000 tons of meat each year. Livestock is also among the sectors with the greatest potential for poverty reduction, and in recent year it has emerged as a major driver of employment creation and improved household welfare in rural areas.[48]

74. **However, inadequate sanitary quality and limited professional guidelines prevent the livestock sector from reaching its full production and export potential.** Private sector representatives have emphasized that the quality of the entrants/inputs is a fundamental condition for the development of the livestock sector as an industry and consequently increased private investments in the sector. For example, limited veterinary care and low-quality animal feed contribute to poor animal health, which increases livestock mortality rates and diminishes productivity. Hence, 70 percent of milk is imported despite the large domestic stock of cattle. Moreover, livestock producers often have difficulty meeting international quality and safety standards, particularly for meat and dairy products, which bars them from lucrative markets in the Maghreb region and the Middle East and thus reduces investment opportunities in the sector in Mauritania. Also, the poor quality of production inputs inhibits investment and diversification into other livestock subsectors, such as tanning hides and skins. Such quality constrains therefore inhibits the development of a modern sector with several value-chain linkages and opportunities for increased investment, job creation and growth.

[47] World Bank, 2017. "Mauritania Systematic Country Diagnostic".
[48] World Bank, 2016. "Islamic Republic of Mauritania: Poverty Dynamics and Social Mobility, 2008-2014".

75. **To remedy this, the DPF series supports the passage of new regulations that sets international best practices standards and organization set-up for the livestock sector in Mauritania.** The Ministry of Livestock is preparing a set of 10 executive decrees under the existing Livestock Law that reflect the standards of the World Organization of Animal Health (OIE).[49] Under DPF 1, the Government adopted five executive texts on livestock exports and imports, animal-feed quality, poultry production and veterinary inspections. The DPF 2 builds on these measures and supports the adoption of two more executive decrees by the Council of Ministers and three orders by the Minister of Livestock. These regulations, enacted in September 2017, set forth professional standards and qualifications for the veterinary profession, promote the development of pastoral infrastructure, and encourage the professionalization of livestock production and associated trades. The DPF series is supporting a body of legal texts that defines the institutions, regulations and structures to build the foundations for the creation of an enabling environment for the development of the livestock industry and to bring private investors. These texts help operationalize the livestock code and are an important component in the government's larger agenda for developing the livestock sector. While implementation of these legal documents go beyond the scope of this operation, part of it is being tackled by the World Bank Regional Project for Livestock Support in the Sahel (P147674) (see Table 5) through capacity building especially for aspects linked to sanitary and safety measures.

Prior Action 9: *(i) The Council of Ministers has adopted decrees codifying professional standards and qualifications for veterinarians and defining the applicable requirements and institutional framework for the livestock sector, including for establishing livestock farms, vaccination parks, livestock markets, and slaughterhouses; and these decrees are consistent with the World Organization of Animal Health (OIE) standards; (ii) the Minister of Livestock has issued three new orders defining conditions for meat utilization and transformation and describing the organization of the livestock profession and sectoral information systems; and (iii) these decrees and orders have been published in the official gazette.*

76. **These reforms are expected to bolster livestock production, increase private investment in the non-extractive primary sector, and in the medium-term bolster exports.** The implementation of the regulations supported by the DPF series, coupled with continued capacity building through TA, will be observable both in the domestic livestock value chain and at export points. Enhancing quality and safety standards are expected to attract further private investments into the sector and encourage further transformation. It will also improve inputs in industrial sub-sectors like red meat, milk, and skin and hides, enabling domestic private operators to improve production and increase their market share. It will also provide better prospective for livestock producers to access to international markets. Over time, import substitution and rising exports will attenuate the economy's reliance on natural resources to generate foreign exchange. Finally, increased livestock production will also reinforce domestic food security and boost incomes among pastoralists and smallholder farmers, which in its turn will have a positive contribution to poverty reduction.

4.3 CHANGES BETWEEN DPF 1 TRIGGERS AND DPF 2 PRIOR ACTIONS

77. **Changes to indicative triggers have been introduced in DPF 2 to strengthen the matrix with higher impact actions in terms of fiscal gains and focus on private sector development.** The second operation maintains a similar development objective and is designed around the same pillars of reforms: fiscal consolidation and support for private sector. Actions supported under DPF 2 reflect largely the same indicative triggers adopted under DPF 1 with few exceptions. These exceptions are discussed in more details below and in Table 4. These changes boost the budgetary impact of actions on taxes (Sub-pillar A.1) introduce further clarity for procurement reforms actions (Sub-pillar A.2), consolidate the reforms on public

[49] The OIE is an intergovernmental agency responsible for improving animal health worldwide. It includes 180 member countries and is recognized as a reference body by the World Trade Organization.

enterprises (Sub-pillar A.3), and refocus the land reforms on support for property rights and credit to urban areas (Sub-pillar B.2). The changes strengthen the overall reforms program and account for findings from new analysis and political feasibility of reforms.

78. **On tax reforms, the new prior actions are more structural in nature and enhance the budgetary impact.** The program has been strengthened in the tax policy sub-pillar to tackle reforms that have a larger budgetary impact than originally envisaged. The indicative trigger, which mandated computing and publishing tax exemptions, has already been executed by the Government as part of the drive to increase transparency. Hence, to deepen further the reform program, it has been replaced by reforms linked to imposing deeper international taxation rules to support the creation of fiscal space by enabling the Government to increase tax revenues especially from the largest firms. Moreover, the second trigger on eliminating tax exemptions has been re-focused and clarified to focus on the exemptions linked to the investment code. The decision was supported by analysis linked to budgetary and distributional impact and political economy considerations.

79. **On procurement reforms, the indicative triggers from DPF 1 have been re-written to increase their clarity as actions in DPF 2.** The focus is set on eliminating contradictions within the regulatory environment and re-designing the responsibilities of various stakeholders within the procurement and contract award process. The elements of revising bidding documents and administrative controls, linked with the Procurement regulatory authority, have not been included. These changes come following a more in-depth analysis and discussion with authorities, which revealed that the most pressing binding constraint for efficient procurement is structural and therefore linked to the design of the procurement cycle. It is this design that the operation corrects by adopting the various proposed decrees. Discussions with the authorities also confirmed that standard bidding documents and administrative processes already in place can be used with the new design set-up.

80. **On parastatal reforms, the introduction of a new institutional framework for SOE oversight has been dropped to account for the complexity of the public enterprises reforms.** The magnitude and complex budgetary ramifications of the proposed EPAs and public agencies reforms has prompted the DPF 2 to focus on consolidating those gains and drop the indicative trigger on SOEs. The decision is aligned with the nascent stage of the analytical groundwork for SOEs restructuring, incomplete database on the financial situation of these entities, and MEF's limited capacity to execute a comprehensive SOEs restructuring agenda. Meanwhile, the World Bank will provide TA to the MEF to conduct a fiscal risk and portfolio analysis of SOEs. This analysis will provide an evidentiary basis for SOEs reform.

81. **On PPP reforms, changes were made to refocus on operationalizing the PPP framework and avoid reputational risks from supporting specific projects.** The action was changed to focus on the institutional set-up and governance of PPPs and on the operationalization of the PPP law. This change was introduced to limit the reputational risks for the World Bank by avoiding a direct endorsement for a projects portfolio and/or a direct engagement on specific project implementation. These actions are more in the realm of an investment project finance operation (IPF) and TA as opposed to a DPF. The new proposed actions complement the work being undertaken by World Bank TA on PPP transactions and will provide a solid legal and operational ground for the Government to start implementing PPP projects.

82. **On land reforms, DPF 2 will refocus its support on property and credit, especially in urban areas.** The DPF series was originally designed to support the development of a new institutional framework for land tenure. However, given the early stage of land reform in rural areas and the lengthy time horizon required to expand the reach of public institutions and achieve a notable impact, DPF 2 now focuses on consolidating reforms in urban areas, where their impact on credit access and growth will be more immediate and more structural. The regulatory actions supported under the proposed operation apply nationwide, but due to

institutional capacity and logistical constraints, they will become effective first in Nouakchott and then in the regional capitals—areas that host the densest concentration of private-sector activity and the largest number of poor households. Over the longer term, the World Bank and other development partners will continue to support the implementation of the broader land-reform agenda. All World Bank TAs and projects linked to the global land reforms will benefit from the boost offered through the new DPF 2 actions.

Table 4: Changes between DPF 1 triggers and DPF 2 Actions

Indicative Triggers under DPF 1	Prior Actions Under DPF 2	Descriptions of Changes
Pillar A: Support fiscal consolidation by increasing domestic revenues, controlling public enterprises expenditures, and increasing the efficiency of public spending		
A.1 Reducing tax expenditures and mitigating profit shifting and base erosion risks		
(Indicative) Trigger # 1: Publish the tax expenditures estimations in an appendix of the Budget Law 2018.	**Prior Action #1:** The Ministry of Economy and Finance, based on a policy communique to the Council of Ministers, has notified the companies in full breach of their investment agreements that their tax and customs incentives, awarded under the 2012 Investment Code, will be revoked, effective January 1, 2018.	Changed to strengthen the policy matrix and increase budgetary impact of supported tax policy reforms.
(Indicative) Trigger # 2: The Ministry of Economy and Finance introduces the legal provisions for a comprehensive transfer pricing documentation and disclosure requirements as well as an effective anti-abuse, which limits an entity's net interest deductions to a fixed percentage of its profit, measured using earnings before interest, taxes, depreciation and amortization (EBITDA).	**Prior action #2:** The Ministry of Economy and Finance has adopted the legal provisions for a comprehensive transfer pricing documentation and disclosure requirements as well as an effective anti-abuse provisions, which limit an entity's net interest deductions to a fixed percentage of its profit, measured using earnings before interest, taxes, depreciation and amortization (EBITDA).	Re-formulated to focus on exemptions linked to the public investment code. The list of firms adopted under DPF1 constitutes an input into the selected action.
A.2 Public Investment Management		
(Indicative) Trigger # 3: The Council of Ministers has adopted a new agreement model and revised bidding documents that limits project award outside the Regulatory Authority for Procurement (ARMP) cycle, and that enhances the involvement of ministerial contracting authorities.	**Prior Action #3:** The Council of Ministers has adopted a decree correcting deficiencies in the implementation of the Public Procurement Law, including clarifying regulations governing the composition, organization, and operations of the procurement commissions and designating specific officials responsible for procurement in each Contracting Authority, and has published it in the official gazette.	These two triggers were changed to reflect more clarity on the actions requested and re-focusing specifically on eliminating contradictions within the regulatory environment and re-designing the responsibilities of various stakeholders within the procurement and contract award process
(Indicative) Trigger # 4: The executive decrees underpinning the Procurement Law are reviewed and those that conflict with the law's objectives, including decrees related to the sectoral procurement committees and the evaluations sub-committees are modified.	**Prior Action #4:** The Council of Ministers has adopted the implementation decrees for Law 2005-020 reorganizing the project award and project management processes, and regulating the contracting arrangement between Government and SOEs, and has published it in the official gazette.	

A.3 The Parastatal Sector		
(Indicative) Trigger # 5: The Minister of Economy and Finance issues a decree mandating the expansion of the RACHAD system to encompass public agencies starting on January 1st, 2018.	**Prior Action #5:** The Minister of Economy and Finance has issued a policy communique instructing the expansion of the treasury management system (RACHAD) to encompass the revenues and expenditures of all eligible public agencies starting January 1, 2018, as a means to reduce fiscal risks and enable budgetary savings.	Unchanged. The write-up was slightly revised to reflect the impact of the action.
(Indicative) Trigger # 6: The Council of Ministers approves a new institutional framework for SOE oversight and reporting, subsidy provision and contingent liability management, and a schedule for SOE restructuring.		Dropped. This is due to the magnitude of the EPA reform process and its complex ramifications, as well as the nascent stage of the analytical groundwork for SOE restructuring and the MEF's limited capacity to execute a comprehensive SOE restructuring agenda.
Pillar B: Support private sector-led diversification in the non-extractive sectors		
B.1 Public-private partnerships		
(Indicative) Trigger # 7: The Inter-ministerial committee validates the updated PPP portfolio and officially decides to engage in PPP operations under the new framework	**Prior Action #6:** The PPP law is made operational through i) the adoption and publication in the official gazette of the PPP executive decree by the Council of Ministers that defines the institutional, procedural, and governance set-ups for PPP projects and ii) the adoption and publication in the official gazette of the order by the Minister of Economy and Finance setting thresholds for operation requiring inter-Ministerial approval.	Changed to refocus on institutional and governance set-up of PPPs and the operationalization of the law to avoid commitment over specific project execution.
(Indicative) Trigger # 8: A new PPP Unit has been created and is operational with staff recruited and an operational budget allocated in the budget law proposal 2018.		Dropped.
B.2 Property Rights		
(Indicative) Trigger # 9: The Council of Ministers has adopted a new Law for Property Rights (Code des Droits Reels) that modernizes, reconciles, and consolidates the current regimes in application.	**Prior Action #7:** The Recipient has enacted a new Law for Property Rights (Code des Droits Réels) that modernizes, reconciles, and consolidates the current property rights regimes, and published it in the official gazette.	Unchanged.

(Indicative) Trigger # 10: The Council of Ministers adopts a new institutional Land Policy Reform framework that fosters a more inclusive land-tenure system with a set agenda of execution.	**Prior Action #8:** The Minister of Interior and Decentralization, the Minister of Housing, Urban Development, and Land-Use Management, the Minister of Budget, and the Minister of Economy and Finance have issued and published it in the official gazette a joint order laying down the new simplified modalities for processing demands for the final concession on property in urban areas, with the objective of expediting the property title granting process.	Trigger 10 dropped and replaced by Action 9 given the early stage of land reform in rural areas and the long-time horizon required to expand the reach of public institutions. DPF 2 now focuses on consolidating reforms in urban areas, where their impact on credit access will be more immediate.
B.3 The Livestock Sector		
(Indicative) Trigger #11: The Livestock Law is further operationalized as the Council of Ministers and Minister of Livestock adopts the remaining 5 executive decrees governing the regional management of grazing lands and transhumance corridors, the development of pastoral infrastructure and the professionalization of livestock production; all in accordance with the World Organization of Animal Health (OIE) standards and published in the official gazette	**Prior Action #9:** (i) The Council of Ministers has adopted decrees codifying professional standards and qualifications for veterinarians and defining the applicable requirements and institutional framework for the livestock sector, including for establishing livestock farms, vaccination parks, livestock markets, and slaughterhouses; and these decrees are consistent with the World Organization of Animal Health (OIE) standards; (ii) the Minister of Livestock has issued three new orders defining conditions for meat utilization and transformation and describing the organization of the livestock profession and sectoral information systems; and (iii) these decrees and orders have been published in the official gazette.	Unchanged. The write-up was slightly revised to reflect the content of the decrees.

4.4 LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

83. **The DPF 2 is aligned with the objectives and proposed outcomes of the upcoming FY18-FY22 CPF for Mauritania.** This new CPF is currently under preparation. The new World Bank Group strategy in Mauritania builds on the findings of the Systemic Country Diagnostic[50], which identified macroeconomic instability and weak participation of the private sector 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 resilience to external shocks. It will also provide another programmatic anchor for the preparation of a new CPF for FY18-FY22.

84. **The reform agenda supported by the DPF builds upon the achievements of several World Bank capacity-building projects that will continue with the CPS FY17-FY20.** These include the Public Sector Governance Project, the Public-Private Partnership Capacity-Building Project, the Nouadhibou Economically Competitive Seafood Cluster, the Capacity-Building Project for Land Reform and Property Rights, and the

[50] Mauritania Systemic Country Diagnostic 2017, World Bank, Report No. P116630-MR.

Regional Project for the Support of Livestock in the Sahel (Table 5). The DPF 2 also complements the reform process launched during the February 2017 retreat described above.

Table 5: Accompanying World Bank Projects and TAs for Prior Actions

Prior actions	Accompanying World Bank Project
Prior Action #1: The Ministry of Economy and Finance, based on a policy communique to the Council of Ministers, has notified the companies in full breach of their investment agreements that their tax and customs incentives, awarded under the 2012 Investment Code, will be revoked, effective January 1, 2018.	**Mauritania Public Sector Governance Project (P146804)**. A component of this project is dedicated for tax policy and tax administration reforms. It will provide capacity building for the tax authorities to implement the new transfer pricing rules and will also have also undertake assistance linked to taxation of the extractives sector.
Prior action #2: The Ministry of Economy and Finance has adopted the legal provisions for a comprehensive transfer pricing documentation and disclosure requirements as well as an effective anti-abuse provisions, which limit an entity's net interest deductions to a fixed percentage of its profit, measured using earnings before interest, taxes, depreciation and amortization (EBITDA).	
Prior Action #3: The Council of Ministers has adopted a decree correcting deficiencies in the implementation of the Public Procurement Law, including clarifying regulations governing the composition, organization, and operations of the procurement commissions and designating specific officials responsible for procurement in each Contracting Authority, and has published it in the official gazette.	**Mauritania Public Sector Governance Project (P146804).** A component of this project is dedicated to provide capacity building to various MEF directorates for the implementation of public investment management reforms and procurement reforms.
Prior Action #4: The Council of Ministers has adopted the implementation decrees for Law 2005-020 reorganizing the project award and project management processes, and regulating the contracting arrangement between Government and SOEs, and has published it in the official gazette.	
Prior Action #5:Tthe Minister of Economy and Finance has issued a policy communique instructing the expansion of the treasury management system (RACHAD) to encompass the revenues and expenditures of all eligible public agencies starting January 1, 2018, as a means to reduce fiscal risks and enable budgetary savings.	**Mauritania Public Sector Governance Project (P146804)**. A component of this project will provide both TA and investment in building a single treasury account. The integration in RACHAD is one of the steps of this global reform.
Prior Action #6: The PPP law is made operational through i) the adoption *and* publication in the official gazette of the PPP executive decree by the Council of Ministers that defines the institutional, procedural, and governance set-ups for PPP projects and ii) the adoption and publication in the official gazette of the order by the Minister of Economy and Finance setting thresholds for operation requiring inter-Ministerial approval.	**Nouadhibou Eco-Seafood Cluster Project (P151058).** A component of this project is dedicated for PPP reforms through i) TA on the formulation of the legal infrastructure for PPP; ii) capacity building for the new executive PPP unit within the MEF; and iii) financing international expertise to assist during PPP deals.
Prior Action #7: The Recipient has enacted a new Law for Property Rights (Code des Droits Réels) that modernizes, reconciles, and consolidates the current property rights regimes, and published it in the official gazette.	**Support to Mauritania Land Reform Policy (P161010).** The objective of the ongoing project is to assist the Government of Mauritania in preparing the implementation of an updated land policy in ways that

Prior Action #8: The Minister of Interior and Decentralization, the Minister of Housing, Urban Development, and Land-Use Management, the Minister of Budget, and the Minister of Economy and Finance have issued and published it in the official gazette a joint order laying down the new simplified modalities for processing demands for the final concession on property in urban areas, with the objective of expediting the property title granting process.	safeguard stability and promote growth by providing demand-driven analytical and technical assistance on selected land-related topics. A Technical Assistance over one year will (i) support a nationwide policy dialogue on land; (ii) take stock of the land sector; and (iii) design pilot operations. This project will help the Government to get the needed knowledge for an updated strategic vision on its new land policy and will provide the Government with operational guidelines needed for the land reform implementation both in urban and rural areas. Moreover, the **Mauritania Public Sector Governance Project (P146804)** will be financing pilot tests for land reforms in both rural and urban areas along with regional conferences on land across Mauritania.
Prior Action #9: (i) The Council of Ministers has adopted decrees codifying professional standards and qualifications for veterinarians and defining the applicable requirements and institutional framework for the livestock sector, including for establishing livestock farms, vaccination parks, livestock markets, and slaughterhouses; and these decrees are consistent with the World Organization of Animal Health (OIE) standards; (ii) the Minister of Livestock has issued three new orders defining conditions for meat utilization and transformation and describing the organization of the livestock profession and sectoral information systems; and (iii) these decrees and orders have been published in the official gazette.	**Regional Sahel Pastoralism Support Project (P147674) (PRAPS).** The project supported technical assistance to the ministry of livestock to formulate the legal infrastructure needed to operationalize the livestock law. It is also supporting capacity building and TA to prevent and combat livestock related diseases and to implement sanitary standards. **Regional Disease Surveillance Systems Enhancement Phase III (P161163) (REDISSE 3).**New regional investment project that is currently under preparation is expected to work with authorities to enhance the capacity for animal disease surveillance in Mauritania.

4.5 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

85. **The design of the proposed operation is informed by the Government's development strategy and several levels of consultation.** The design of the series is the product of an extensive consultative process involving government officials and representatives from the private sector and civil society. This consultation was conducted on several levels. First, at the parliamentary level where the Government has engaged with several parliamentary committees since several of the prior actions supported under the DPF series have direct budgetary implications and will subject to legislative review and approval. Second by organizing consultation workshops and training for other public entities such as for EPAs and public agencies representatives, in the case of the reforms on RACHAD, for line ministries in the case of the PIP reforms, and for procurement commissions, practitioners and civil society in the case of the procurement reforms. Third, the Government held round tables and workshops including private sector leaders, private sector professional associations and donors for PPP reforms. Feedback from these three levels of consultation have been incorporated during the DPF preparation phase.

86. **The World Bank team has collaborated closely with other development partners to define the reform program supported by the proposed operation**. In addition to holding regular bilateral discussions, Mauritania has well-established multi-donor coordination mechanisms. Multi-donor coordinating committees have been involved in elaborating the SCAPP agenda, designing PFM reforms, and developing the land-reform program. Regular discussions are held with both technical experts and donor representatives. The IMF, the European Union (EU), the AfDB and other development partners are also implementing TA projects in key DPF-supported reform areas, especially fiscal policy. In addition, the AfDB anchored two budget-support operations to the private-sector-participation pillar of this DPF series. The first

of these operations, which were collaborated jointly, was approved in November 2017; while the second goes to the AfDB Board in end November 2017.

87. **Synergies exists between the DPF and the prospective IMF program.** Both tackles issues of revenue mobilization with the objective of broadening the non-extractive tax base. In effect, the DPF tackles tax exemptions and international taxation reforms while the IMF is expected to focus on corporate income tax. On expenditure, synergies are built around the PIP and procurement reforms and along the TAs on social safety nets. Also, the World Bank's TA to implement reforms on the treasury single account will improve MEF's control over fiscal risks, a key element of overall Fund programs. On the financial sector side, World Bank TA on payment systems, core banking along, data production and macro-analysis capacity building will complement proposed IMF reforms on financial stability and monetary policy. Finally, reforms supported under the DPF to boost private sector participation and business environment TA are an integral part of the diversification agenda. This will be key to ensure macro-economic stability.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

88. **The overall reform program is expected to have a positive impact on poverty.** The reforms supported under the DPF series are expected to boost macro stability and private sector participation and consequently growth in the medium run. This will have a significant trickledown effect on poverty. In effect, 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)[51]. 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 23.3 percent in 2016 using the upper poverty line (5.9 percent using the lower line), to 20 percent in 2020 (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. More direct effects can also be depicted as reforms improve the efficiency of public investment and the fiscal space to ensure more allocation towards social and poverty reduction programs. It also helps stimulate job creation through increase in private sector participation notably in 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.

89. **Tax reforms supported under Prior Actions 1 and 2 were informed by a distributional level analysis. They are not expected to influence negatively the poor**. The World Bank team has worked with the MEF to simulate the distributional impact of various options of tax exemption removal. It looked first at the option of eliminating VAT exemptions on 144 consumer products including staple foods and utilities. Results showed that these exemptions systematically benefit wealthier households more than the poorer ones. However, as a share of household spending, the impact will mostly be felt 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. This results is mostly driven by the removal of VAT exemptions on staple foods (e.g., rice, flour, and oil). Given these findings, a decision was taken to consider corporate income tax exemptions in the reforms as opposed to exemptions on consumer goods and services. As such, the decision was taken to revoke exemptions offered under the investment law (Prior Action 1). The firms affected are firms that were far

[51] World Bank Macroeconomic and Poverty Outlook 2017 (MPO).

from meeting their investment and employment targets and were in breach with the investment law. Using the list compiled in DPF 1, these firms were mostly in the trade and in the tourism sectors. As for reforms linked to international taxation (Prior Action 2), it mainly targets large multinational firms operating in Mauritania. These are formal firms and the proposed regulation is aligned with OECD standards.

90. **The property-rights agenda supported under Prior Action 8 and 9 targets directly improvements in the business climate but is not expected to have an impact on the poor or on social development.** The proposed operation supports the government's efforts to clarify the legal and institutional framework related to property rights. It defines legally for the first time in Mauritania concepts like land-usage and mortgages. It targets primarily the business environment and covers essentially those with existing titles or concessions. The reform does not tackle the sensitive area of property ownership and usage in rural areas. The supported reforms are expected to have some beneficial implications to 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 from illegal infringement or expropriation and thus, improve social cohesion. The World Bank recognizes though that the CDR falls short from recognizing "customary rights", a contentious issue most notably in rural areas of the country. The law remains silent on the topic and does not worsen or improve the current contentions. To address those complex issues, the World Bank will expand its current TA support to the government's broader land reforms agenda and will be holding pilot phases of reforms in rural areas including the southern region of the Senegal Valley. The pilot will test simplified land rights registration procedures and will design new low-cost property rights documentation affordable for poor households. The land reform agenda timeline expands beyond that of the DPF series.

91. **Concepts defined in the new CDR law (Prior Action 8) can have some positive impact from a gender perspective.** This is the case for the newly introduced concept of co-ownership. With co-ownership, women can potentially access property, business and assets more frequently as it will allow them, and any other Mauritanian, to enter more easily in legally defined partnerships and obtain shares especially in built property or assets in urban areas (buildings, houses, apartments, offices, shops, plants etc). Before the new law, co-ownership and divisibility of asset ownership did not exist. Assets had to have one owner, in most cases these were typically men, which put Mauritanian women at a disadvantage. Moreover, since many of the businesses owned by women in Mauritania are informal, the new law would offer more legal protection and could potentially help them formalize these businesses. Finally, concepts like mortgages could also help women, although in the long term as this market does not yet exist in the country, acquire built property and have better access to finance.

92. **Reforms supported under Prior Action 9 can have a positive impact on poverty given the pro-poor nature of the livestock sector.** The SCD revealed that the main driver of poverty reduction in rural areas has been the increase in the welfare of agricultural and livestock producers between 2008-2014[52]. Net food producer households experienced a growth rate in per capita household expenditure of over 33 percent, compared with only 1.4 percent among non-producers. This trend is confirmed by the fact that agriculture and livestock households, which experienced poverty rates of between 50 and 70 percent in 2008, benefitted from the most significant increases in expenditure. Indeed, households for which the head of household was employed in agriculture or livestock experienced a mean growth in per capita expenditure of 31.9 and 26.2 percentage respectively. Over the same period, there was a significant labor force movement out of agriculture and into livestock, amounting to around 4 and 5 percent of total population respectively. Thus, the livestock sector has become the most important driver of the decline in poverty. As such, reforms aimed

[52] The period of analysis for poverty in this report. The analysis is based on household surveys from 2008 and 2014.

at formalizing the sector and increasing its productivity could have a notable impact on welfare of households working in the sector and consequently on poverty.

5.2 ENVIRONMENTAL ASPECTS

93. **The reforms supported under the proposed operation are not expected to have significant negative effects on the environment.** Measures designed to promote public 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 ensured that adequate environmental considerations are integrated into all DPF-supported measures as explained below.

94. **Procurement reforms supported under Prior Actions 3 and 4 will respect the existing environmental safeguards in Mauritania.** The current system for assessing and minimizing the environmental impact of public investment projects is 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. The World Bank governance TA project is currently discussing with authorities plan to enhance capacity for environmental assessment through its overall TA on procurement reforms implementation. Moreover, 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 and the recruitment of environment specialist as part of the executive PPP unit. It also provides the Ministry of Environment the opportunity to be a member of the central public investment committee that helps arbitrate and select projects.

95. **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 executive PPP Unit has recruited a senior environmental specialist, who will assess technical proposals for PPP infrastructure project. FIAS[53] TA will build the capacity of line ministries and the PPP Unit to assess environmental and social impacts.

96. **Compliance with OIE standards will attenuate the inherent environmental risks involved in expanding livestock production, which is supported under Prior Action 9.** The comprehensive body of decrees and orders define the various stakeholders, legal requirements and institutional set-up for more formalization of the sector. These texts will have a positive environmental impact as they aim at promoting compliance with international standards and good practices for animal health, food safety and hygiene, as well as for adequate waste management system. Also, the country 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. This projects also deals specifically with combatting

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

disease and improving sanitary standards in the sector. In addition, a new regional investment project REDISSE 3 (Regional Disease Surveillance Systems Enhancement Phase III - P161163), under preparation is expected to work with authorities to enhance the capacity for animal disease surveillance in Mauritania.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

97. **The World Bank and other development partners will continue to support the government's efforts to address systemic PFM challenges.** The Government has recently completed its 2012-2016 PFM-reform action plan, and a 2014 Public Expenditure and Financial Accountability (PEFA) assessment recorded progress in its implementation. The Government has enhanced revenue administration, strengthened procurement competition, tightened expenditure controls, and made intergovernmental fiscal relations more transparent. However, institutional capacity constraints and inadequate human resources have slowed the pace of PFM reform. The World Bank-financed Public Sector Governance Project is currently supporting the authorities in the areas of tax reform, integrated financial information systems, SOE oversight, public procurement reform, and other areas relevant to PFM.

98. **Greater budgetary credibility will be necessary to align actual spending with the government's development agenda.** The budget is subject to weak internal and external controls and irregular oversight. Transfers to parastatals represent an important source of fiscal risk, and financial oversight is severely deficient. Little information is available on the performance of parastatals or their contingent liabilities. In 2016, with support from the World Bank's Public Sector Governance Project, the MEF began compiling a comprehensive database of financial information on SOEs to inform policy discussions. This database was completed in October 2016.

99. **The Government has improved budgetary transparency.** Annual budget documents, in-year budget-execution reports and the MEF's monthly Government Financial Operations Table (*Tableau des Opérations Financières de l'État*) are now published on the MEF and Treasury websites, though the timeliness of their publication could be improved. Between September and November 2016, the Government submitted its draft annual financial statements for 2013, 2014, and 2015 to the Court of Accounts, which has already reviewed them. Audited financial statements for 2010, 2011, and 2012 have already been approved by Parliament, which is currently reviewing 2013, 2014 and 2015 reports.

100. **The most recent central bank safeguards assessment was carried out in FY10, and no assessment has been scheduled for 2017.** The IMF's 2017 Article IV Consultation Report noted the Government taken determined steps to adapt their economic policies to take account of the difficult conditions of the past two years following the fall in metal prices. Progresses have been made in implementing the recommendations of the 2010 safeguards assessment. The BCM has taken steps to build its capacity for information management and internal auditing, but progress in these areas has been limited. A new central banking law is currently being prepared and is expected to include measures to enhance the autonomy of the BCM and strengthen its internal governance. Despite reforms in 2016, the BCM maintains some restrictions on the foreign-exchange market. The IMF reports indicate that the authorities are committed to adopt more proactive monetary and liquidity management policies to (i) improve the functioning of the foreign exchange market to offer greater flexibility; and (ii) strengthen banking supervision and adapt the regulatory framework to protect the stability of the financial system, and increase private sector credit.

101. **The BCM is regularly audited by an international auditing firm**. BCM has published on its website its annual report for 2016 which includes Unqualified audit on financial statement audited report for 2016. The World Bank reserves the right to request the full audit report as well the management letters, which should provide additional information on risk management and the BCM's internal controls.

102. **The proposed grant will be disbursed following standard IDA procedures for DPFs**. A grant in the amount of SDR 18.6 million (US$26 million equivalent) will be made available upon effectiveness and, provided that IDA is satisfied with the implementation of the development policy program and the appropriateness of the Recipient's macroeconomic policy framework, it will be disbursed as a single tranche following the submission of an acceptable withdrawal application by the Government. Since fiduciary risks are assessed as substantial, IDA will deposit the proceeds into a dedicated US dollar-denominated account designated by the Recipient at the BCM, where they will form part of the country's foreign-exchange reserves. The Recipient shall ensure that upon the deposit of the grant proceeds into said account, an equivalent amount is credited in the Recipient's budget-management system within five business days. The World Bank will obtain confirmation from the Government within 30 days of the grant's disbursement that (a) the grant proceeds were deposited into a government account at the BCM that forms part of the country's foreign-exchange reserves, including the date of deposit and the bank account number; and (b) an equivalent amount has been transferred in the country's budget-management system, including the relevant fiscal-accounting information, the date of the transfer and the exchange rate used.

103. **If the proceeds of the grants are used for ineligible purposes as defined in the Financing Agreement, IDA will require that the Recipient refund to IDA promptly upon notice an amount equal to the amount of the ineligible payment**. Amounts refunded to the World Bank upon such a request shall be cancelled. The World Bank reserves the right to seek an audit of the dedicated account by independent auditors acceptable to the World Bank.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

104. **The MEF will be responsible for managing the proposed operation.** Day-to-day coordination, program monitoring and evaluation, and the measurement of specific outcome indicators will be the responsibility of the MEF, which will also verify the completion of all DPF prior actions. The Government will review the status of the overall reform program, and IDA will undertake regular missions to ensure that the macroeconomic policy framework remains adequate. The MEF will continue to participate in World Bank TA projects designed to improve the quality of its statistics. The authorities have agreed that the MEF is responsible for collecting unpublished statistics and providing them to the World Bank for the purposes of monitoring and evaluation.

105. **Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org."

6. SUMMARY OF RISKS AND MITIGATION

106. **The overall risk rating for the DPF is high.** This reflects a range of political and governance, macroeconomic, implementation capacity, and fiduciary risks, all of which could compromise the success of

the proposed operation. The most salient risks are described in greater detail below.

Table 6: Risk Ratings Summary

Risk Categories	**Rating**
1. Political and governance	Substantial
2. Macroeconomic	High
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and social	Moderate
8. Stakeholder	Moderate
Overall	High

107. **Political and governance risks are substantial.** The political economy is complex, and previous reform efforts have been delayed or derailed by powerful interest groups. While the Government has signaled a credible commitment to the DPF-supported reform agenda based on a broad political consensus, the effectiveness of this commitment and the government's ability to manage political and institutional pressures are not assured. In effect, reforms like those on public enterprises, procurement and property rights eliminate strong vested interested of many political groups. This would create political pressure to reverse the reforms or hinder their implementation, which can affect the results targets set. To mitigate these risks, the measures supported by the DPF 2 have been carefully selected to focus on areas where the Government has already initiated reforms, or which are the subject of ongoing TA projects by the World Bank and other development partners. Moreover, the DPF 2 will benefit from the success of the DPF 1, the finalization of the SCAPP, and the consolidation of the MEF, which has built a strong multi-stakeholder coalition to support the reform agenda.

108. **Macroeconomic risks are high**. External pressures remain subdued in 2017 due to the recovery of iron prices and the sharp fiscal consolidation. However, macroeconomic risks remain high due to the large public debt stock, the potential for unidentified fiscal risks to emerge from the broader public sector, and ineffectiveness of monetary policy in managing liquidity and minimizing financial-sector risks. External shocks affecting any of these variables could prevent the Government from meeting its fiscal objectives or maintaining adequate foreign exchange reserves. The DPF series has focused on supporting the government's fiscal consolidation and diversification efforts and as such was successful in stabilizing the economy. The World Bank has also started collaboration with the BCM to strengthen the country's financial infrastructure. The IMF program is expected to be an important mitigation measure over the next three years, which will not only signal, as a pre-requisite, the government's commitment to limit/avoid non-concessional borrowing but would support sound monetary and exchange-rate policies for macroeconomic stability.

109. **Institutional capacity for implementation and sustainability risks are substantial.** Despite recent progress in institutional capacity-building, the effectiveness of public agencies remains variable, which constrains the government's ability to implement complex reforms. The reforms supported by the proposed operation span multiple ministries and departments, and the challenges involved in inter-agency coordination compound existing capacity risks. This could affect specifically achieving the targets set under the PIM, procurement, and PPP reform, which requires deep collaboration across line ministries and build-up of technical expertise. However, the MEF's expanded authority and the newly established technical coordination and follow-up mechanisms, including the enhanced role of the DGERSE, will enable the Government to more effectively and comprehensively implement its economic and fiscal policies. An adverse external climate and the prospect of a new IMF program have reinforced the government's commitment to

addressing structural economic constraints and implementing deep and lasting fiscal reforms. While not all identified risks can be mitigated directly, the TA and capacity-building support provided through ongoing World Bank projects in the areas of PFM, institutional development, PPP arrangements, land reform, and the growth of the livestock sector will continue to facilitate the sustainable implementation of the DPF-supported reform agenda.

110. **Fiduciary risks are substantial but do not present a serious challenge to the proposed operation**. The Government is pursuing the PFM reform agenda set forth in the Public Financial Management Reform Master Plan, which was last updated in 2014. The authorities have made progress in several key areas, including (i) payment execution through the RACHAD system; (ii) the expansion of an electronic PFM information system (GFMIS) to all ministries; and (iii) the completed review of past financial statements and their submission to the Court of Accounts. Despite recent progress, institutional capacity constraints continue to pose significant challenges. For example, existing PFM information systems are incomplete and largely uncoordinated, and the government's internal and external oversight institutions are often ineffective. The auditing and accounting subsector in Mauritania is severely underdeveloped, and the audited accounts and financial statements produced by SOEs and parastatals are often unreliable. The public sector governance project (P146804) launched in June 2016 is attempting to address these and other fiduciary issues, including SOE oversight, GFMIS implementation, public procurement reform, and accounting, auditing, and financial controls.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions under DPF 1	Prior Actions under DPF 2	Results
Pillar A: Support fiscal consolidation by increasing domestic revenues, controlling public enterprises expenditures, and increasing the efficiency of public spending		
A.1 Reducing tax expenditures and mitigating profit shifting and base erosion risks		
Prior Action 1: The Minister of Finance has issued an order introducing the benchmark tax model for tax exemptions, and has published it in the official gazette, and has compiled a tax exemption registry for firms benefiting from tax exemptions under the 1982 Investment Code and the 1966 Free Zone Area law.	*Prior Action 1:* The Ministry of Economy and Finance, based on a policy communique to the Council of Ministers, has notified the companies in full breach of their investment agreements that their tax and customs incentives, awarded under the 2012 Investment Code, will be revoked, effective January 1, 2018.	Tax revenues increase by 1.2 percent of GDP. Baseline (2015): 17 percent of GDP. Target (2019)[54]: 18.2 percent of GDP.
	Prior Action 2: The Ministry of Economy and Finance has adopted the legal provisions for a comprehensive transfer pricing documentation and disclosure requirements as well as an effective anti-abuse provisions, which limit an entity's net interest deductions to a fixed percentage of its profit, measured using earnings before interest, taxes, depreciation and amortization (EBITDA).	
A.2 Public investment management		
Prior Action 2: The Council of Ministers has issued a decree creating an institutional framework for the evaluation, selection and execution of public investment projects, and has published it in the official gazette.	*Prior Action 3:* The Council of Ministers has adopted a decree correcting deficiencies in the implementation of the Public Procurement Law, including clarifying regulations governing the composition, organization, and operations of the procurement commissions and designating specific officials responsible for procurement in each Contracting Authority, and has published it in the official gazette.	Share of public investment projects selected and executed based on new framework. Baseline (2016): 0. Target (2018): >75%.

[54] The impact of corporate tax reforms is typically depicted in year t+1. Tax authorities will only collect the proceeds of those new taxes in 2019 for commercial activities that occurred under the new rules of 2018. Hence the choice o2019 as a target.

Prior Action 3: The Council of Ministers has approved the budget law proposal for 2017 that includes an integrated public investment budget with combined domestic and foreign financed projects.	*Prior Action 4:* The Council of Ministers has adopted the implementation decrees for Law 2005-020 reorganizing the project award and project management processes, and regulating the contracting arrangement between Government and SOEs, and published it in the official gazette.	Percentage of the total value of contracts awarded without competition have been cut in half. Baseline (2016): 47 percent of total procurement bids. Target (2018): 23.5 percent of total procurement bids.
A.3 The Parastatal sector		
Prior Action 4: The Minister of Economy and Finance has issued an executive circular requiring the expansion of the automated expenditure-chain system (RACHAD) to include all eligible EPAs in Nouakchott beginning January 1, 2017.	Prior Action 5: The Minister of Economy and Finance has issued a policy communique instructing the expansion of the treasury management system (RACHAD) to encompass the revenues and expenditures of all eligible public agencies starting January 1, 2018, , as a means to reduce fiscal risks and enable budgetary savings.	Decline in public enterprises and agencies extra-budgetary spending and carry-forwards (in percentage of GDP). Baseline (2016): 1.2 percent of GDP. Target (2018): 0.2 percent of GDP.
Prior Action 5: The Recipient has published the latest audited financial statements for the five largest commercial enterprises in which its ownership stake exceeds 50 percent, on the website of its Treasury.		
Pillar B: Support private sector participation in the non-extractives sectors.		
B.1 Public-private partnerships		
Prior Action 6: The Council of Ministers has presented to Parliament the draft law on public-private partnerships (PPPs), and has approved two orders relating to the composition and operation of the inter-ministerial and the technical committees for PPP respectively, and has published these in the official gazette.	*Prior Action 6:* The PPP law is made operational through i) the adoption and publication in the official gazette of the PPP executive decree by the Council of Ministers that defines the institutional, procedural, and governance set-ups for PPP projects and ii) the adoption and publication in the official gazette of the order by the Minister of Economy and Finance setting thresholds for operation requiring inter-Ministerial approval.	The executive PPP Unit has reviewed and assessed PPP projects according to the new regulatory framework. Baseline (2016): 0. Target (2018): half of the PPP portfolio.
B.2 Property rights		
	Prior Action 7: The Recipient has enacted a new Law for Property Rights (Code des Droits Réels) that modernizes, reconciles, and consolidates the current property rights regimes, and published it in the official gazette.	Increase in the number of formal properties titles. Baseline (2015): 27168 (cumulative). Target (2018): >31000.

Prior Action 7: The Minister of Economy and Finance has established the institutional framework for land reform by adopting an order creating a technical committee for land reform, appointing its members and validating its terms of reference.	*Prior Action 8:* The Minister of Interior and Decentralization, the Minister of Housing, Urban Development, and Land-Use Management, the Minister of Budget, and the Minister of Economy and Finance have issued and published it in the official gazette a joint order laying down the new simplified modalities for processing demands for the final concession on property in urban areas, with the objective of expediting the property title granting process.	
B.3 The Livestock Sector		
Prior Action 8: The Council of Ministers has made the Livestock Law operational through the adoption of two new executive decrees on livestock exports and imports and on animal-feed quality, and through the Minister of Livestock three new orders on poultry production and veterinary inspections, all in accordance with OIE standards, and all published in the official gazette.	*Prior Action 9:* (i) The Council of Ministers has adopted decrees codifying professional standards and qualifications for veterinarians and defining the applicable requirements and institutional framework for the livestock sector, including for establishing livestock farms, vaccination parks, livestock markets, and slaughterhouses; and these decrees are consistent with the World Organization of Animal Health (OIE) standards; (ii) the Minister of Livestock has issued three new orders defining conditions for meat utilization and transformation and describing the organization of the livestock profession and sectoral information systems; and (iii) these decrees and orders have been published in the official gazette.	Improvements in the formalization of the livestock sector as highlighted by: The increase in the percentage of verified products in total products of slaughterhouses. Baseline (2016): 0%. Target (2018): 8%. The increase in the percentage of formal livestock transactions (as per the new law) at the borders. Baseline (2016): 0%. Target (2018): 10%.

ANNEX 2: LETTER OF DEVELOPMENT POLICY

بســــــم الله الرحمن الرحيم

République Islamique de Mauritanie
Honneur – Fraternité – Justice

الجمهــوريــــة الاسلاميــــة الموريتانيــــة
شــرف – إخــاء – عــدل

Ministère de l'Economie et des Finances

وزارة الاقتصـــــاد والماليـــة

N° ......0001852......... M.E.F/M

Nouakchott le : ....03 NOV 2017........... :انواكشوط في

Le Ministre الــوزيـــر

A
Son Excellence Monsieur Jim Yong Kim
Président du Groupe de la Banque Mondiale
- Washington D.C. -

Objet : Lettre de politique de développement

Excellence Monsieur le Président,

La présente Lettre de politique de développement (LPD) retrace l'évolution récente de la situation économique et sociale de la Mauritanie (1); décrit les progrès accomplis dans la mise en œuvre des réformes appuyées par la première opération d'appui budgétaire et les perspectives (2); et présente la nouvelle stratégie de développement à long terme du pays, intitulée "Stratégie de croissance accélérée et de prospérité partagée (SCAPP)" à l'horizon 2030 (3).

1. Développements économique et social récents

1.1 Au cours de ces dernières années, l'économie mauritanienne a été caractérisée par :

a. Une croissance économique qui est restée soutenue (+5,6% en moyenne annuelle) durant la période 2011-2014, en lien avec l'exécution d'un ambitieux programme d'investissements publics et le dynamisme des secteurs des transports et télécommunications, des bâtiments et travaux publics ainsi que des activités minières. Le déficit budgétaire a été ramené à 1,1% du PIB non-extractif en 2013 contre 1,4% en 2010, résultat obtenu grâce à la bonne tenue de l'activité économique, à un effort important de recouvrement des impôts et taxes, aux revenus tirés du secteur minier et à la mobilisation d'appuis budgétaires. Le taux d'inflation s'est établi à 3,8%, en moyenne annuelle, en 2014, alors qu'il se situait à 5,7% en 2011.

Toutefois, le choc sur les termes de l'échange que connait l'économie mauritanienne depuis la fin 2014 et son impact sur l'activité économique dans son ensemble, se sont traduits entre 2015 et 2016 par un ralentissement de la croissance, une baisse des revenus de l'Etat et de la liquidité bancaire et un creusement des déficits budgétaire et du compte courant extérieur.

Face à cette conjoncture défavorable, le Gouvernement a entrepris une série de réformes économiques destinées à maintenir la consolidation budgétaire et à soutenir la participation du

1

secteur privé dans le système productif non-extractif dans une optique de relance de la croissance et de diversification de l'économie.

Ainsi en 2017, l'activité économique montre des signes de reprise, avec une progression du PIB réel estimée à 3,5%, soutenue par une amélioration des termes de l'échange et une intensification des investissements dans les industries extractives. Le déficit budgétaire devrait se réduire à 0,2% du PIB non-extractif, grâce à la hausse des recettes, soutenue par la reprise de l'activité économique, et le maintien de la rigueur budgétaire en matière d'exécution des dépenses. L'évolution des prix à la consommation serait contenue à 2,2%, en glissement annuel, à fin août grâce à une relative stabilité du taux de change et des marchés mondiaux des matières premières ; elle ne devrait pas dépasser 2,7% en fin décembre. Le déficit du compte courant extérieur serait ramené à 10,9% du PIB (contre près de 20% en 2015) à la faveur essentiellement de l'accroissement des exportations de biens.

b. Un développement de secteurs porteurs de croissance : la croissance économique est tirée principalement par le secteur agropastoral (agriculture et élevage), la pêche, les activités extractives et le secteur des bâtiments et travaux publics.

Le ***secteur agropastoral*** est stratégique pour la Mauritanie ; il contribue à hauteur de 18 à 22% au PIB, et constitue l'un des plus grands pourvoyeurs d'emplois du pays. Le *sous-secteur agricole* présente des potentialités considérables : plus de 500.000 ha de terres cultivables dont environ 365.000 ha en cultures pluviales, 135.000 ha en cultures irriguées, 19.700 ha en cultures de palmiers et 22.500 ha en cultures derrière les barrages. Aussi, le potentiel irrigable le long du fleuve Sénégal est sous valorisé avec seulement 46.100 ha de terres aménagés (moins de 35% des superficies irrigables). Le *sous-secteur de l'élevage* représente entre 12 et 16% au PIB (85% de la valeur ajoutée du secteur). La Mauritanie dispose d'un cheptel important dont les effectifs sont évalués à plus de 21 millions de têtes (18 millions d'ovins et de caprins ; 1,9 million de bovins et 1,5 million de camelins). L'élevage fournit des revenus à environ 60% de la population nationale et joue un rôle déterminant dans la sécurité alimentaire et la résilience ; le bétail étant à la fois une source de revenus et de nourriture ainsi qu'une forme d'accumulation de capital et d'assurance.

Considérant que le secteur agropastoral recèle de nombreuses potentialités et offre des possibilités de diversification durable de l'économie nationale, un Programme national de développement agricole (PNDA) et un Programme national de développement de l'élevage (PNDE) ont été adoptés par le Gouvernement respectivement en fin 2016 et en juin 2017.

Le ***secteur des pêches*** demeure l'un des piliers de l'économie nationale par sa contribution significative aux revenus de l'Etat, à l'emploi et à la sécurité alimentaire. Dans ce contexte et afin de maximiser durablement les retombées de l'exploitation et de la gestion des ressources, le Gouvernement a adopté en 2015 une nouvelle stratégie sectorielle pour la période 2015-2019, avec pour objectif de faire du secteur des pêches un vecteur de croissance en favorisant son intégration à l'économie nationale à travers, notamment: (i) le développement des infrastructures de base et des services; (ii) l'encouragement de la transformation et la valorisation des produits de pêches et; (iii) la création davantage d'emplois et de valeur ajoutée.

Aussi et en vue d'asseoir une transparence au niveau de la gestion technique des pêcheries, d'une part, et des revenus tirés du secteur, d'autre part, la Mauritanie est le premier pays à mettre en place l'Initiative pour la transparence dans le secteur des pêches (**Fisheries Transparency Initiative –FiTI**).

S'agissant des ***activités extractives***, elles ont significativement progressé à partir de 2006 avec la mise en exploitation de nouvelles ressources (pétrole, or et cuivre). Suite à cette diversification, le poids du secteur dans le PIB est passé de 8,3% avant 2006 à plus de 12% en moyenne entre 2006 et 2015. La découverte d'importants champs gaziers et pétrolifères ainsi que les réformes institutionnelles entreprises et le renforcement des dispositions légales et réglementaires sont de nature à améliorer la situation du secteur et sa contribution à l'économie nationale. A cet égard, la mise en exploitation du gisement de gaz offshore découvert récemment pourrait améliorer considérablement les perspectives économiques et financières de la Mauritanie à partir de 2021.

Le secteur des ***bâtiments et travaux publics*** a connu au cours des dernières années un réel dynamisme avec l'exécution d'un ambitieux programme d'investissements publics orientés essentiellement vers la réalisation d'infrastructures de soutien à la croissance et d'équipements collectifs. Ces efforts se sont traduits par une extension rapide du *réseau routier* dont le linéaire en routes bitumées est passé de 1.760 à 4.867 km entre 2001 et 2014. Dans le domaine du *transport aérien*, en plus des dix (10) aéroports et des dix (10) aérodromes dont dispose le pays, un nouvel aéroport international a été construit à Nouakchott pour accueillir les nouvelles générations d'aéronefs de type A 380 et B 747- 400. En matière d'*infrastructures portuaires*, le pays est doté de plusieurs ports à Nouakchott et à Nouadhibou, tandis qu'un Pôle de développement (port de pêche artisanale) est en cours de construction à Tanit.

Dans le ***secteur de l'énergie***, la production d'électricité est de 749 millions Kw en 2015 contre 475 millions de Kw en 2007. Le taux d'accès des ménages au réseau d'électricité a connu une évolution notable passant de 18,8% en 2000 à 38,8% en 2015, avec toutefois des disparités entre milieu urbain (76,9%) et milieu rural (2,3%). Le développement de l'énergie renouvelable et le mix énergétique se manifestent à travers l'électrification, depuis 2012, de plusieurs localités par des centrales hybrides.

1.2 En matière de **développement du capital humain**, des progrès importants ont été réalisés ces dernières années dans les domaines de l'accès au système éducatif et aux prestations de santé ainsi que de la lutte contre la pauvreté et de la protection sociale, qui ont permis de faire reculer le taux de pauvreté de 11% entre 2008-2014. Une stratégie nationale de protection sociale a été adoptée et fera l'objet d'une vaste campagne de vulgarisation. Toutefois, des défis importants restent à relever. Le taux de pauvreté est encore élevé (31% selon l'EPCV 2014) et le système de protection sociale reste marqué par l'insuffisance du ciblage des populations vulnérables, la faible capacité des structures, le manque de moyens et l'absence d'un mécanisme approprié de coordination entre les différents programmes et acteurs. Dans ce contexte, le Gouvernement, avec l'appui de la Banque mondiale, met en œuvre, depuis 2016, un dispositif d'appui social mieux ciblé. Le renforcement institutionnel du registre social unique des ménages vulnérables à travers une couverture complète de tous les secteurs de poche de pauvreté, sera finalisé très prochainement, en vue de garantir une continuité de la politique de ciblage des transferts envers les plus vulnérables. Parallèlement, les dépenses sociales (éducation, santé, emploi…) seront renforcées et mieux ciblées, afin d'accroître leur efficacité.

2. Progrès accomplis dans la mise en œuvre des réformes appuyées par la première opération d'appui budgétaire et perspectives

2.1 Progrès accomplis dans la mise en œuvre des réformes : au cours de la première année du Programme d'appui budgétaire (DPO1), les efforts du Gouvernement ont porté sur la mise en œuvre de réformes structurelles visant à : renforcer la consolidation budgétaire, améliorer le cadre de politique monétaire et de change, et soutenir la participation du secteur privé dans l'économie non-extractive.

En matière de ***consolidation budgétaire***, les principales mesures initiées ont concerné l'amélioration de l'efficacité et de la gestion des dépenses publiques à travers l'appui à la rationalisation des dépenses fiscales pour accroître l'assiette fiscale et réduire la dépendance sur les ressources budgétaires provenant du secteur extractif, la mise en place d'un Cadre institutionnel de gestion de l'investissement public, l'intégration des dépenses d'investissements financées sur ressources extérieures dans le budget de l'Etat pour une meilleure visibilité, et la centralisation du fichier de paiement de la masse salariale.

De même, la première phase de la réforme des entreprises publiques a été mise en œuvre avec l'affichage des dépenses salariales des Etablissements publics administratifs (EPA), offices et assimilés dans la rubrique "traitements et salaires " du budget de l'Etat et leur intégration au niveau du système de paiement du Réseau automatisé de la chaine des dépenses publiques (RACHAD) et du Réseau automatisé des traitements et salaires des employés payés sur bulletin (RATEB); l'objectif à terme de cette réforme est d'unifier l'exécution du budget de l'Etat sans remettre en cause l'autonomie et le modèle de gouvernance conférés à ces entités.

Afin de corriger les faiblesses et les contraintes liées à la mise en œuvre de la réforme des marchés publics engagée en 2010, et d'harmoniser les textes d'application du cadre juridique organisant le dispositif organisationnel du secteur, le Gouvernement a adopté récemment un projet de Décret portant modification de certaines dispositions des décrets d'application de la loi portant Code des marchés publics. L'objectif de ce décret est d'affiner la composition, l'organisation, le fonctionnement et l'ancrage institutionnel des structures en charge des marchés publics pour les rendre plus transparentes et plus efficaces.

Dans le domaine de la ***politique monétaire et de change***, les autorités ont adopté un ensemble de mesures destinées à rétablir la compétitivité de l'économie et à renforcer sa résilience aux chocs exogènes. Les actions entreprises ont porté notamment sur l'application de la réglementation de change et la suppression de ventes directes de devises par la Banque centrale de Mauritanie (BCM), ce qui a contribué à maintenir les réserves officielles de change à un niveau confortable, tout en améliorant significativement le taux de satisfaction de la demande en devises. La BCM s'est engagée aussi à accroître la concurrence sur le marché de change à travers l'élimination de la limite de 6 Ouguiya fixée pour les offres d'achat. En outre, elle a procédé à l'établissement d'un cadrage macroéconomique et d'une programmation monétaire trimestrielle avec pour objectifs quantitatifs de servir de cibles intermédiaires pour la conduite de la politique monétaire.

En vue de lever les contraintes qui freinent le ***développement du secteur privé***, le Gouvernement s'est attelé à l'accélération de la cadence dans la mise en œuvre des réformes. Dans ce cadre, une feuille de route sur les réformes à entreprendre pour l'amélioration du climat des affaires a été adoptée en décembre 2016. Les principales mesures envisagées portent, entre autres, sur : l'utilisation effective du formulaire unique pour la création d'entreprise, le renforcement du guichet unique de délivrance des permis de construire, et un processus innovant des cotisations sociales payables à la Caisse nationale d'assurance maladie (CNAM) et à la Caisse nationale de sécurité sociale (CNSS). Un Code des droits réels (CDR) a été adopté avec pour objectif de moderniser le droit de propriété en vigueur en Mauritanie ; il vise ainsi à remédier à l'insécurité juridique frappant notamment les investisseurs privés et relative en particulier à la propriété des biens immeubles. Cette feuille de route sera actualisée avant la fin de l'année 2017 sur la base des résultats de l'enquête "Doing Business" conduite par la Banque Mondiale.

Dans le but de poursuivre et de renforcer l'investissement public dans les infrastructures tout en maintenant la soutenabilité des finances publiques, un Cadre légal et institutionnel relatif au Partenariat-public-privé (PPP) et son Décret d'application ont été adoptés, en vue de combler les lacunes du cadre légal national en la matière ; une Cellule en charge de ce type d'opérations est en instance de création. Un portefeuille de projets est actuellement en cours de préparation pour identifier des opérations financièrement viables et commerciales à même d'intéresser le secteur privé tant national qu'international.

2.2 Perspectives à court terme : les perspectives se sont améliorées récemment suite à l'appréciation des cours du minerai de fer, aux investissements directs étrangers dans le secteur extractif et aux progrès accomplis en matière de réformes économiques. Dans ce contexte, le Gouvernement entend poursuivre la dynamique enclenchée depuis 2015 et qui s'articulera autour de : (i) la consolidation des acquis des efforts budgétaires ; et (ii) la poursuite des réformes structurelles, afin de renforcer la compétitivité de l'économie et de favoriser la diversification de la base productive.

La ***politique budgétaire*** restera guidée par le rééquilibrage des finances publiques, afin d'assurer la viabilité de la dette publique à moyen terme et de contribuer à l'ajustement externe. En d'autres termes, il s'agira de garantir la pérennité des recettes budgétaires, d'améliorer l'efficacité des dépenses publiques et de limiter les risques budgétaires.

La *politique fiscale* sera orientée vers l'optimisation du rendement fiscal ainsi que la simplification et la modernisation du système fiscal à travers l'adoption, en 2018, du nouveau Code des Douanes et du nouveau Code des procédures fiscales. De même, un nouvel impôt unique sur les sociétés sera introduit en 2019, en vue de moderniser et de simplifier la structure de taxation et de formaliser l'économie. Les mesures visant à protéger l'assiette fiscale porteront sur: (i) l'élargissement de la base taxable à travers la mise à jour régulière du fichier central des NIFs (Numéros d'identification fiscale) pour éliminer les NIFs inactifs et le renforcement de la gestion des risques en matière de respect des obligations fiscales; (ii) la suppression de certaines niches fiscales par l'élimination des exonérations jugées inefficaces, après évaluation de leur coût fiscal; et (iii) le renforcement des mécanismes de contrôle et d'évaluation de l'administration douanière grâce au renforcement des capacités des services à assurer la gestion efficace du Bureau national de la valeur (BNV). D'ores et déjà le coût des dépenses fiscales sur la période 2014-2016, évalué avec l'appui de la Banque mondiale, sera publié en annexe de la loi de finances 2018.

Parallèlement, le cadre de politique budgétaire sera renforcé pour tenir compte de la possible augmentation des recettes tirées du secteur extractif, en particulier le sous-secteur gazier. Ce cadre permettra notamment d'éclairer le choix sur l'affectation de ces revenus, de formuler des règles budgétaires qui tiennent compte de la volatilité et de l'épuisement de ces ressources, et d'assurer la bonne gouvernance et la transparence.

L'objectif en matière de gestion des *dépenses publiques* est de poursuivre la rationalisation des dépenses courantes par: (i) l'exécution de toutes les dépenses publiques à travers le RACHAD; (ii) le captage de la totalité de la masse salariale, (iii) l'alignement des cycles budgétaires des entreprises et établissements publics pour améliorer la gestion de la trésorerie; (iv) la couverture de la quasi-totalité des établissements publics par le système RACHAD, et (v) le renforcement du contrôle des dépenses et de l'endettement des entreprises publiques par l'amélioration de la surveillance et la présentation de rapports sur le secteur parapublic. En outre, l'amélioration de l'efficacité de l'investissement public sera poursuivie avec la mise en œuvre des réformes prévues dans le décret fixant le nouveau cadre institutionnel du PIP.

En matière d'endettement extérieur, il sera privilégié le recours aux dons et aux emprunts concessionnels pour financer le programme d'investissements à un rythme compatible avec la viabilité de la dette.

Les autorités s'emploieront à l'application d'une ***politique monétaire*** et de gestion de la liquidité plus active, et à l'amélioration du fonctionnement du marché de change pour introduire plus de flexibilité et de pro-activité. L'objectif est de garantir la stabilité des prix et de renforcer le rôle du taux de change dans l'atténuation des chocs exogènes et la préservation des équilibres extérieurs. A cet égard, les mesures à entreprendre concerneront, en particulier, le renforcement de l'indépendance de la BCM, la révision à la baisse du taux directeur pour le rapprocher des taux du marché et le rendre plus effectif, l'introduction de nouveaux instruments d'intervention (facilités de dépôts et d'apport de liquidités), l'application stricte de la réglementation des changes et des normes prudentielles relatives aux positions de change, l'introduction graduelle d'un système d'adjudication de gros à sens unique, et la détermination d'un seuil de tolérance pour la volatilité du taux de change défini par rapport au taux marginal de la dernière adjudication et sur la base d'un panier de devises.

3. Objectifs de la nouvelle stratégie du pays SCAPP

Le Gouvernement a élaboré la stratégie de Développement post 2015 dénommée « **Stratégie de croissance accélérée et de prospérité partagée (SCAPP) »,** qui constitue le cadre unique de référence en matière de politique économique et sociale du pays à l'horizon 2030. L'objectif recherché à travers cette stratégie, est de promouvoir la transformation structurelle de l'économie pour en faire une économie diversifiée et résiliente aux chocs exogènes dans une perspective de soutenir une dynamique de croissance plus forte et équitablement répartie.

Cette stratégie, qui intervient après quinze (15) années (2001-2015) de mise en œuvre du Cadre stratégique de lutte contre la pauvreté (CSLP), s'inscrit dans une vision d'ensemble pour la Mauritanie, qui est celle d'un pays moderne et prospère, administrativement et économiquement assaini et décentralisé, politiquement stable et bien intégré dans son environnement sous-régional, régional et dans le concert des nations. De plus, cette vision est fondée sur l'égalité et le respect des droits, afin d'offrir aux citoyens la possibilité de vivre dignement et d'être fiers d'appartenir à leur patrie. Cette vision est déclinée en trois (3) leviers stratégiques de changement:

- ☐ LS1- **Promotion d'une croissance économique forte, inclusive et durable**: l'objectif principal de ce levier est de proposer des conditions permettant de créer une croissance forte, inclusive et durable notamment à travers la diversification de l'économie, la promotion du secteur privé, le développement des filières à fortes potentialités de croissance et d'emplois décents, le renforcement de l'environnement des affaires, le développement des infrastructures de soutien à la croissance et la gestion durable des ressources;

- ☐ LS2- **Développement du capital humain et accès aux services sociaux de base** : la formation d'un capital humain de qualité est retenue comme étant le meilleur atout pour assurer la mise en œuvre de la SCAPP dont il constitue à la fois le moyen et la finalité. C'est dans ce cadre que s'inscrivent : l'acquisition des aptitudes et compétences pour mieux s'insérer dans le marché de l'emploi à travers l'entreprenariat et l'innovation, le renforcement du capital-santé des populations, l'accès généralisé aux services sociaux essentiels, la protection et l'autonomisation des groupes vulnérables sont considérées comme prioritaires ;

- ☐ LS3- **Renforcement de la gouvernance dans toutes ses dimensions**: il s'agit d'une analyse de la situation en matière de gouvernance à travers des « marqueurs » clés que sont : (i) le fonctionnement des institutions démocratiques pour l'alternance pacifique au pouvoir, la stabilité politique et la cohésion sociale dans un Etat de droit respectueux des droits humains, y compris l'équité et l'égalité de genre ; (ii) le fonctionnement de la justice et de l'administration publique ; (iii la gouvernance locale, territoriale et environnementale; (iv) la place et le rôle de la société civile et du secteur privé dans la vie économique et sociale du pays.

La SCAPP a été approuvée en conseil des Ministres dans sa session du 19 octobre 2017 et un dispositif institutionnel de pilotage et de suivi-évaluation opérationnel a été mis en place, afin de garantir le succès de sa mise en œuvre.

Pour le financement de la SCAPP, le Gouvernement envisage l'organisation dès le début de l'année prochaine d'une réunion des Partenaires techniques et financiers (PTF) de notre pays pour le bouclage du financement des projets et programmes qui sous-tendent le Plan d'actions prioritaires (PAP) 2017-2020.

Le Gouvernement mauritanien est convaincu qu'en poursuivant les réformes en cours, notamment celles relatives à l'assainissement des finances publiques, l'amélioration de la gouvernance économique, la promotion du secteur privé et la diversification de l'économie, il réussira, avec l'aide de ses Partenaires techniques et financiers (PTFs), en particulier la Banque Mondiale, à atteindre ses objectifs de réduction de la pauvreté et de développement durable.

Veuillez agréer, Excellence Monsieur le Président, l'assurance de ma parfaite considération.

El Moctar OULD DJAY

الوزير
Le Ministre
RIM. Ministère de l'Economie et des Finances

ANNEX 3: FUND RELATIONS ANNEX

Islamic Republic of Mauritania—Assessment Letter for the World Bank

November [21], 2017

This letter provides an update on IMF staff's assessment of the macroeconomic and financial situation in Mauritania, staff's discussions with the Mauritanian authorities on a program that could be supported by a three-year Extended Credit Facility arrangement (ECF), and prospects going forward. This assessment is based on discussions with the authorities that took place in Nouakchott during September 25–October 6, 2017, and in Washington subsequently. The IMF's Executive Board is expected to consider a request by the authorities for a three-year ECF arrangement in early December 2017. This letter updates the assessment contained in the 2017 Article IV Consultation with Mauritania concluded on July 28, 2017.[55]

Recent Economic Developments

1. **Mauritania experienced a severe terms-of-trade shock in 2014-15 that slowed growth and widened imbalances.** The authorities responded decisively to the external shock and its aftermath and undertook a sizeable fiscal consolidation, cutting the budget primary deficit (excluding grants) from 4.5 percent of non-extractive GDP (NEGDP) in 2015 to 1.5 percent of NEGDP in 2016, while allowing the nominal exchange rate to depreciate by 16 percent against the dollar during 2015–16. These measures contributed to reducing the external current account deficit. At the same time, external resources were mobilized to finance deficits, maintain reserves, and mitigate pressures on liquidity. However, growth slowed to 1.6 percent in 2016. In addition, notwithstanding the sharp fiscal adjustment, debt continued to rise—albeit at a slower pace—to 72 percent of GDP at end-2016, partly because of slower growth and faster depreciation. Tight liquidity associated with the deceleration of economic activity exposed bank vulnerabilities.

2. **Growth is expected to rebound to 3.1 percent in 2017, aided by an improvement in the terms of trade and a pickup in mining investment, despite lower iron ore production.** Preliminary indicators suggest that growth was supported by construction and manufacturing (cement production and fish processing). Inflation dropped to 0.8 percent y-o-y in October along with the deceleration of both domestic and imported food inflation. Mining investment picked up on the back of the ongoing expansion of a foreign-owned gold treatment plant while investments by the publicly owned mining company to rehabilitate an iron ore treatment plant remained ongoing. Exploration and development work continued apace in the off-shore gas field shared with Senegal.

3. **Fiscal adjustment continued in 2017, and with a supplementary budget for 2017 passed in October, the primary balance (excluding grants) is expected to record a surplus of 0.2 percent of NEGDP in 2017.** As of August, the primary balance (excluding grants) improved further, reaching close to balance owing mainly to sustained tax revenue performance, a rebound in extractive revenues related to the offshore gas project, and under-execution of capital spending. To control current spending, the authorities are streamlining public employment practices

[55] For the staff report and press release containing the Executive Board's assessment, see IMF Country Report No. 17/324.

(removing ghost workers, piloting new wage structures, and integrating parastatal entities into the central treasury system) and introducing a new targeted cash transfer system.

4. **Total fiscal adjustment over the two years 2016-17 is expected to reach 4.7 percentage points of NEGDP.** This adjustment has been achieved through a combination of current and capital spending cuts and non-extractive revenue gains of close to 5 and 2 percent of NEGDP, respectively, while extractive and nontax revenue declined.

5. **The balance of payments extended last year's gains and improved in the first half of 2017 on the back of higher metal prices and fishing exports.** This, in addition to higher repatriation of fishing proceeds, allowed the central bank (BCM) to rebuild international reserves to $840 million (5.1 months of non-extractive imports) at end-September, while meeting a higher share of foreign exchange (FX) demand. The dollar exchange rate remained stable over 2017, although the real effective exchange rate depreciated by 6.3 percent between December 2016 and July 2017 due to the depreciation of the dollar vis-à-vis the euro. The current account deficit is expected to continue to narrow in the second half of the year, which would bring it down to a projected 5 percent of GDP (excluding FDI-financed imports of extractive capital goods) for 2017—contributing to a substantial reduction in the estimated effective exchange rate misalignment.[56]

6. **Overall liquidity conditions improved somewhat.** Lower FX intervention reduced the contractionary effect of non-sterilized intervention, freeing additional reserves for banks. As a result, broad money growth accelerated to 13.3 percent y-o-y in September. However, the impact of higher deposits on banks' liquidity in domestic currency was less pronounced as part of the increase was kept in correspondent banks abroad. This, compounded with high credit risk and real interest rates, weighed on credit to the private sector, which grew by 5.5 percent over the same period.

7. **Financial stability risks have eased somewhat, but vulnerabilities persist.** The nascent recovery in 2017 and better terms of trade led to an improvement in the non-performing loan (NPL) ratio, which dropped to 23 percent at end-June from 25.5 percent in 2016. In addition, the system-wide capital adequacy ratio rose from 23.7 percent to 25.5 percent. Nonetheless, the situation of a few banks remains fragile due to a still-high level of NPLs. Credit risks remain elevated due to loan concentration and related-party lending in the context of weak supervision.

8. **External public debt has levelled off and the ratio to GDP is projected to decline to 68½ percent by end-2017,** on account of a rise in nominal GDP, continued fiscal consolidation, and a moderate pace of project disbursements. Nonetheless, Mauritania continues to be rated at high risk of debt distress given its relatively high external debt level.

The Authorities' Macroeconomic Program

9. **Mauritania faces the difficult challenges of supporting growth, jobs and economic diversification, while maintaining macroeconomic stability and strengthening its weak**

[56] In the 2017 Article IV consultation, the real exchange rate was assessed as overvalued by 21 and 14 percent using the External Balance Assessment's (EBA-lite) current account (CA) and related external sustainability (ES) models, respectively, with 2016 and 2022, respectively, as the reference years; the corresponding CA norms were -4.8 and -2.7 percent of GDP.

external position and fragile debt sustainability. The severe terms-of-trade shock, limited policy space, and weak capacity have made these challenges even more acute, and call for sustained prudent policies and structural reforms over an extended period. At the same time, long-term funding—mostly on concessional or semi-concessional terms—and ongoing support from development partners could, if harnessed effectively, provide the resources needed to scale up public infrastructure and boost growth prospects.

10. **In this context, staff held discussions with the authorities on a program that could be supported by a three-year Extended Credit Facility arrangement (ECF).** The IMF's Executive Board is expected to consider the authorities' request for an ECF arrangement with access of up to SDR 115.920 million in early December 2017.

11. **The authorities' program aims to address the challenges of growth, stability and sustainability, support the reform momentum, and catalyze external financing.** The program is consistent with the objectives of Mauritania's development strategy, the Accelerated Growth and Shared Prosperity Strategy (SCAPP), and supports inclusive and diversified growth while addressing remaining external imbalances and reducing vulnerabilities. The program would:

- Improve access to foreign exchange and increase exchange rate flexibility—through FX market reforms—to absorb shocks and enhance competitiveness, accompanied if needed by countercyclical monetary policy to address tight liquidity and support growth—while monitoring possible effects on the exchange rate and inflation.

- Create space for infrastructure investment and social spending (to support inclusive growth and diversification) while locking in the adjustment already achieved and maintaining a path of gradual fiscal consolidation to strengthen the external position and debt sustainability. This is expected to be achieved by strengthening domestic revenue mobilization and public investment management to ensure prioritization. The program will accommodate new external borrowing focused on growth-enhancing infrastructure, with preference given to concessional loans and grants.

- Strengthen bank supervision, upgrade the regulatory framework, and reinforce contingency plans to buttress financial stability.

- Support expanded social policies and improvements in the business environment critical for eliciting a supply and diversification response and reducing endemic poverty.

12. **The program will accommodate limited concessional and non-concessional external borrowing (NCB) for selected growth-enhancing infrastructure projects, consistent with debt sustainability.** While the authorities have made progress in prioritizing their public investment program and negotiating better financing terms over the past year, the program proposes a non-zero non-concessional debt limit to accommodate a few growth-enhancing projects, which is consistent with Mauritania's debt sustainability. Under the program's macroeconomic framework and with the authorities' program policies, debt burden indicators would be put on a clear downward trend.

Outlook and Risks

13. The economic outlook is positive, but risks are elevated and debt remains a concern. Growth prospects have improved—supported by some improvement in the terms of trade, FDI in the extractive sector, planned structural reforms, and growth-enhancing public investment—but external pressures and debt sustainability concerns are expected to persist with continued low and volatile metal prices. Short-term risks are significant but become more balanced in the long term: on the downside, the economy remains highly vulnerable to lower metals prices, weather-related events, high NPLs, and regional security developments. On the upside, possible development of the off-shore gas field could be a game-changer starting in 2021.

IMF Reaches Staff-level Agreement with Mauritania on a Three-Year Arrangement Under the Extended Credit Facility

(Press Release - November 10, 2017)

- Staff-Level agreement reached on a three-year economic program with Mauritania.
- IMF financing will support the authorities' economic policies and reforms.
- The program aims to foster inclusive growth, maintain macroeconomic stability, restore debt sustainability, and reduce poverty.

An IMF staff team led by Mr. Eric Mottu held discussions with the Mauritanian authorities on an IMF-supported economic program from September 25 to October 6 in Nouakchott and subsequently in Washington. Mr. Mottu made the following statement today from Washington:

"Following productive discussions, the IMF team reached a staff-level agreement *ad referendum* with the Mauritanian authorities on an economic reform program to be supported by a three-year arrangement under the Extended Credit Facility (ECF). The staff-level agreement is subject to approval from IMF management and the IMF's Executive Board, expected in December 2017. Under the arrangement, Mauritania would have access to IMF credit of up to SDR 115.920 million, or about US$ 162.8 million over three years.

"Mauritania's economic reform program supported by the IMF aims to foster inclusive and diversified growth to improve the population's living standards, maintain macroeconomic stability, restore debt sustainability, and reduce poverty. Building on the authorities' adjustment and reform efforts over the past two years, the program will entail continued gradual fiscal consolidation to strengthen debt sustainability, while creating fiscal space for higher social spending and infrastructure investment through revenue mobilization, expenditure prioritization, and public investment management reforms.

"The authorities' program will introduce a competitive foreign exchange market along with a modernized monetary policy framework. This will ensure regular access to foreign exchange, increase exchange rate flexibility, address tight liquidity, and support growth. The authorities will strengthen bank supervision, improve the business climate, and expand social safety nets. Mauritania's reform program supported by the IMF will also catalyze support from development partners, which will help implement the authorities' strategy for Accelerated Growth and Shared Prosperity (SCAPP) for 2017–30.

ANNEX 4: Environment and Poverty/Social Analysis Table

Prior actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Operation Pillar A: Support fiscal consolidation by increasing domestic revenues, controlling public enterprises expenditures and increasing the efficiency of public spending.		
A.1 Reducing tax expenditures and mitigating profit shifting and base erosion risks		
Prior Action 1: The Ministry of Economy and Finance, based on a policy communique to the Council of Ministers, has notified the companies in full breach of their investment agreements that their tax and customs incentives, awarded under the 2012 Investment Code, will be revoked, effective January 1, 2018.	no	no
Prior Action 2: The Ministry of Economy and Finance has adopted the legal provisions for a comprehensive transfer pricing documentation and disclosure requirements as well as an effective anti-abuse provisions, which limit an entity's net interest deductions to a fixed percentage of its profit, measured using earnings before interest, taxes, depreciation and amortization (EBITDA).	no	no
A.2 Public Investment Management		
Prior Action 3: The Council of Ministers has adopted a decree correcting deficiencies in the implementation of the Public Procurement Law, including clarifying regulations governing the composition, organization, and operations of the procurement commissions and designating specific officials responsible for procurement in each Contracting Authority, and has published it in the official gazette.	no	no
Prior Action 4: The Council of Ministers has adopted the implementation decrees for Law 2005-020 reorganizing the project award and project management processes, and regulating the contracting arrangement between Government and SOEs, and published it in the official gazette.	no	no
A.3 The Parastatal Sector		

Prior Action 5: The Minister of Economy and Finance has issued a policy communique instructing the expansion of the treasury management system (RACHAD) to encompass the revenues and expenditures of all eligible public agencies starting January 1, 2018, as a means to reduce fiscal risks and enable budgetary savings.	no	no
Operation Pillar B: Support private sector participation in the non-extractives sectors.		
B.1 Public-Private Partnership		
Prior Action 6: The PPP law is made operational through i) the adoption and publication in the official gazette of the PPP executive decree by the Council of Ministers that defines the institutional, procedural, and governance set-ups for PPP projects and ii) the adoption and publication in the official gazette of the order by the Minister of Economy and Finance setting thresholds for operation requiring inter-Ministerial approval.	no	no
B.2 Property Rights		
Prior Action 7: The Recipient has enacted a new Law for Property Rights (Code des Droits Réels) that modernizes, reconciles, and consolidates the current property rights regimes, and published it in the official gazette.	no	yes
Prior Action 8: The Minister of Interior and Decentralization, the Minister of Housing, Urban Development, and Land-Use Management, the Minister of Budget, and the Minister of Economy and Finance have issued and published it in the official gazette a joint order laying down the new simplified modalities for processing demands for the final concession on property in urban areas, with the objective of expediting the property title granting process.	no	Yes
B.3 Livestock Sector		

Prior Action 9: (i) The Council of Ministers has adopted decrees codifying professional standards and qualifications for veterinarians and defining the applicable requirements and institutional framework for the livestock sector, including for establishing livestock farms, vaccination parks, livestock markets, and slaughterhouses; and these decrees are consistent with the World Organization of Animal Health (OIE) standards; (ii) the Minister of Livestock has issued three new orders defining conditions for meat utilization and transformation and describing the organization of the livestock profession and sectoral information systems; and (iii) these decrees and orders have been published in the official gazette.	yes	Yes

Annex 5: Prior Actions Analytical Underpinnings

Table 5.1: DPF 2 Prior Actions and Analytical Underpinnings

Prior actions	Analytical Underpinnings
Support fiscal consolidation by increasing domestic revenues, controlling public enterprises expenditures, and increasing the efficiency of public spending	
A.1 Reducing tax expenditures and mitigating profit shifting and base erosion risks	
Prior Action #1: *The Ministry of Economy and Finance, based on a policy communique to the Council of Ministers, has notified the companies in full breach of their investment agreements that their tax and customs incentives, awarded under the 2012 Investment Code, will be revoked, effective January 1, 2018.* ***Prior action #2:*** *The Ministry of Economy and Finance has adopted the legal provisions for a comprehensive transfer pricing documentation and disclosure requirements as well as an effective anti-abuse provisions, which limit an entity's net interest deductions to a fixed percentage of its profit, measured using earnings before interest, taxes, depreciation and amortization (EBITDA).*	• World Bank, 2016. "Tax Expenditure in Mauritania. Definitions and Estimates for 2013 and 2014." Washington, D.C.: The World Bank Group. • Beer, S. and J. Loeprick (2015). Profit-shifting: drivers of transfer (mis)pricing and the potential of countermeasures. International Tax and Public Finance 22 (3), 426-451. • World Bank, 2016. Transfer Pricing and Developing Economies: A Handbook for Policy Makers and Practitioners, Washington DC. Key findings: Exemptions are highly generous, yet ineffective in subsidizing consumption among the poorest households or stimulating investment. the introduction of transfer pricing regimes, with effective documentation rules, can play a significant role in reducing profit shifting and collecting additional revenue.
A.2 Public Investment Management	
Prior Action #3: *The Council of Ministers has adopted a decree correcting deficiencies in the implementation of the Public Procurement Law, including clarifying regulations governing the composition, organization, and operations of the procurement commissions and designating specific officials responsible for procurement in each Contracting Authority.* ***Prior Action #4:*** *The Council of Ministers has adopted the implementation decrees for Law 2005-020 reorganizing the project award and project management processes, and regulating the contracting arrangement between Government and SOEs.*	• World Bank, 2016. "Islamic Republic of Mauritania: Public Expenditure Review." • World Bank, 2014. "Mauritania: Public Expenditure and Financial Accountability Assessment." • World Bank, 2016. "The Independent Evaluation of the Comparative Living Standards Project, 2001-2015." Key findings: There is no systemic process for selecting and prioritizing investment projects. Fragmented budget procedures allow for substantial off-budget capital spending, which has led to debt accumulation and increased fiscal risks.
A.3 The Parastatal Sector	
Prior Action #5: *To reduce fiscal risks and enable budgetary savings, the Minister of Economy and Finance has issued an executive order instructing the expansion of the treasury management system (RACHAD) to encompass the revenues and expenditures of all eligible public agencies starting January 1, 2018.*	• World Bank, 2013. "Governance of State-Owned Enterprises and Public Agencies in the Islamic Republic of Mauritania." • World Bank, 2016. "Islamic Republic of Mauritania: Public Expenditure Review." Key findings: The rapid growth of public enterprises over the last five years has intensified fiscal risks due to operating losses, weak governance, and dependence on government transfers.
Support private sector-led diversification in the non-extractive sectors.	
B.1: Public-Private Partnerships	
Prior Action #6: *The PPP law is made operational through i) the adoption and publication in the official gazette of the PPP executive decree by the Council of Ministers that defines the institutional, procedural, and governance set-ups for PPP projects and ii) the adoption and publication in the official gazette of the order by the Minister of Economy and Finance setting thresholds for operation requiring inter-Ministerial approval.*	• World Bank, 2015. "Legal and Institutional Analysis of PPPs in Mauritania." • World Bank, 2015. "Nouadhibou's Eco-Competitive Seafood Cluster." • World Bank, 2016. "Islamic Republic of Mauritania Diagnostic Trade Integration Study Update." Key findings: No formal definition of PPPs or legal framework for PPP regulation have been adopted since the amendment of the Procurement Act in 2010. There is no clear national strategy for PPPs or lead agency. Legal and institutional arrangements are inadequate to reassure private investors and provide a conducive business environment. Capacity constraints and inadequate knowledge of PPP operations prevent financial modeling. Failed PPP attempts in the past that may influence the credibility of further PPP operation.

B.2 Property Rights	
Prior Action #7: *The Recipient has enacted a new Law for Property Rights (Code des Droits Réels) that modernizes, reconciles, and consolidates the current property rights regimes, and published it in the official gazette.*	• World Bank, 2014. « Cadre d'Analyse de la Gouvernance Foncière en Mauritanie». • World Bank/IFC, 2015. "Enterprise Surveys: Mauritania Country Profile". • World Bank, 2015. "Mauritania: Diagnostic Trade Integration Study Update". • Heritage Foundation, 2016. "Index of Economic Freedom: Property Rights Index." • Bernard Samoullier, 2016. "Revue des circuits et procédures d'enregistrement de la tenure de la terre et de la propriété foncière ». Document de travail, Projet Gouvernance. Key findings: A weak regulatory framework for land rights has created uncertainty and led to conflict. Insecure land tenure has negative effects on domestic and foreign investment and is a constraint on credit access and private-sector growth.
Prior Action #8: *The Minister of Interior and Decentralization, the Minister of Housing, Urban Development, and Land-Use Management, the Minister of Budget, and the Minister of Economy and Finance have issued and published it in the official gazette a joint order laying down the new simplified modalities for processing demands for the final concession on property in urban areas with the objective of expediting the property title granting process.*	
B.3 The Livestock Sector	
Prior Action #9: *(i) The Council of Ministers has adopted decrees codifying professional standards and qualifications for veterinarians and defining the applicable requirements and institutional framework for the livestock sector, including for establishing livestock farms, vaccination parks, livestock markets, and slaughterhouses; and these decrees are consistent with the World Organization of Animal Health (OIE) standards; (ii) the Minister of Livestock has issued three new orders defining conditions for meat utilization and transformation and describing the organization of the livestock profession and sectoral information systems; and (iii) these decrees and orders have been published in the official gazette.*	• Annual Meetings Decisions of the OIE. • World Bank 2015. « *Projet Régional d'Appui Au Pastoralisme Au Sahel (PRAPS), Cadre De Gestion Environnemental Et Sociale*. » • GoM 2015. « *Stratégie Nationale de Security Alimentaire pour la Mauritanie aux horizons 2015 et visions 2030.* » • World Bank, 2015. "Mauritania: Diagnostic Trade Integration Study Update." Key findings: A lack of sanitary standards and a high degree of informality in livestock production and associated activities are major obstacles to the development in the livestock sector and constrain its export potential.