

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC14911

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|---|---|
| Project Name | Nouadhibou Eco-Seafood Cluster Project (P151058) |
| Region | AFRICA |
| Country | Mauritania |
| Sector(s) | General agriculture, fishing and forestry sector (25%), Public administration- Industry and trade (15%), Ports, waterways and shipping (15%), Agro-industry, marketing, and trade (30%), Other domestic and international trade (15%) |
| Theme(s) | Judicial and other dispute resolution mechanisms (5%), Infrastructure services for private sector development (35%), Micro, Small and Medium Enterprise support (10%), Export development and competitiveness (25%), Trade facilitation and market access (25%) |
| Lending Instrument | Investment Project Financing |
| Project ID | P151058 |
| Borrower(s) | MAED |
| Implementing Agency | Nouadhibou Free Zone Authority |
| Environmental Category | B-Partial Assessment |
| Date PID Prepared/ Updated | 15-Jan-2016 |
| Date PID Approved/ Disclosed | 19-Jan-2016 |
| Estimated Date of Appraisal Completion | 20-Jan-2016 |
| Estimated Date of Board Approval | 24-Mar-2016 |
| Concept Review Decision | Track II - The review did authorize the preparation to continue |

I. Introduction and Context

Country Context

Mauritania has enjoyed solid economic growth since 2000, and particularly between 2010 and 2014. However, sharply deteriorating terms of trade since the end of 2014 have taken a toll on the economy. Following political instability with the overthrow of elected governments in 2005 and 2008, presidential elections in 2009 and 2014 resulted in governmental consistency. Mauritania's GDP has grown at the annual rate of 4.9 percent since 2000 and at 5.8 percent in the last decade, largely thanks to buoyant natural resource sectors coupled with high international prices. In the three-year period of 2012-14, the annual growth rate reached 6.0 percent, on average. On the other

hand, iron ore prices have declined by over 50 percent since 2014. Consequently, annual real GDP growth is projected to decelerate markedly to 3.2 percent in 2015 from 6.4 percent in 2014.

Although the country consists largely of desert, with only 0.5 percent of the land considered arable, its rich natural resources – minerals, oil and fish – have been sufficient to raise the relatively small country with population of about 3.6 million recently into the group of lower middle income countries. GDP per capita was around US\$ 1,400 in 2013.

Growth performance has been highly dependent on the external sector and, in the aftermath of the commodity price shock, macroeconomic and fiscal stabilization have become more fragile. The commodity-price boom increased Mauritania's iron-ore exports six fold in dollar value between the early 2000s and 2011. Growth was largely supported by highly positive terms of trade that allowed for a significant increase in revenues that facilitated expenditure and policy management. The present is however characterized both by less solid growth and more volatility than in the past. Remarkable fiscal reforms – especially since 2011 – have not been sufficient to prevent a rise in the country's risk of debt distress, in February 2015, from 'moderate' to 'high'.

Recent growth has contributed to achieve positive results on poverty reduction, but the sustainability of the economic model appears challenged. Between 2008 and 2014, absolute poverty has declined significantly from 46 percent to 41 percent based on an absolute poverty line of 220,124 MRO per person per year or 603 MRO per person per day (US\$2). On the sustainability front, intergenerational equity risks exist vis-à-vis the utilization of the country's natural capital. For instance, Mauritania's waters are rich with wild fish resources, but all cephalopods species are fully exploited, and among them, octopus, a key commercial species, is overexploited. Besides the fisheries, empirical evidence has shown that if gross national savings is adjusted for the depletion of natural capital, Mauritania's wealth was drawn down by 15 percent a year over 2008-2010 and this trend remained negative up to 2013.

Mauritania is a relatively open country vis-à-vis the size of its economy and development level. However, Mauritania's export structure remains heavily concentrated on extractive industry outputs, with no significant export of manufactured products. Other products have appeared in the country's export portfolio in the second half of the 2000's, but those are essentially crude oil (roughly 190 million dollars in 2014), other mineral products (gold, copper) and some re-exports. Mauritania's economy is likely to remain dominated by the extractive industries given the wealth of its mineral and hydrocarbon resources and the small size of its population. However, it will be important to diversify the economy in order to create jobs, especially for the poor, and reduce vulnerability to the inevitable terms of trade shocks in extractive industries.

The key constraint to diversification is the business and investment environment which remains poor. Substantial natural resource-based revenues have contributed to a state-driven development model based on economic clientelism and patronage. A few powerful groups are de facto in control of large businesses in trade and commerce and the banking sector. Large firms with political connections have dominated state procurement contracts and obtained import monopolies. New independent firms have trouble competing with these large groups or obtaining credit from banks, while lucrative import monopolies discourage efforts to develop local suppliers. The country's rich natural subsoil and fish resources attract investors, but even there these difficulties apply. Beyond these sectors it is a real challenge to do business in Mauritania, especially for newcomers. Due also to the lack of critical physical and institutional infrastructure, the private sector of Mauritania remains underdeveloped. Overall its economy is not sufficiently competitive to reap its full growth potential and to improve private sector productivity. While Mauritania is amongst Top 10 reformers of the Doing Business Report 2016, it still ranked 168 out of 189 economies (vs. 176 in the 2015 report) and, in the Global Competitiveness Report 2014-15, it ranked 141 out of 144 countries. A special economic zone established in Nouadhibou in 2013 represents an ideal opportunity to

demonstrate how appropriate policies, institutional arrangements and physical infrastructure can promote inclusive and sustainable growth. Mauritania's updated investment code states that the purpose of special economic zones is to encourage entrepreneurship and job creation, promote greater business activity in the interior of the country, and facilitate technology transfers, innovation and competitiveness. Nouadhibou Free Zone is in its formative stage and provides a unique opportunity to address poor business and investment climate and other known issues observed in other special economic zones.

Nouadhibou Free Zone is suitably situated for the development of a seafood cluster in terms of supply of raw material and connectivity to export markets. While Mauritania's Exclusive Economic Zone (EEZ) is ranked among the most productive fishing waters in the world, Nouadhibou is the country's main fisheries center with a national market share of 80 percent. The North-South road corridor from Morocco that passes at PK55 in Nouadhibou offers a potential for increasing exports of fresh seafood products of Nouadhibou to southern Europe markets. It also has the potential to grow into an attractive export route for Mauritania products and serve neighboring countries such as Senegal and Mali.

Sectoral and Institutional Context

Mauritania has some of the richest fish resources in the world but the pressure on the stocks is increasing. Mauritania is not traditionally a fishing nation, which may help explain the relatively limited pressure on its fish stocks compared to the stocks of neighboring countries such as Senegal. However, the national fleet is expanding and the country's riches have attracted foreign fishing fleets from near (Senegal) and far (Europe and Asia), posing increasing fishing pressure on the stocks. Octopus is the main commercial demersal species exploited in Mauritania and currently the catch is 17% above the sustainable level. While the exploitation of some other key commercial fish species (hake and shrimps) is within the sustainable level, most of the small pelagic stocks shared between different Coastal States of the region (i.e. Morocco, Mauritania, Senegal, The Gambia, Guinea Bissau) are biologically overexploited.

In Mauritania, the fisheries sector has substantial macroeconomic importance. The fishing sector accounts for about 3-5 percent of its GDP. In 2011, the estimated value of primary production was US\$179 million in marine artisanal fishing and US\$563 million in marine industrial fishing (US \$742 million in total). Mauritania's fisheries sector is extremely export-oriented with 90 percent of production being exported. Fish exports are therefore an important factor for foreign exchange earnings having accounted for 20-27 percent of total exports in value (excluding oil) during the period of 2008-11. The fisheries sector accounts for 25 percent of government revenue, 40 percent of all revenues in foreign currencies, earned through both export of high-value products (octopus in particular) and foreign access agreements with the EU and other nations. The sector employs 53,000 people, of which 60 percent is for activities related to the artisanal fishing segment and 26 percent is indirect employment; approximately 30 percent of the jobs are occupied by women. However, the potential of the fish resources is not fully realized due to lack of effective coordination of fishing activities. As in many other countries, fisheries in Mauritania is characterized by excessive fishing activity, thereby degrading the biological base of fish stocks over time and eroding the profit base with excessive fishing costs. The root cause of the excess fishing effort is the weak governance of the fisheries sector, which essentially encourages individual fishers to fish as much and as fast as possible before others do. Thus, introduction of institutional arrangements that align individual fisher incentives to limit the aggregate fishing effort to an optimal level is prerequisite for achieving the potential that the rich natural asset offers the country. Globally, if effective fisheries reform were implemented around the world, annual net revenue from marine fisheries could be improved from the current \$3 billion to the estimated maximum of \$86

billion. Comprehensive fisheries reform would enable Africa to increase its marine fisheries net revenue from \$0.2 billion in 2012 to \$10.6 billion per year. According to the bioeconomic models used in the economic analysis (Annex 5), Mauritania's octopus fishery alone would generate \$300 million in additional sustainable net revenue each year when the aggregate fishing effort is reduced by 54% and the stock recovers to the optimal sustainable level.

Revenues from fish resources can also be greatly increased by improving post-harvest activities. While effectively implementing the reform to coordinate individual fishing activities and reduce aggregate fishing costs is the utmost priority, the sector can also benefit from investing in activities to address the revenue side. Most importantly, post-harvest handling of catches can be improved to reduce spoilage. Although data are not available specifically for Mauritania, globally about 30% of fish production is spoiled in value chain due to improper handling. In addition, diversification of seafood products can be pursued. While Nouadhibou's main fish products is frozen whole octopus for export to Europe and Japan, export of fresh filleted fin fish to southern Europe likely will command high value if conditions are met, including stability of raw material supply, sanitary and other quality of the products, and transport and other infrastructure.

Development of post-harvest sector must be pursued in tandem with the reform in the fishing sector. Without an appropriate management regime for coordinating individual fishing activities to regulate aggregate fishing effort, investments aimed at facilitating development of the post-harvest sector can lead to further increase in fishing activities and further degradation of the resource base in their effort to supply raw material to the post-harvest sector. In such a case, the post-harvest sector would not be able to secure raw material locally in the long run and thus would not be sustainable. On the other hand, the governance of the post-harvest sector needs to be adequately strong in order to prevent businesses from exploiting the fish resources in a short run to relocate to another place when the resources are depleted. That is, sustainability of the post-harvest sector depends on the sustainability of fish resources, while sustainability of the resources depends on responsible post-harvest sector.

The seafood cluster in Nouadhibou Free Zone presents a unique opportunity to develop competitive and sustainable fisheries value chain by leveraging synergies between fishing and post-harvest sectors. The World Bank already engages in supporting Mauritania's effort to reform its fishing sector through the West Africa Regional Fisheries Program (WARFP, effective June 24 2015). Among others, WARFP supports the transition from a fisheries management system based on shortterm

licenses to one based on fishing quotas held by individuals or groups of individuals.

Maintaining close communication and collaboration with the WARFP will ensure the proposed project not to compromise the effort and results of the WARFP. Furthermore, development of the seafood cluster will complement the activities and enhance the expected results through synergies. In particular, responsible post-harvest businesses with long-term vision likely develop and introduce mechanisms to align their objective of sustainable sourcing with the incentives of raw material supplier (fishers) through contractual and other arrangements. Engagement of responsible private sector actors is the only way to reinforce WARFP activities at scale. If successful, the culture and norm of sustainable and responsible fisheries developed in Nouadhibou seafood cluster likely will spread to the rest of the country and beyond.

Development of sustainable fishing sector and competitive and inclusive post-harvest sector is consistent with the new fisheries policy strategy for 2015-2019 adopted by the Government in February 2015. The new strategy emphasizes sustainability of the fishing sector, while it stresses their vision for augmenting revenue and creating jobs in the post-harvest sector. However, the strategy does not explicitly recognize the critical interactions between the fishing and post-harvest sectors or point out the potential to exploit the synergies between the two sectors. Through the

proposed project together with the WARFP, the World Bank Group is in a position to effectively and meaningfully inform the Government and support successful implementation of the strategy in the entire fisheries and seafood value chain.

Relationship to CAS

Project was planned in the CAS.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed development objective is to reduce barriers to investment and to strengthen the capacity of Nouadhibou Free Zone to deliver a competitive fishery cluster.

Key Results (From PCN)

Project level indicators are:

- Increased international and domestic investments (value US\$);
- Increased employment (number of jobs created) in selected industries.

The main beneficiaries of the Project will be the Nouadhibou Free Zone Authority, the Nouadhibou Free Zone Regulation Center, the Ministry of Economic Affairs and Development, private sector representatives such as the National Employers' Union, its industry associations, the Chamber of Commerce and finally private investors.

III. Preliminary Description

Concept Description

The proposed Project contributes to the Government competitiveness program, which has an investment climate subset, to best address the proposed development objective. First, the project will support the development of a competitive fishery cluster in Nouadhibou to realize the potential of selected industries and to create sustainable jobs. It will also promote public-private partnership (PPP) transactions in Mauritania, in particular through the financing of commercial viability studies for Nouadhibou Free Zone (fishery cluster, airport, deep-sea port). Second, the project aims to improve investment climate and regulatory business environment in Mauritania as a whole, in particular through institutional technical assistance, public-private dialogue revamping, modernization of the legal and regulatory framework, simplification of administrative procedures and the creation of Alternative Dispute Resolution mechanisms.

COMPONENT 1 – Improve fishery and logistic competitiveness in the Nouadhibou Free Zone

The Market Study delivered by the WB Technical Assistance (TA) identified the following bottlenecks to improve the competitiveness of Nouadhibou Free Zone:

- (i) Adequate port infrastructure, storage, logistics and services.
- (ii) Serviced land (incl. energy, water, waste treatment etc.) for upstream and downstream operations, environmental compliance and the possible creation of a specific label of quality.
- (iii) Training and business climate.

Also, several priority infrastructure projects were identified by the TA in collaboration with the West Africa Regional Fisheries Program (WARFP), which has financed the preparation of an

Infrastructure Master Plan for the Fisheries in Mauritania (delivered in September 2014). Covering the entire national littoral the study highlighted the strong potential of Nouadhibou to attract new high-value investment in the fish-processing sector.

This component will finance the assessment of the commercial viability of priority infrastructure projects in support of selected industries (fish, logistics) in the Nouadhibou Free Zone with the potential to catalyze the development of this area and to attract anchor investments; these are the fishery cluster, the deep-sea port and the airport. Upon positive outcomes—which are expected in March 2015—the technical feasibility studies for these projects will be launched. The capacity building and studies are currently packaged together with an IBRD enclave aimed at supporting the development of the fishery cluster, which will require the right backing on safeguards, lands and infrastructure planning. The Project will employ a funnel approach starting with Technical Assistance, continuing with studies and concluding with discrete investment in the fishery cluster. The Project is being prepared over a period of 15 to 18 months, which is sufficient time to evaluate whether the IBRD enclave should be kept or dropped as an investment.

In collaboration with the World Bank TA on PPP—to ensure consistency in the strategy and activities—the project will contribute to the development of a methodology to identify and assess the bankability of infrastructure projects (based on IBRD, IFC and private investments criteria), and the prioritization of public investments, to efficiently implement the selected PPP projects. It is anticipated that the infrastructure portfolio will include the following projects to be evaluated during the project preparation and PPP TA:

- (i) Landing facilities, roads, buildings, energy production plant, water desalinization plant, waste water treatment facilities within the fishery cluster;
- (ii) The construction of a deep sea port with a commercial terminal for containerized activities (including transshipment) and potentially a mineral terminal for iron ore;
- (iii) The refurbishment of the existing port and the commercialization of the newly delivered extension;
- (iv) The relocation of the airport.

Based on the outcome of the World Bank TA on PPP, the Project will finance an integrated PPP capacity building program. Moreover, this will enable the mobilization of project specific technical expertise, particularly with regards to legal and financial aspects.

Mobilizing additional resources will be critical to the success of Nouadhibou Free Zone. Promotion activities will be central to the delivery of this competitiveness agenda in order to leverage public and private resources to finance investment opportunities. Specific technical assistance will be provided to the Free Zone to implement a sound investment promotion strategy and to track investors' interest.

Building upon the recommendations of the TA and the WARFP, the project will finance the preparation of a development strategy of the fishery cluster in three phases (between January and July 2015), which has been budgeted in the Project Preparation Advance. The component is structured in following steps:

- (i) An evaluation phase determining the “go” or “no go” depending on the industrial competitiveness assessment of Nouadhibou: based on benchmarking studies (on production costs,

conditions offered to investors by the Free Zone regime etc.), demand survey and market assessment, the first phase will allow identification of bottlenecks for the development of the selected value chains and establish the project risks and critical conditions for success;

(ii) Feasibility studies: starting from the comparative evaluation of various spatial and structural options (geographical perimeter and business entities) the study will prepare a complete technical feasibility study including a land use inventory, zoning plan, infrastructure master plan (to include ports and landing facilities, roads, energy, water and waste water) and cost estimates.

(iii) An investment framework: The study will perform economic and financial assessments for project's interventions in order to determine the project internal rate of returns (IRR) and economic rate of return (ERR), and hence identify funding sources, amounts, risk coverage (incl. eligibility to IBRD enclave) and possible PPP schemes. It is expected that an IBRD enclave investment and private investments (some investors have already expressed interest in co-financing the cluster), can be packaged together and catalyze further investment.

(iv) Defining Bank support and a feasible financing modality for effective implementation/ execution of the Project or sub-project (enclave) and its ownership whether it is a a PPP with Government funding support and/or undertaking.

It is important to keep in mind that value addition and job creation cannot be achieved by increasing the current catches. Rather, these objectives must be achieved by maximizing the value of catch being brought onshore. The Project will also finance the cost/benefit analysis of transitioning part of the "offshore industry" into a sustainable onshore industry with more local value-added, which is particularly important for local women who typically comprise a significant portion of the fish-processing workforce. Careful consideration should be paid to the net value added to the economy of industrial fishing operated by foreign boats versus increasing the volume domestically landed and processed onshore as the latter is not necessarily greater. There will be close consultation and collaboration with SOP C1 of West Africa Regional Fisheries Program (WARFP; P126773) to ensure consistency in the strategy and activities between the two projects.

COMPONENT 2 – Reduce barriers to investment

Sub-component 1: Lower Administrative Barriers to Business Operations (LABBO)

Mauritania's business climate is extremely unfavorable for entrepreneurs as substantiated in the Doing Business Report, where it consistently belongs to the lowest-ranking economies among all countries compared. Among the problems identified are high costs and prolonged procedures to start a business (46.1 percent of income per capita and 19 days respectively), obtain construction permits (2,681 percent of income per capita and 82 days respectively) register property (4.7 percent of property value and 49 days respectively) and finally get electricity (7,404 percent of income per capita and 75 days respectively). This sub-component will therefore focus on providing technical assistance to lower administrative barriers to investment for the following business procedures on a nation-wide level:

(i) Starting a business (time and cost): the sub-component will finance institutional strengthening of one-stop shops for business registration in Nouakchott and Nouadhibou Free Zone;

(ii) Obtaining construction permits (time and cost) and registering a property (number of procedures): the sub-component will finance the establishment of a single contact point for obtaining construction permits in Nouakchott and Nouadhibou Free Zone; and registering a property to ease land access to investors through Nouadhibou Free Zone one-stop shop;

(iii) Obtaining an electricity connection and water supply (time and cost): the sub-component will finance streamline access to electricity at the company SOMELEC, which is responsible for the supply of electrical power and water in Mauritania.

Subcomponent 2: Improve Investment Climate and Business Cooperation (IICBC)

A) Modernizing the legal framework and business law, especially in Alternative Dispute Resolution (arbitration, mediation and conciliation)

Mauritania's investment climate suffers from weak regulations and a lack of national alternative dispute resolution mechanisms, both having a negative impact on investors' confidence. A Regulation Center in the Free Zone also needs to be operationalized.

Thus, the Project will aim at strengthening and modernizing institutions mandated with the resolution of commercial disputes and will revise and streamline the related national laws and procedures. The activities will focus on the development of arbitration and mediation centers in Nouakchott and Nouadhibou. It is expected that this will increase investors' protection and facilitate enforcement of contracts in Mauritania.

B) Implementing an ambitious reform agenda through a platform for public-private dialogue (PPD)

The private sector plays a crucial role in Mauritania as it contributes to 36% of the country's GDP, which explains why the Government considers this sector as one of its main priorities. One of the key obstacles that need to be addressed is the lack of appropriate and efficient Public-Private Dialogue (PPD) platforms. PPD frameworks were actually established in the 2000s; however, none of them are still active and need to be revamped. Moreover, there is little coordination among the main private sector organizations like the National Employers Union of Mauritania (UNPM), the Young Entrepreneurs Leaders Association (CDJ), the Women Traders Association (UMAFEC), and the Chamber of Commerce of Mauritania, and limited issues driven advocacy from these stakeholders.

Therefore, a PPD platform will be set up, as it was adopted during a workshop in May 2014 by all stakeholders from the public and the private sector. In fact, several private sector organizations already pledged to drive the process forward. In doing so, the Project will contribute to revamp PPD and sustain competitive industries dialogue. The objective will be to establish a strong track record of competitive industries efforts with a well-developed and functioning PPD at three levels, each focused on a specific issue:

- (i) On the national level: Public-Private Partnerships;
- (ii) On the local level: the Nouadhibou Free Zone;
- (iii) On the industry level: the fishery sector.

Additional reforms will be designed as an outcome of a Public Private-Dialogue process.

Component 3 – Project Coordination Unit

A team will be recruited to support the coordination of activities and the fiduciary function required for the Project to be successfully executed.

IV. Safeguard Policies that might apply

| Safeguard Policies Triggered by the Project | Yes | No | TBD |
|--|------------|-----------|------------|
| Environmental Assessment OP/BP 4.01 | x | | |
| Natural Habitats OP/BP 4.04 | | x | |
| Forests OP/BP 4.36 | | x | |
| Pest Management OP 4.09 | | x | |
| Physical Cultural Resources OP/BP 4.11 | | x | |
| Indigenous Peoples OP/BP 4.10 | | x | |
| Involuntary Resettlement OP/BP 4.12 | | x | |
| Safety of Dams OP/BP 4.37 | | x | |
| Projects on International Waterways OP/BP 7.50 | | x | |
| Projects in Disputed Areas OP/BP 7.60 | | x | |

V. Financing (in USD Million)

| | | | |
|---|---------------|-----------------------|------|
| Total Project Cost: | 9.25 | Total Bank Financing: | 7.75 |
| Financing Gap: | 0.00 | | |
| Financing Source | Amount | | |
| BORROWER/RECIPIENT | 1.50 | | |
| International Development Association (IDA) | 7.75 | | |
| Total | 9.25 | | |

VI. Contact point

World Bank

Contact: Alexandre Hugo Laure
 Title: Private Sector Development Spe
 Tel: 1-202-458-05
 Email: alaure1@worldbank.org

Contact: Berengere P. C. Prince
 Title: Sr Natural Resources Mgmt. Spe
 Tel: 473-0536
 Email: bprince@worldbank.org

Contact: Peter Kristensen
 Title: Lead Environmental Specialist

Tel: 473-4789
Email: pkristensen@worldbank.org

Borrower/Client/Recipient

Name: MAED
Contact: Yacoub Ahmed Aisha
Title: DG des Projets et Programmes d'Investissement
Tel: 0022244454600
Email: ouldahmedaicha@yahoo.fr

Implementing Agencies

Name: Nouadhibou Free Zone Authority
Contact: Sidahmed Bouh
Title: Director General for Development
Tel: 0022226314121
Email: sc.bouh@ndbfreezone.mr

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>