Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. 107136-MR

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 19 MILLION (US$ 26 MILLION EQUIVALENT)

TO THE ISLAMIC REPUBLIC OF MAURITANIA

FOR THE

MAURITANIA FIRST FISCAL CONSOLIDATION AND PRIVATE SECTOR SUPPORT

DEVELOPMENT POLICY OPERATION

November 15, 2016.

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, 2016*)

Currency Unit: Mauritanian Ouguiya (MRO)
US$1.00 = MRO 356.98
US$1.00 = SDR 0.727

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BCM	Mauritanian Central Bank (*Banque Centrale de Mauritanie*)
CAD	Current Account Deficit
CPS	Country Partnership Strategy
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
DTF	General Directorate of Financial Oversight (*Direction Générale de la Tutelle Financière*)
EPA	Administrative Government Agencies (*Etablissements Public à caractère Administratif*)
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoM	Government of Mauritania
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MEF	Ministry of Economy and Finance
OIE	Organization of Animal Health
PFM	Public Financial Management
PIP	Public Investment Program
PPPs	Public Private Partnerships
RACHAD	Automated Expenditure-Chain System (*Réseau Automatisé de Chaîne de la Dépense*)
SCAPP	2016-2030 National Strategy for Accelerated Growth and Shared Prosperity (*Stratégie de Croissance Accélérée et la Prospérité Partagée*)
SDR	Special Drawing Rights
SNIM	National Industrial and Mining Company *(Société Nationale Industrielle et Minière)*
SOE	State-Owned Enterprise
TA	Technical Assistance
ToT	Terms-of-Trade
VAT	Value-added Tax

Regional Vice President:	Makhtar Diop
Country Director:	Louise Cord
Senior Global Practice Director:	Carlos Felipe Jaramillo
Practice Manager:	Lars Christian Moller
Task Team Leader	Wael Mansour

ISLAMIC REPUBLIC OF MAURITANIA

MAURITANIA FIRST FISCAL CONSOLIDATION AND PRIVATE SECTOR SUPPORT DPO

TABLE OF CONTENTS

The program document for this proposed DPO was prepared by an IDA team led by Wael Mansour (Economist, GMF08) under the guidance of Louise Cord (Country Director, AFCF1), Gaston Sorgho (Country Manager, AFMMR), Lars Christian Moller (Practice Manager, GMF08), Paolo Zacchia (Program Leader, AFCF1) and Sona Varma (Lead Economist, GMF01). The team consisted of Christine Richaud (Lead Economist, GMF09), Alain D'Hoore (Consultant), Pierre Mandon (Research Analyst, GMF01), Gregoire Rota Graziosi (consultant), Cedric Mousset (Lead Financial Specialist, GFM01), El Hadrami Oubeid (Publc Sector Specialist, GGO27), Kjetil Hansen (Senior Public Sector Specialist, GG027) Yemdaogo Tougma (Research Analyst, GMF07) Julien Emmanuel Galant (Consultant), Laurent Corthay (Senior Private Sector Specialist, GTC07) Andre Teyssier (Senior Land Administration Specialist, GSULN), Brahim Sall (Senior Rural Development Specialist, GFA 01), Ghada Elabed (Young Professional, GFA07), Fatou Fall Samba (Senior Financial Management Specialist, GG025), Moustapha Ould El Bechir (Senior Procurement Specialist, GGO07) , Paolo Verme (Senior Poverty Economist, GPV07), AbdelKrim Araar (Consultant),Siobhan Mclnerney-Lankford (Senior Counsel, LEGAM), Silvia Gulino (Operation Analyst, GMF01), Maude Valembrum (Language Program Assistant, GMF08), and Fatima Cherif (Program Assistant, AFMMR). The peer reviewers were Norbert Matthias Fiess (Lead Economist, GMFDR) and Gianluca Mele (Senior Economist, GMF09).

SUMMARY OF PROPOSED GRANT AND PROGRAM

ISLAMIC REPUPLIC OF MAURITANIA
MAURITANIA FIRST FISCAL CONSOLIDATION AND PRIVATE SECTOR SUPPORT DPO

Borrower	The Islamic Republic of Mauritania
Implementation Agency	Ministry of Economy and Finance (MEF)
Financing Data	IDA Terms: Grant Amount: SDR19 million (US$26 million equivalent).
Operation Type	First operation in a programmatic series of two DPOs.
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, enhancing fiscal transparency and increasing the efficiency of public spending.** **Pillar B: Support private sector participation in the non-extractives sectors.**
Result Indicators	**Pillar A: Support fiscal consolidation by increasing domestic revenues, enhancing fiscal transparency and increasing the efficiency of public spending** • Number of Tax Exemptions categories eliminated under the new benchmark model. Baseline (2016): 0; Target (2018):2. • Share of public investment projects prepared and executed based on new framework. Baseline (2016):0; Target (2018) >75%. • The number of eligible administrative public agencies (EPAs) and agencies included in the automated expenditure-chain system (RACHAD) increases. Baseline (2016): 0; Target (2018): 81. • The share of budget transfers to parastatals administered through RACHAD. Baseline (2015): 0%; Target (2018): 79% **Pillar B: Support private sector participation in the non-extractives sectors** • The number of public-private partnership (PPP) projects under implementation using the new framework increases. Baseline (2016): 0; Target (2018): 2. • Increase in formal properties titled. Baseline (2015): 27168; Target (2018) : >28000. • The traceability of livestock-product exports improves. Increase in the percentage of verified products in slaughterhouses' total products. Baseline (2016): 0%; Target (2018): 8%. • 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	P160592

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

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes a programmatic development policy operation (DPO) series consisting of two IDA grants to support the Islamic Republic of Mauritania as it adjusts to a protracted terms of trade shock**. Mauritania's natural resource sector faces a difficult external environment marked by an ongoing slump in global commodity prices. The DPO series will support the Government of Mauritania (GoM) as it strives to implement structural fiscal reforms and support private sector participation in non-extractives sectors. The first operation will be in the amount of US$26 million. The proposed series is aligned with the GoM's reform program and is supported by ongoing technical assistance (TA) projects implemented under the FY2013-16 Country Partnership Strategy (CPS) for Mauritania.

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

3. **The end of the commodity super-cycle prompted the need to adjust external and fiscal imbalances**. As commodity prices rose, extractives exports accounted for an increasingly large share of foreign-exchange inflows. Nevertheless, these earnings were more than offset by the capital goods and services imports required by the extractive industries and the public investment program (PIP), and by the repatriation of profits to foreign-owned companies. This resulted in net foreign-exchange outflows, which exceeded both private remittances and official transfers. As a result, it added strains to the reserves of the central bank (*Banque Centrale de Mauritanie*, BCM) and increased the country's vulnerability to the reduction in commodity linked FDIs. Foreign-exchange controls, rigid exchange-rate policies, and a lack of monetary policy tools limited the BCM's ability to address structural imbalances and respond to ToT shocks. It also reduced the competitiveness of the economy. Moreover, the concentration of domestic revenues in the mining and oil sectors, coupled with a reliance on foreign grants and intermittent pressures on public spending, prevented the build-up of fiscal buffers when commodity prices were high. The expansion of the government's ambitious PIP, and increased foreign borrowing, compounded rising fiscal pressures as commodity prices fell. Despite a series of major tax reforms launched in 2011, public debt rose from 75.5 percent of GDP in 2007 to 89.1 percent in 2015 leading the country to a high risk of debt distress.

4. **Mauritania's resource-driven growth model successfully accelerated poverty reduction, though it did not lead to significant job creation or robust improvements in the country's human development indicators.** Mauritania's rising real per-capita GDP enabled it to reach lower-middle-income status, and its

poverty rate declined by an estimated 11.5 percentage points between 2008 and 2014.[1] Poverty reduction occurred principally in rural areas and was largely driven by rural-urban migration and changes in relative prices, with increased spending on social protection programs and public infrastructure investment making a positive contribution. Income inequality declined, and the Gini coefficient fell from 35.3 percent in 2008 to 31.9 percent in 2014. While the income gap between rural and urban areas narrowed, the income distribution within each area remained largely unchanged.

5. **The first pillar of this operation supports fiscal consolidation by increasing domestic revenues, enhancing fiscal transparency and increasing the efficiency of public spending.** This includes measures designed to enhance the flexibility and responsiveness of fiscal policy, as well as reforms to mitigate systemic fiscal risks. The operation will support efforts to reduce tax expenditures and boost non-extractive revenues, rationalize the PIP and consolidate its management process, and tackle key fiscal risks and transparency issues related to parastatals.

6. **The second pillar supports the economic diversification agenda through increased private sector participation in non-extractives sectors.** This includes expanded private sector participation by strengthening the framework for public-private partnerships (PPPs), addressing land tenure and property rights to facilitate credit access, and bolstering livestock exports. These reforms are expected to contribute to a more sustainable growth pattern and to gradually ease external pressure. It enables the country to reduce reliance on commodities and raises long-term growth prospects in a more sustained and inclusive way. To ensure good implementation, the operation is accompanied by a multitude of World Bank technical assistance projects notably those on Governance, PPPs, land reforms, and a regional livestock project.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

7. **Mauritania's exports of iron ore, copper, gold and oil are crucial to its economy.** Between 2013 and 2015 Mauritania's GDP growth rate fell from 6.1 percent to just 3 percent (Table 1). This deceleration was driven by falling commodity prices combined with a 13 percent decline in iron ore production and an 11 percent drop in oil production in 2015. The worsening terms of trade also indirectly impacted the domestic non-tradable sector, and especially the construction industry, which had long benefitted from the growth of the extractive industries and public investment. However, the fisheries sector continued to perform well, with production rising by 28.3 percent in 2015. In 2016, a modest recovery in iron-ore production combined with a solid performance in agriculture, livestock, fisheries, and the construction sector is helping growth.

8. **External vulnerabilities have emerged in the wake of the commodity super-cycle**. Driven by lower commodity prices, exports of goods dropped from 36.9 to 29.1 percent of GDP between 2014 and 2015 (Table 1). However, it was offset by a drop in imports of goods from 50.4 to 40.4 percent of GDP. The drop primarily comes from imports of petroleum products and equipment, which reflects low oil prices, the slowdown in economic activity and the reluctance of extractive companies in expanding production under the current international environment. The drop was accompanied by a slowdown in net foreign income outflows, from 4.8 to 3.5 percent of GDP, reflecting lower expatriation of foreign companies' profits. As a result, the CAD narrowed to 20 percent of GDP in 2015, down from 28 percent a year earlier. The bulk of the financing was ensured through FDI and external borrowing. These accounted

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

for respectively 54 and 31 percent of CAD financing requirements. Preliminary estimates indicate the persistence of those trends in 2016[2]. Drops in imports and in net foreign income coupled with rise in official transfers have compensated for a steady decline in exports, and have reduced further financing needs. Nevertheless, the substantial size of the CAD continues to present significant financing challenges, reflecting a persistently large gap between domestic savings and investment.

Table 1: Key Macroeconomic Indicators

	2013	2014	2015	P2016	P2017	P2018	P2019
Real Economy	annual change unless otherwise indicated						
Real GDP growth	6.1	4.2	3.0	4.0	4.2	3.8	4.2
Non-extractives GDP growth	4.8	5.5	4.2	4.2	4.4	4.6	4.6
Per Capita GDP (current US$)	1464	1323	1169	1113	1082	1058	1088
Prices	annual change unless otherwise indicated						
GDP deflator	3.0	-7.1	-4.7	-1.5	0.3	1.3	1.7
CPI Inflation	4.1	3.5	0.5	1.0	3.9	4.4	4.7
Iron Price ($/dmt)	135	97	56	50	45	47	49
Copper Prices ($/mt)	7332	6863	5510	4650	4866	5092	5329
Oil Price (US$/bbl)	104	96	51	43	53	60	63
Fiscal Accounts	Percent of GDP, unless otherwise indicated						
Expenditures	25.8	29.2	31.9	29.9	28.2	27.0	26.2
Revenues	30.1	25.8	28.6	30.0	27.7	27.3	27.1
Primary Government Balance	5.2	-2.4	-2.2	1.1	0.4	1.7	2.1
General Government Balance	4.3	-3.4	-3.3	0.0	-0.5	0.4	0.9
Public Debt (including Kuwait debt)*	66.2	78.3	89.1	92.7	96.1	97.1	94.5
Domestic	4.1	6.2	5.4	2.6	3.1	3.3	3.6
External	62.0	72.1	83.7	90.1	93.0	93.8	90.9
Balance of Payment	Percent of GDP, unless otherwise indicated						
Current Account Balance	-22.4	-28.0	-20.0	-13.4	-15.0	-12.7	-10.8
Imports	-53.7	-50.4	-40.4	-33.4	-35.5	-35.3	-33.8
Exports	46.8	36.9	29.1	28.4	29.3	28.2	27.1
Foreign Direct Investment	19.9	9.6	10.9	8.1	7.6	8.7	8.8
Gross Reserves (million US$, eop)	996	639	823	762	738	701	675
in months of imports (goods and services)	3.1	2.3	4.3	4.5	4.1	4.2	4.1
in months of good imports	3.9	2.8	5.1	5.9	5.4	5.2	4.9
ToT (index)	-2.7	-4.6	-16.4	-6.1	-6.1	-2.8	4.3
Exchange Rate (e.o.p)	299	313	339				
GDP (nominal - million US$)	5672	5251	4755	4641	4619	4623	4864

Source: MEF, *Office National des Statistiques*, BCM, IMF Article IV, UN Population World Bank Staff calculations.
*The public debt ratio includes a dormant US$1 billion debt to Kuwait (around 20 percent of GDP). No interest or principal repayment is done on this loan. Negotiations between the two governments are underway to cancel it.

[2] Data for the first six months of 2016 show a 24 percent decline in the CAD.

9. **Growing pressure on foreign-exchange reserves in 2014 and 2015 prompted the BCM to let the nominal exchange rate depreciate gradually while it turned to external borrowing to rebuild a comfortable level of reserves.** Between end-2013 and 2015, the authorities prioritized the stability of the nominal exchange rate and adopted a crawling peg against the US$ despite the sharp deterioration in ToT and the depreciation of the US$ against the Euro. However, growing pressure on foreign-exchange reserves in 2015 prompted the authorities to allow the nominal ouguiya-dollar exchange rate to decline by 8.3 percent over the year. The BCM contracted a US$300 million loan from Saudi Arabia in mid-2015, which helped push its reserves from 2.8 months of goods imports in 2014 to 5.1 months at end-2015. This loan alleviated pressure on reserves and facilitated the BCM's efforts to keep the nominal depreciation of the currency within a 2 percent band, but it significantly increased the stock of non-concessional public debt. This inflexible exchange rate policy has also led to an overvaluation of the real effective exchange rate (IMF Article IV, 2016) putting further strains on the competitiveness of the economy.

10. **Pressure on foreign-exchange reserves has now eased as external financing needs further decreased in 2016**. In the first ten months of the year the ouguiya depreciated by an estimated 7 percent against the US dollar, contributing to a total depreciation of 14 percent against the dollar since 2014. While foreign-exchange reserves have declined by US$36 million, or 4.3 percent, since the beginning of the year, they now cover an estimated 6 months of imports due to a decline in the estimated total value of imports. A significant decline in the parallel market premium and a sharp increase in the ratio between daily supply and demand from 10-20 percent to about 80 percent over the past eight months indicate that tensions in the foreign-exchange market have eased. Given those new conditions, the BCM has allowed for a smoother market determination of prices.

11. **Core inflation has remained moderate, while low food prices have helped contain headline inflation.** Core inflation accelerated from 1.2 percent in 2014 to 2.6 percent in 2015. However, a 1.1 percent decline in food prices kept headline inflation low at 0.5 percent in the same year. Food represents an average of 51 percent of the consumption basket, and the drop in food prices boosts household purchasing power, especially among the poor. According to the latest data, both core and headline inflation have moderated to 2.2 and 0.9 percent, respectively, during the first eight months of 2016 (y/y). This has allowed the BCM to take further steps towards market liberalization of the exchange rate.

12. **The economic slowdown has created liquidity constraints in the financial sector but deterioration in credit risk has yet to materialize.** The financial sector has some important structural weaknesses, including weak asset quality, low profitability, fairly high number of banks mostly small with some facing challenges to be financially viable, as well as high deposits and credit concentration including to parties related to bank owners and sometimes exceeding prudential limits. As economic activity slowed, deposit growth declined by 8 percent from December 2014 to June 2016, while credit continued to grow rapidly by 18 percent leading to tighter liquidity. The non-performing loan (NPL) ratio has declined in recent years, from 45 percent of credit in 2010 to 20 percent in December 2015, partly reflecting ongoing efforts to write-off old NPLs. However, the share of NPLs remains high, and the cost of provisioning significantly diminishes banks' profitability every year. NPLs are adequately provisioned, but these may underestimate risks as exposures to the sovereign are not classified and the effects of the economic slowdown on the quality of credit and collateral may not yet be recognized. The banking sector's capital-adequacy ratio remains fairly high despite falling from 33 percent in 2013 to 23 percent in 2015. A few banks have adopted aggressive lending strategies in recent years, which have left them vulnerable.

13. **The BCM has begun implementing monetary reforms designed to address the tight liquidity situation and worsening credit environment.** Domestic and foreign-currency liquidity sharply contracted in the second half of 2015, with some banks having difficulty maintaining required reserves at the central

bank. The situation is compounded by the fact that banks have limited collateral with which to secure central bank refinancing. Tensions in the foreign-exchange market have eased since mid-2016, due in part to improved enforcement of repatriation requirements. To help address the tight liquidity situation the BCM has begun developing an emergency lending facility, which—if properly implemented—could help respond to most pressing needs. In recent years, the authorities have made significant progress in modernizing banking regulations and gradually strengthening compliance. For example, banks with excessive credit concentration were given three years to comply with existing limits. However, deeper reforms are still needed, including (i) an update of the banking law that among other affirms BCM's independence and sets-up a robust resolution regime, (ii) an improved crisis-management framework and related liquidity instruments, and (iii) efforts to expand financial intermediation.

14. **The fiscal balances deteriorated in the wake of the contraction in the extractive industries, as extractives revenues fell while public spending continued to grow.** Between 2013 and 2014 revenue growth failed to keep pace with rising expenditures, turning a fiscal surplus of 4.3 percent of GDP into a deficit of 3.4 percent (Table 2). In 2015, the abrupt drop in revenues from extractives industries was fully compensated by a rise in gasoline excises, the EU's financial compensation[3] for fishing rights, and an increase in non-extractives tax revenues linked with a 2 percentage points increase in the value-added tax (VAT) rate, raising the consumption tax rate and reintroducing taxes on imported rice[4]. The GoM also benefited from external budget support, particularly a large grant from Saudi Arabia, which pushed total revenues (including grants) from 25.8 percent of GDP in 2014 to 28.6 percent in 2015. Meanwhile, expenditures increased even more rapidly, rising from 25.8 percent of GDP in 2013 to 31.9 percent in 2015. In the second half of 2015, the MEF reacted and tightened controls over operating expenses including those of SOEs. This included spending on electricity, water and telecom bills, which helped reduce transfers to public enterprises by 0.2 percent of GDP. In addition, administrative controls over the wage bill were introduced as part of an effort to streamline the public sector and purge ghost workers from the civil service. By September of 2015, 2000 redundant positions had been identified and eliminated. However, many of these measures were not implemented until late in the year. As a result, overall recurrent spending rose from 17.5 percent of GDP in 2014 to 18.1 percent in 2015

15. **In 2016, as the worsening ToT continued to depress domestic revenue, the government intensified its efforts to adjust to a protracted downturn leading to a balanced overall budget.** Further tax mobilization efforts including multiplication of on-off tax controls, new fishing licenses, and grants from the Arab summit have all compensated for the subdued extractives revenues. Moreover, efforts to contain recurrent spending began to yield results in 2016. The effect of the new expenditure controls would have been more accentuated had payments for education sector indemnities hadn't been rolled over from 2015 and pushing the wage bill up. Nevertheless, the overall fiscal position in expected to improve compared to 2015, with the primary deficit (excluding grants) narrowing to an estimated 1.3 percent of GDP by end-2016 and the overall budget to balance.

---

[3]As part of a 4-year commercial fishing deal, the EU has provided an estimated MRO80 billion in financial compensation to Mauritania. Similar to 2015, Mauritania is expected to receive around MRO20 billion in 2016. These commercial contracts have been in place since the 1990s and are revised and ratified every 4 years. The current contract has been renewed in 2016.

[4] Mauritania has embarked on tax reforms since 2011. At 17 percent of GDP, Mauritania's non-extractive tax revenues are currently above the Sub-Saharan African average of 13.7 percent and higher than regional comparators such as Mali (15.6 percent) and Ghana (14.9 percent) (source: World Development Indicators).

Table 2: Key Fiscal Indicators

	2013	2014	2015	E2016	P2017	P2018	P2019
Total Revenues	30.1	25.8	28.6	30.0	27.7	27.3	27.1
Revenues excl. Extractives and Grants	24.3	20.3	25.2	26.5	25.2	25.2	25.2
Tax Revenues (excl. extractives)	14.6	15.7	16.6	18.9	18.5	18.9	18.9
Income and corporate tax	5.1	5.7	5.9	5.9	5.6	5.8	5.8
Tax on goods and services	6.7	7.2	7.7	8.8	8.8	8.9	8.9
Tax on trade	1.9	2.3	2.4	2.8	2.8	2.8	2.8
Other tax	0.9	0.4	0.6	1.3	1.3	1.4	1.4
Non-tax revenues	9.7	4.4	8.9	7.6	6.7	6.3	6.3
Revenues from fishing	3.8	2.2	2.7	3.4	3.5	3.4	3.3
Dividends from SOEs	0.7	0.5	0.9	0.6	0.6	0.4	0.6
Special Accounts	3.8	0.7	2.9	2.4	1.5	1.2	1.1
Others	1.3	1.0	2.3	1.1	1.2	1.2	1.2
Extractive Revenues*	5.2	5.4	1.6	1.1	1.0	1.2	1.0
Mining Revenues	3.9	3.9	0.8	0.4	0.3	0.6	0.3
Petroleum Revenues	1.2	1.5	0.8	0.7	0.6	0.7	0.7
Grants	0.7	0.1	1.8	2.4	1.6	0.9	0.9
Total Expenditure	25.8	29.2	31.9	29.9	28.2	27.0	26.2
Recurrent Expenditures	15.4	16.9	17.9	16.7	15.9	16.2	15.8
Wage Bill	6.1	6.7	7.4	7.5	7.3	7.3	7.2
Goods and Services	3.5	3.9	3.9	3.7	3.5	3.5	3.5
Transfers to SOEs	4.1	4.4	4.2	3.7	3.4	3.4	3.2
Interest Payments	0.9	1.0	1.1	1.0	0.9	1.4	1.2
External	0.7	0.7	0.8	0.8	0.7	1.0	0.8
Domestic	0.2	0.2	0.3	0.2	0.2	0.3	0.4
Others	0.6	0.8	1.3	0.8	0.7	0.7	0.7
Special Accounts	0.4	0.6	0.2	1.2	1.4	0.5	0.5
Capital Expenditure	10.0	11.7	13.6	11.6	10.8	10.3	9.9
through external resources	2.9	3.5	4.9	4.1	4.1	3.8	3.8
through domestic resources	7.1	8.1	8.8	7.5	6.8	6.5	6.1
Restructuring	0.0	0.0	0.2	0.3	0.1	0.0	0.1
Primary balance (excl. extractives)	0.1	-7.8	-3.9	0.0	-0.5	0.5	1.0
Primary balance (excluding grants)	4.6	-2.5	-4.0	-1.3	-1.1	0.8	1.2
Primary balance	5.2	-2.4	-2.2	1.1	0.4	1.7	2.1
Budget balance (excluding extractives)	-0.8	-8.7	-5.0	-1.0	-1.4	-0.9	-0.1
Budget balance (excluding grants)	3.6	-3.5	-5.1	-2.4	-2.0	-0.5	0.0
Budget balance	4.3	-3.4	-3.3	0.0	-0.5	0.4	0.9
Primary deficit of stabilization	*-5.6*	*2.8*	*2.3*	*-1.2*	*-2.4*	*-2.6*	*-3.4*

Note: The "primary deficit of stabilization" refers to the level at which the debt-to-GDP ratio would remain stable so long as other debt-creating factors, such as the exchange rate, are held constant . Figures for 2016 are based on the revised budget law.* Extractives revenues include various tax revenues from extractives companies, royalties and dividends. Source: Ministry of Economic and Finance, World Bank Staff Calculation.

16. **Public investment has soared in recent years despite the government's limited administrative capacity and concerns regarding the value for money of certain projects.** The authorities are attempting to contain the growth of the 2016 capital budget by cutting capital expenditures financed through external borrowing. Public investment more than tripled over the past five years, reaching 13.6 percent of GDP in 2015. Rising budgetary revenues from the extractive industries and the 2011 tax reforms drove this trend, which continued even as resource revenue declined in 2014-15. While public investment has played a crucial role in stimulating growth and reducing poverty, especially investments in rural infrastructure, the project selection and execution process is inefficient, and many foreign-financed projects are unsolicited

and of questionable economic value.[5] In 2016, the authorities attempted to reduce public investment, particularly through tighter controls over payment requests received from project implementation units. While domestically financed public investment rose by 20 percent (y/y) in the first eight months of 2016, driven by grant-funded infrastructure projects related to the Arab Summit, the increase has so far been offset by a 47.5 percent (y/y) drop in foreign-financed projects[6], leading to an 8.9 percent (y/y) drop in overall capital expenditures.

17. **In recent years, budget financing relied primarily on external concessional borrowing[7].** The government's reliance on foreign-currency-denominated loans has increased significantly over the past five years. Meanwhile, net domestic financing has been negative since end-2015, signaling the accelerated amortization of Treasury bills held by the banking sector and the National Industrial and Mining Company (SNIM).[8] This decline reflects increasingly tight liquidity among banks and SNIM, as well as cautious liquidity management by the Treasury in an effort to limit its short-term financing needs. The Treasury expects though to have difficulty meeting its short-term liquidity needs in the last quarter of 2016 with limited options to recourse to the domestic debt market. The DPO, as well as the complementary budget support from the AfDB, would enable meet those 2016 remaining financing needs.

18. **The public debt stock is growing rapidly, fueled by borrowing for public investment projects, and the risk of debt distress is high.** Public investment-related borrowing contributed to a significant increase in the public debt stock, which had risen to 89.1 percent of GDP at end-2015, a 15 percentage-point increase over the past five years. The government's increasing recourse to bilateral loans and other less-concessional forms of external financing, including for BoP support, has contributed to the deterioration of the debt profile. A recent Debt Sustainability Analysis (DSA)[9] found that Mauritania is at high risk of debt distress even though its debt-service obligations remain manageable at about 17 percent of government revenue. As about 95 percent of public debt is external, the vulnerability of the debt stock to exchange-rate risks has also increased. In 2015, 88.5 percent of the increase in the debt stock was attributed to the depreciation of the MRO.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

19. **GDP growth is expected to accelerate moderately to an average of 4 percent over the medium term as the ToT gradually improves and the government implements its diversification agenda**. Growth in the non-extractive sector is projected to accelerate over 2016-2019, driven by the solid performance of agriculture, livestock, fisheries, construction and energy[10]. Irrigation projects are currently underway and

---

[5]One rough indicator of public investment spending efficiency is the average incremental capital-output ratio (ICOR), which in Mauritania is estimated at 10.4, far above the benchmark ratio of 3.0 for the best-performing countries.

[6] Linked with the country's absorption capacity and the cancellation of roads projects to accommodate for similar Arab Summit infrastructure projects.

[7]External borrowing accounted for 95 percent of foreign financing. The remaining 5 percent were withdrawals from the Oil Fund, which should not be confused with petroleum sector revenues recorded as domestic revenues. The Oil Fund has a statutory capital threshold.

[8] By September 2016 the outstanding stock of T-bills had decreased by 36 percent compared to 2014. The government has been relying heavily on SNIM to meet its domestic financing needs, but serious pressure on the company's liquidity (and profitability) in a context of low iron ore prices has led to a sharp decline in the stock of T-bills held by SNIM, though these still represent 40 percent of the outstanding T-bill stock.

[9]See: Joint World Bank-IMF DSA and IMF Article IV Consultation Report (2016).

[10] The GOM continue to address key sector shortcomings in the energy sector and is implementing a series of projects aimed at reducing energy costs and enhancing less-polluting and renewable energy sources. About 15 percent of installed capacity is today generated by renewable sources, mainly solar and wind, which adds to about 15% of imports from OMVS hydropower.

are expected to boost cereal production beginning in 2017. The government plans to launch additional large-scale infrastructure projects over the near term, including two seaports. While the projected deterioration in ToT through end 2016 and 2017 necessitates continued adjustment efforts, the expected recovery in 2018 will support faster growth in the extractive industries. Iron ore and gold output are projected to increase moderately as new mining projects come on stream, while copper output is expected to remain stable. The gradual recovery of metal prices should stimulate foreign investment in the sector, especially investments related to the US$300 million extension of the Tasiast gold mine, and quartz production is scheduled to commence in about two years. Despite the steep decline in oil production, the overall outlook for the resource sector is positive in the medium-to-long term, supported by promising discoveries of exploitable natural gas[11] and uranium deposits, as well as abundant iron ore reserves.

20. **The CAD is expected to narrow as the external environment gradually improves and aggregate demand decelerates**. A decline in imports, pushed by subdued oil prices drop in equipment goods, is expected to improve the trade balance, causing the CAD to fall from 20 percent of GDP in 2015 to 13.4 percent in 2016. Following a temporary deterioration in 2017 due to worsening terms of trade, the CAD is projected to gradually narrow down to 10.8 percent of GDP in 2019, supported by a decline in aggregate demand (as the fiscal consolidation plan moves forward), a modest recovery in exports, and continued inflows of official development assistance. The later includes through the World Bank DPOs, the AfDB budget support, and the EU support linked with the renewed 4 years fisheries agreement. Nevertheless, the CAD would remain relatively large, reflecting a reduced but persistent savings-investment gap outside the central government. FDI is expected to increase over time, especially investment in PPP projects such as the expansion of the port of Nouakchott[12] and in new projects in the extractive industries.

21. **Mauritania's external financing needs are projected to decline from US$ 1,237 million to US$ 773 million in 2016, then rise to an estimated US$ 902 million in 2019 despite the narrowing of the CAD.** Steadily increasing debt-amortization flows, linked with repayment of BCM and SNIM's external debt, over 2017-2019 are expected to drive the increase in financing needs (Table 3). Meanwhile, long-term disbursements should continue to increase until 2018 despite the planned reduction in PIP-related external borrowing and the projected growth of FDI. Reserves are expected to decline gradually from 5.9 to 4.9 months of goods imports, though they should remain above the government's minimum target of 3 months of imports. A reserves buffer of around US$200 million by 2019 above BCM target is projected. Failure of FDI materialization could reduce quickly this buffer and could force the central bank to resort again to bilateral external borrowing to close the financing gap.

22. **The inflation rate is expected to accelerate gradually over the medium term, from 1 percent in 2016 to 4.7 percent in 2019.** Continued exchange-rate depreciation and a gradual increase in import prices will drive this trend. The ouguiya's nominal depreciation against the US dollar is expected to continue over the next few years, with overall nominal depreciation reaching 17 percent between end-2015 and end-2019. The authorities are expected to continue prioritizing price stability, but the BCM's planned reforms

[11] The recent gas discoveries at Tortue and Teranga, joint fields with Senegal, may hold 25-50 Tcf of gas, placing it among the largest discoveries in the world in recent years. These discoveries are of transformational magnitude for the economy. Moreover, projects like Banda Gas-to-Power can set the country to become a regional supplier of energy. To realize it full growth potential, governance and capacity constraints along with an improved investment and resource management framework need first to be overcome.

[12]This US$150 million project is expected to be launched in 2017.

designed to support a more active monetary policy will be necessary to ensure consistency and coordination between the exchange-rate regime and the government's fiscal policy objectives.

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

in Million US$	2013	2014	2015	2016	2017	2018	2019
Financing Requirements	1709	1682	1237	773	874	946	902
Current Account Deficit	1269	1471	953	622	691	585	526
Long Term Debt Amortization	73	82	97	117	143	224	245
SNIM Long Term Debt Amortization	0	52	66	8	11	44	61
Other Short Term Capital Outflows	76	17	0	25	29	94	70
Errors and Omissions	291	61	122	0	0	0	0
Financing Sources	1702	1682	1197	773	874	946	902
FDI and portfolio investments (net)	1126	502	518	378	351	402	428
Capital Grants	5	16	31	0	0	0	0
Short term debt disbursements	299	581	237	92	100	90	43
Long term debt disbursements (excl. IMF)	176	257	270	244	399	418	405
SNIM Long Term Debt Disbursement	112	0	0	0	0	0	0
Change in reserves (- means accumulation)	-37	326	-182	60	24	36	26
Other sources	21	0	323	0	0	0	0
IMF credit (net)	0	0	0	0	0	0	0

Source: BCM, IMF article IV, World Bank Staff Calculation.

23. **The draft 2017 budget is expected to maintain fiscal consolidation, though at a more moderate pace.** According to preliminary information, the 2017 budget would narrow the primary deficit (excluding grants) from 1.3 percent of GDP in 2016 to 1.1 percent in 2017, while the overall balance (including grants) would deteriorate slightly to -0.5 percent of GDP.[13] The government anticipates that both domestic revenue and grants will decline as a share of GDP as mining revenues and gasoline excise taxes continue to fall in a context of deteriorating terms of trade. Expenditure restraints constitute the bulk of the proposed fiscal adjustment. The MEF is introducing cuts in goods and services and in transfers to SOEs[14] that are expected to reduce current spending by 1.8 percentage points of GDP between 2016 and 2017. In addition, a more rigorous selection process for public investment projects is expected to slow the pace of capital spending, and the capital budget will decline from 11.6 percent of GDP in 2016 to 10.8 percent in 2017.[15]

24. **The government is planning to intensify its fiscal consolidation efforts in 2018-19 by building on tax measures introduced in late 2017 and by reducing capital expenditures relative to GDP.** Achieving the government's fiscal surplus targets for 2018-19 will require additional spending cuts and increases in non-extractive tax revenues to compensate for low projected revenues from the extractive industries and gasoline excise taxes. Tax reforms to be introduced in late 2017 are expected to yield revenue gains from 2018 onwards. These include the introduction of a corporate income tax (CIT) and the elimination of inefficient tax expenditures, which are expected to boost fiscal revenue by 0.4 percent of GDP. The

[13] This reflects a significant decline in grants from 2.4 percent of GDP in 2016 to 1.6 percent in 2017.

[14] This includes the elimination of the tariff subsidy to the state-owned gas company SOMAGAZ, which is expected to yield a savings of about MRO 2 billion

[15] The MEF has already cancelled MRO 11 billion in new roads projects and have also cancelled unfunded ports projects as part of its new 2017 Public Investment Program.

authorities expect though the PIP to bear the brunt of the fiscal adjustment with capital expenditures dropping steadily from 10.8 percent of GDP in 2017 to 9.9 percent in 2019. The key targets of the government's fiscal consolidation program will be a primary surplus starting in 2018 and a reduction in the debt-to-GDP ratio. Additional efforts to rein-in recurrent spending and/or increase tax revenues could create further fiscal space and reduce the size of the correction to the investment budget.

25. **A number of risks could derail the fiscal consolidation process.** Key sources of fiscal risk include weak controls over the wage bill, a legacy of extra-budgetary spending by public entities, and the chronic financial underperformance of SOEs. The government has committed to clearing a portion of the existing SOE arrears by end-2016, notably arrears owed by the National Road Maintenance Company. However, the total amount of arrears owed by the public sector—including arrears to commercial banks—has yet to be determined, and a calendar for clearing these arrears has not yet been established. The authorities are attempting to strengthen controls over public entities and improve the coverage of the budget by including foreign-financed investment projects in the budget document. The government also aims to incorporate SOE investment plans into the PIP by 2018, further centralizing control over investment decisions. Finally, the authorities plan to adopt a new Organic Budget Law, which has been pending since 2014, and other reforms designed to strengthen public financial management (PFM) and improve both the design and execution of fiscal policy.

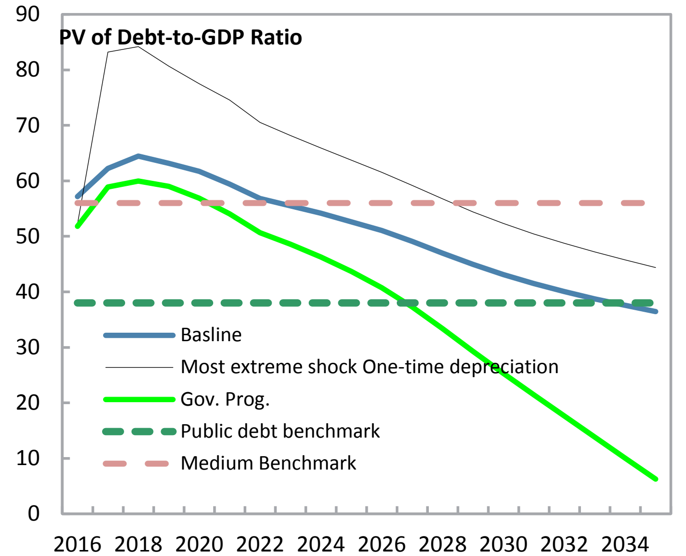
26. **With the total public and publicly guaranteed debt-to-GDP ratio projected to reach 91 percent of GDP by end-2016, Mauritania is at high risk of debt distress, and the successful implementation of the government's fiscal consolidation program will be vital to ensure medium-term debt sustainability.** The DSA (2016) have showed that most of the debt indicators[16] are expected to breach their indicative threshold (Figure 1)[17]. However, with the implementation of the fiscal consolidation plan and reforms to promote growth, and given exchange rate dynamics, the public debt-to-GDP ratio would peak at 97.1 percent of GDP in 2018 and then fall steadily from 2019 onward, ultimately dropping below its indicative threshold (table 1). Mauritania's debt sustainability path is highly sensitive to GDP growth and changes in the external environment. However, the concessional nature of the debt stock[18], with low debt service obligations and long maturities, mitigates these risks. Mauritania has no access to international capital markets and meets its external financing needs through grants and concessional loans from bilateral and multilateral development partners. However, sensitivity analysis reveals that a decline in the average annual GDP growth to 2-3 percent over the medium term, mounting exchange-rate pressures, or a worsening balance of payments could compel the authorities to resort to non-concessional borrowing to maintain an adequate level of central bank reserves. Additional improvements in any of these parameters during the reform program reduces debt accumulation and therefore accelerates the sustainability path.

[16] except the debt-to-revenue and debt-service-to-revenue ratios.

[17] The DSA (2016) assumes i) a real growth rate not to exceed 4.3 percent in the medium to long run, subdued metal and gold prices notably iron ore, ii) no fiscal adjustment with a 3 percentage point of GDP decline in revenues and an elevated capital expenditure at 14 percent of GDP, iii) a narrowing of the CAD to around 10.5 percent of GDP around the medium term driven by lower imports associated with the extractive industry and increased volumes of iron ore exports.

[18] The net present value of the public debt stock is estimated at 56.8 percent of GDP due to the concessional nature of the debt.

Figure 1: Debt Indicators, Estimated and Projected, 2016-2034



External Debt Composition (2015)	US$ (bln)	Share of Total Debt (%)	% of GDP
Monetary Authorities	0.4	10.5	8.8
General Government	3.6	89.4	74.8
Banks	0.0	0.0	0.0
Other Sectors	0.002	0.04	0.03
Total External Debt	4.0	100	83.7
Short Term	0.0	0.0	0.0
Long Term	4.0	100	83.7

Note: The most extreme shock is the one that yields the highest ratio on or before 2016. Baseline refers to the scenario under the Joint WB-IMF DSA 2016. The current benchmark (green dotted line) indicates the benchmark for a weak performer with a Country Policy and Institutional Assessment (CPIA) rating of 3.3 or below. The medium benchmark (purple dotted line) indicates the threshold for a medium performer with a rating of 3.4 or above. Mauritania's CPIA rating is 3.3. Source: MEF, Joint WB-IMF DSA 2016, World Bank Staff Calculation.

27. **The macroeconomic policy framework for 2016-19 is adequate for the proposed operation but remains fragile to downside risks.** This assessment is based on the MEF's fiscal consolidation plan, which aims to re-establish a sustainable debt trajectory through measures to (i) expand the tax base, (ii) contain the wage bill and limit transfers to SOEs, and (iii) rationalize capital expenditures and enhance public investment management while reducing investment-related foreign borrowing. If implemented successfully, the MEF's plan is expected to generate a primary surplus by 2018, slow the accumulation of foreign debt and, given projected exchange-rate dynamics, return the public debt stock to a downward trajectory by 2019. The plan will be complemented by reforms to enhance the monetary framework. Given a more favorable external environment, these measures should enable the BCM to meet its external financing requirements while keeping its foreign-exchange reserves above 3 months of imports. Importantly, the economic diversification agenda is expected to enhance growth and competitiveness over the medium term, which will be instrumental to addressing the structural causes of the current fiscal imbalances. The macro framework remains fragile though as a reversal of the envisaged fiscal and monetary reforms would accentuate downside risks, notably those linked to external shocks, and affect its sustainability.

2.3 IMF RELATIONS

28. **Mauritania does not currently have a program with the IMF**. The last program with the Fund was a three-year Extended Credit Facility (ECF) that was completed in June 2013. In July 2015, the government requested another three-year ECF arrangement, but an agreement regarding the program was not reached and negotiations were inconclusive. Since then, a new economic team led by the Minister of Economy and Finance was appointed in February 2016 following the merger of the former Ministry of Finance with the Ministry of Economy and Development. During the annual meetings in October 2016 the new government expressed renewed interest in a more formal engagement with the Fund, and

discussions could take place along with the next Article IV consultation in early 2017. Meanwhile, the Mauritania has benefitted from considerable technical assistance from the Fund in macro-critical areas such as tax policy and tax administration, bank supervision, and monetary and exchange rate policies. The World Bank team is coordinating closely with the IMF counterparts, exchanging views on the adequacy of the macro policy framework and structural reforms on a regular basis.

3. THE GOVERNMENT'S PROGRAM

29. **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 SCAPP's overarching target is for Mauritania to achieve the status of middle-income country 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, fisheries and livestock; and (iii) building new infrastructure, especially in the transportation, energy, water treatment and urban development sectors. The DPO builds on SCAPP reforms in the areas of macroeconomic management and economic diversification. A summary of the main reforms under the SCAPP is presented below:

30. **Macroeconomic-management:** Maintaining macroeconomic stability and optimizing natural resource use is at the core of achieving long-term sustained growth and reduce the country's exposure to external shocks. To do so the government will identify all public and private assets, conduct a land-reform program, and adopt a new property rights law. The public investment portfolio will be thoroughly assessed, and the public investment management system will be strengthened and rationalized.

31. **Private sector development:** Diversifying the economy away from the extractive industries will require a robust and competitive private sector. To achieve this objective, the authorities are taking steps to promote public-private dialogue, develop a formal PPP framework, increase the efficiency of the justice system, encourage economic liberalization and strengthen tax policy and administration.

32. **Accelerate economic growth:** The government's efforts to accelerate economic growth will focus on improving agriculture and agribusiness capacity, developing small-scale irrigation infrastructure and addressing the risks posed by climate change. The government is committed to the diversification of agriculture and livestock production. Priorities include boosting grain production, as well as measures to promote the development of agri and livestock business and increase value addition.

4. THE PROPOSED OPERATION

4.1 LINKS TO THE GOVERNMENT'S PROGRAM AND OPERATION DESCRIPTION

33. **The program development objective of the operation is** to support fiscal consolidation and private sector participation in non-extractives sectors.

34. **The DPO is designed to support the GoM** as it strives to (i) reduce fiscal risks by increasing domestic revenue mobilization, enhancing fiscal transparency and boosting the efficiency of public spending, and (ii) support private sector participation in the non-extractives sectors. The design of the program reflects the government's priorities as set forth in the 2016-2030 SCAPP, as well as recent initiatives to promote private sector development and public administrative reform.

35. **The proposed operation is built around two strategic pillars:**

- The first pillar supports structural fiscal reforms by: (i) increasing non-extractives revenues by rationalizing tax expenditures and expanding the tax base; (ii) streamlining the PIP and reducing its impact on public debt; and (iii) addressing fiscal risks related to parastatals. These measures assist Mauritania in its fiscal consolidation efforts and help adapt its fiscal policy to a new external environment of low commodity prices.

- The second pillar supports private sector participation by: (i) introducing PPP arrangements to attract greater private sector participation and FDIs; (ii) reforming land tenure and property rights law to alleviate access to credit constraints, and (iii) strengthening the regulatory environment to promote increased productivity and exports in the livestock sector. These measures supports private sector participation in the non-extractives sectors. A more diversified economy will have positive implications on the structural weaknesses of the balance of payment in Mauritania and will help reduce pressure on central bank reserves in the long-run.

36. **The design of the DPO series takes into consideration the government's administrative capacity constraints and the novelty of the operation itself.** The GoM faces a number of pressing challenges, and the proposed operation is highly selective in its prior actions in order to avoid overwhelming the government's limited administrative resources. Moreover, this would be the first World Bank budget support operation in Mauritania. The DPO focuses on prior actions that are thoroughly grounded in existing analytical work (Table 4) and employs a two-year programmatic structure in order to fully consolidate the supported reforms. Finally, the operation is anchored on several complementary World Bank TA projects.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Support fiscal consolidation by increasing domestic revenues, enhancing fiscal transparency and increasing the efficiency of public spending

A.1: Tax Expenditures

37. **Mauritania's tax exemptions tend to be inaccurately targeted and may not effectively advance their objectives of attracting investors or protecting poor households.** Thirty-seven percent of tax incentives 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: exemptions on petroleum products represent 23 percent of total exemptions, while the reduced rate on payroll taxes for workers in the mining sector accounts for 17 percent. However, 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.

38. **Eliminating poorly targeted, redundant or ineffective subsidies could yield substantial fiscal savings.** Mauritania's tax expenditures were estimated at MRO 74.7 billion in 2013, equivalent to 4.9 percent of GDP or 30 percent of total non-extractive tax revenues.[19] The GoM's efforts to adapt its fiscal

[19] World Bank, 2016. Due to data limitations this assessment does not include all exemption regimes.

policy to reflect the ongoing slump in commodity prices has created a critical opportunity to end unnecessary fiscal incentives and tighten revenue administration.

39. **The operation will support the formal creation of a benchmark model for tax incentives.** This model will enable the authorities to systematically evaluate and publish all tax incentives. By defining the standard tax regime against which to compare the costs of different tax expenditures, the benchmark tax model will promote greater fiscal transparency. The model will help policymakers identify the most expensive elements of the incentive regime, and it will create a sound analytical foundation for a more robust dialogue on tax policy between the public and private sectors. The authorities have already established an inter-sectoral technical committee to design and validate the reference system. The committee represents all government stakeholders and will work in concert with representatives from the private sector.[20]

40. **It will also support the creation of an exemption registry identifying all firms that benefit from various exemption regimes, including those defined in the Investment Code and the Free Zone Law.** A complete list of exemption beneficiaries will enable the authorities to monitor compliance with the rules of the exemptions regime and ensure that tax incentives are only provided to firms that meet the established criteria. Greater transparency in the allocation of tax incentives will also shed light on the extent to which these incentives may distort competition between the firms that receive them and those that do not.

41. **The success of these reforms will require close collaboration between a wide range of stakeholders**. Within the public sector, the tax and customs administrations will need to coordinate with the agencies in charge of the major exemptions regimes, including the agencies in charge of investment promotion and the management of the free zone. The expansion of the MEF's authority to tackle tax exemptions in February 2016 is expected to facilitate coordination between government agencies. However, broadening the consultative process to include the private sector, as well as relevant civil society groups and Non-Governmental Organizations NGOs, will be important to ensure widespread support for the tax reform agenda. The government's experience with participatory policymaking is limited, and the MEF may require TA in this area.

***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.*

Trigger 1: Publish the tax expenditures estimations in an appendix of the Budget Law 2018.

Trigger 2: Eliminate selected poorly designed tax exemptions regimes with negative effects on budget revenues and that do not respect their intended objectives either in sectoral promotion or poverty mitigation.

42. **The second operation in the proposed series will consolidate progress in these areas by supporting the elimination of inefficient tax expenditures.** Building on the analytical groundwork established under the first operation, the authorities will assess the cost of the major incentives and preferential regimes and estimate their efficiency with respect to their intended objectives. The second operation will then support a decision to eliminate selected poorly designed tax exemptions regimes with negative effects on budget revenues and that do not respect their intended objectives either in sectoral

[20] *Note de service* 9/MEF.M, 18 July 2016.

promotion or poverty mitigation. The World Bank will accompany the MEF to conduct a thorough cost-benefit analysis including distributional effect analysis before decision-making. Moreover, the proposed operation will focus on institutionalizing these reforms by supporting the publication of tax expenditures as a permanent feature in the annual budget law, which will enhance fiscal transparency and strengthen control over tax incentives and exemptions.

43. **The tax-expenditure measures supported under the DPO series are expected to bolster domestic revenue mobilization.** Streamlining the exemptions regime will yield an immediate fiscal savings, which will help compensate for the decline in extractive-industry revenues. A more efficient tax-expenditure system will also reduce economic distortions and promote domestic competition. Finally, the publication of the estimated cost of tax expenditure in the annual budget law will increase the transparency of the fiscal regime, strengthen regulatory oversight and allow for a more informed public debate on tax policy.

A.2: Public Investment Management

44. **Large-scale public investment remains central to the government's development agenda**. The GoM intends to maintain its policy of using robust capital spending to address the country's vast infrastructure needs. As a result, it started reviewing the project investment cycle and adopt better management practices to improve *ex ante* project evaluation and investment prioritization. The MEF has already reviewed and reclassified all public investments projects for 2017-2019 and has finalized a new draft PIP management framework, which is expected to be codified through a government decree.

45. **The current PIP preparation framework is not conducive to controlling capital expenditures.** Recent studies [21] have revealed a number of key weaknesses in Mauritania's public investment management framework. First, the lack of technical, macroeconomic and financial filters during the project-selection phase weakens the planning and prioritization process. Second, a fragmented management system that does not consolidate domestic and foreign-financed projects prevents policymakers from systematically evaluating the PIP as a whole. Third, deficiencies in financial management and monitoring often lead to costly implementation delays.

46. **The DPO supports the elaboration of Mauritania's legal framework for public investment management, which will reinforce budgetary discipline and establish more rigorous project selection and execution processes.** The operation tackles the development of systematic procedures for project selection based on their financial feasibility, their social, economic and environmental impact, and their relevance to the policy agenda. Approved projects will be prioritized within a clearly defined investment portfolio that includes foreign-financed projects. The Council of Ministers recently expanded the scope of the PIP to include projects and programs undertaken by SOEs and parastatals that receive direct budgetary transfers or benefit from sovereign guarantees. The decree describes the economic and social criteria for project selection, public investment's place in the government macroeconomic framework, and the joint decision-making process for stakeholders within the MEF, the line ministries and other agencies. A new procedural manual details the PIP's implementation, monitoring and evaluation mechanisms, including timeframes for undertaking key activities and the role of different stakeholders is also in the process.

47. **Mauritania's annual budget documents continue to omit foreign-financed investment projects, which is inconsistent with international best practices.** This compromises key aspects of public

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

investment management, especially efforts to compare initial capital costs with long-term operational and maintenance costs, and it prevents policymakers from acquiring consistent data with which to evaluate expenditure trends. As a result, the operation also supports reforms to the budget classification and presentation process, and as a result the 2017 budget law will, for the first time, include a unified investment budget that encompasses both domestic and foreign-financed projects.

Prior Action 2: *The Council of Ministers has adopted 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 approved the budget law proposal for 2017 that includes an integrated public investment budget with combined domestic and foreign financed projects.*

Trigger 3: The Council of Ministers has adopted a new agreement model and revised bidding documents that limits project award outside he Regulatory Authority for Procurement (ARMP) cycle, and that enhances the involvement of ministerial contracting authorities..

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.

48. **The second operation will focus on reforming public procurement processes.** Recent procurement reforms generated little improvement in value for money in public investment, and many of the provisions of the new Public Procurement Law[22] were not correctly implemented. Many of these problems resulted from the implementation decrees,[23] which were inconsistent with the objectives of the law. For example, the sectoral tender commissions exercise total control over the procurement process, without any involvement by ministerial contracting authorities, which is in direct violation of Article 9 of the law. Moreover, capacity limitations and a lack of transparency have contributed to delays and cost overruns. The second operation will therefore focus on reinforcing the supervisory role of the Public Procurement Regulatory Authority (*Autorité de Régulation des Marchées Publics*, ARMP) and tightening administrative controls.[24] The operation will also support the adoption of new standard bidding documents and other tools to boost procurement efficiency, and it will support efforts to resolve contradictions in the legal framework.

49. **The reforms supported by the proposed DPO series are expected to reinforce the efficiency and integrity of the project cycle**. Enhanced project screening and prioritization will enable the government to more effectively manage the size of the investment budget, as will the development of a comprehensive investment portfolio. Meanwhile, systemic reforms to the public investment execution and oversight processes will yield a permanent and continuous cost savings.

A.3: The Parastatal Sector

50. **Mauritania's parastatal sector is large and complex.** Numerous SOEs contribute a significant share of public revenues, and an even larger number of administrative public agencies (*Etablissements Public à caractère Administratif,* EPAs) and other public agencies deliver important services. The parastatal

[22] Law # 2010-044 "*Code des Marches Publiques*."
[23] Decree # 2011-178 "*Organization des Organs de Passation de Marche Publique*."
[24] The ARMP has already produced standard bidding documents and procedural manuals that have yet to be adopted by the government.

sector comprises 165 entities, including 50 SOEs[25] and over 100 EPAs and public agencies. The combined revenues of the 50 SOEs represents close to 30 percent of GDP, while the EPAs and other agencies provide healthcare, education, social services, and administrative services and are almost entirely financed by budgetary transfers.

51. **The parastatal sector represents an increasingly important source of fiscal risk, and there is considerable scope to improve the effectiveness of EPA service delivery.** Transfers to EPAs and public agencies accounted for an average of 8.8 percent of nonoil revenues over 2009-2015, while explicit subsidies to commercial SOEs averaged 2.3 percent, of which the national electricity utility, SOMELEC, received the largest share. In addition to explicit subsidies, in 2011-13 the government spent roughly MRO 26.8 billion recapitalizing SOEs, including MRO 19 billion in share purchases and MRO 7.8 billion in loans and advances. The financial and operational performance of SOEs varies greatly, and many have registered substantial losses and accumulated significant arrears, some of which are explicitly guaranteed by the state. Moreover, the sector's average return on assets over the last three years has been negative at -0.3 percent. Surveys reveal general dissatisfaction with the high cost and poor quality of the public services offered by the parastatals, particularly the electricity and water utilities.

52. **Parastatals are subject to weak financial and performance oversight.** Sector ministries and the MEF's General Directorate of Financial Oversight (*Direction Generale de la Tutelle Financiere*, DTF) are tasked with joint oversight over the parastatal sector. However, the DTF, which focuses on financial performance, lacks both procedures and the administrative capacity necessary to supervise 165 entities facing a wide range of complex issues. The DTF lacks comprehensive, up-to-date financial information on parastatals, and its archives are incomplete and not yet computerized. The DTF does not prepare regular fiscal-risk analyses, performance assessments or portfolio reports, nor does it conduct monitoring visits to entities under its oversight. Sector ministries, which are expected to monitor the performance of parastatals in their respective areas, typically possess neither the technical nor the administrative capacity necessary to effectively execute this function. Together, these factors contribute to an acute lack of transparency and accountability among parastatals and intensifies overall fiscal risks.

53. **Strengthening oversight of parastatals will be essential to enhance expenditure efficiency and contain the growth of contingent liabilities.** Most commercial SOEs do not regularly submit their financial statements, and financial reports are published infrequently. SOEs typically fail to disclose all of the information recommended by the OECD guidelines, including information on related-party transactions and risk exposure. Annual reporting by EPAs is not standardized and consists solely of the presentation of receipts and expenditure records, and the DTF does not disclose consolidated information on the state's asset portfolio. EPAs do not apply uniform internal control procedures, and a lack of standardization and integration of financial management and human resources systems complicates centralized monitoring. Moreover, EPA payments are executed outside the MEF's accounting systems, further increasing fiscal risks. Finally, while all parastatals are subject to statutory audits, national audit standards are deficient, and audits themselves are irregular. The statutory auditors of EPAs are civil servants, some of whom lack auditing qualifications.

54. **Reforms designed to improve oversight, strengthen administrative controls and enhance transparency in the parastatal sector are critical to the effective management of fiscal risks, especially in a context of fiscal constraints.** The proposed operation will support the inclusion of all eligible EPAs in

[25] SOEs are commercial companies organized into three categories: national companies (*sociétés nationales*), industrial and commercial public agencies and Partly State-Owned Company (*Société d'Economie Mixte).*

the MEF's Automated Expenditure-Chain System (*Réseau Automatisé de Chaîne de la Dépense,* RACHAD), as well as the publication of audited financial statements by SOEs. Both measures are designed to enhance financial-reporting requirements and promote greater transparency in the parastatal sector.

55. **The gradual expansion of RACHAD will strengthen budgetary controls.** RACHAD currently encompasses all central government agencies and includes all public expenditures except investments financed through donor support or bilateral funding. It is fully linked with the budget department's automated expenditure system (*Beit el Mal*). The operation will support the MEF's decision to gradually expand the system to include EPAs and other public agencies over three years. Starting in January of 2017 71 EPAs in Nouakchott, which together account for 24 percent of total public subsidies, will be incorporated into the system. In January 2018 the system will integrate another 10 public agencies, which represent 55 percent of public subsidies. Finally, in January 2019 56 EPAs in the interior of the country, which comprise 14 percent of subsidies, will be linked to the system once their internet infrastructure is adequately strengthened. Public hospitals will not be integrated into RACHAD given the sensitive nature of their operations and their high level of self-generated revenues. The RACHAD integration process will not include political institutions, such as the legislative houses, or independent authorities, such as the commission of human rights and the court of accounts. Expanding the RACHAD system to encompass all EPAs will tighten budgetary controls and reduce fiscal risks related to extra-budgetary spending and transfers.

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 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.*

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.

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.

56. **The second operation will support additional reforms in the parastatal sector.** Key reforms will include the development of an SOE policy that clearly outlines the rationale and objectives of state ownership and sets clear performance targets, as well as revisions to the legal framework for the parastatal sector consistent with the government's vision for the corporate governance of SOEs. This process will include a number of technical studies, including a comprehensive review of SOEs or sectors dominated by SOEs, their financial and operational performance and an assessment of continued public service needs, with a view to identify opportunities for the state to withdraw from sectors where private sector actors could better serve market needs. As a result of this review, the government should indicate which SOEs may need to be liquidated, which could be privatized, and which SOEs should remain in government hands. Another important and complementary element of this process would be to identify public service obligations, calculate their costs and use these as the basis for clear and transparent subsidies to SOEs. The operation would also support an institutional review of EPAs aimed at rationalizing the state's involvement in social services, as well as an individual assessment of each commercial SOE designed to identify opportunities to strengthen performance. Finally, the operation would support the development of a new institutional framework for improved oversight and reporting in the parastatal sector.

57. **Strengthening the government's control over parastatals will be essential to effectively manage fiscal risks.** Tighter expenditure controls and closer monitoring of EPAs will enable policymakers to ensure that public subsidies and transfers deliver adequate value for money in terms of public services. Standardized financial reporting among SOEs and EPAs, and The inclusion of the latter in the RACHAD system, will improve transparency and enable policymakers to more closely monitor the potential accumulation of arrears and contingent liabilities.

<u>Pillar B:</u> Support private sector participation in the non-extractives sectors

B.1: Public-Private Partnerships

58. **PPPs are expected to play an increasingly important role in Mauritania 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. In addition to their positive budgetary impact, well-designed PPPs can accelerate technology transfer and the diffusion of knowledge, with positive implications for growth and diversification. PPPs also present 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.

59. **The proposed operation will support the development of specific regulations governing the establishment and management of PPPs**. Mauritania's recent experience with private waste-management contracting underscores the importance of establishing a proper framework for public-private collaboration.[26] The new PPP framework will include rules for procurement, risk analysis and financial arrangements, enabling the government to access greater private investment and improve service delivery while minimizing fiscal risks. The framework will also enable the MEF to analyze investment requests from line ministries and determine whether a PPP would be a viable option.

60. **The new PPP framework will systematically address design, governance and implementation risks associated with PPPs.** Because PPP arrangements are not appropriate for all projects, and because their financial viability must be verified in advance, final authority to approve PPPs should reside with an inter-ministerial PPP committee. This committee should oversee the development of the institutional and legal framework for PPPs and the compilation of a PPP project portfolio. Its operations should be guided by international best practices and reinforced by capacity-building programs. The World Bank has already launched a TA project designed to assist the administration in developing its PPP framework and establishing PPPs. This project is providing a set of guidelines for the PPP design and approval process, and it covers issues such as property rights, responsibility for contingent liabilities and fiscal risks, environmental safeguards, best practices in for contract tenders, and the development of capital markets to support PPP investment projects.

61. **The success of the PPP reform program will also require a well-functioning PPP executive unit to manage the technical aspects of PPPs in close collaboration with the inter-ministerial committee**. The executive unit will require adequate budget resources, trained staff, technical independence, and a clearly defined relationship to the line ministries. The World Bank TA project described above is expected to provide capacity-building assistance to the executive unit, enabling to develop robust quantitative and qualitative methods for identifying and assessing possible PPP projects and to manage any contingent

[26] The experience with contracting a private company for Waste Management in Nouakchott has not been successful. Conflict between the private operator and the government arose leading to bad services delivery and ending with breaking the contract.

liabilities generated by PPPS. The unit will receive specialized training on PPP management and fiscal risk-assessment tools such as the World Bank's PIFRAM or PIM PPP.

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 of financing public investment and boosting private sector participation in the non-extractive economy. A consortium of commercial banks has already established a PPP forum to encourage regular dialogue and ensure a participatory approach to PPPs. However, a pipeline of PPP projects has yet to be developed, and current PPP projects are restricted to a small number of major infrastructure investments, such as the container terminal at Nouakchott and the oil terminal at Nouadhibou. However, a project pipeline could be operational as early as in November 2016. The initial portfolio is likely to focus on small-scale local and municipal projects, which are more likely to attract domestic investors and which entail more modest fiscal, social and environmental risks.

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.*

Trigger 7: The Inter-ministerial committee validates the updated PPP portfolio and officially decides to engage in PPP operations under the new framework

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.

63. **The second operation will support the implementation of the PPP framework.** Supported reforms will focus on the composition, authority and activities of the PPP executive unit and ensure that its financial and human resources are adequate to fulfill its mandate. The operation will also support the authorities in revising and validating the PPP portfolio, and it will encourage the inter-ministerial PPP committee to develop at least two new PPP projects.

64. **The reforms supported by the proposed operation will enable the government to launch major infrastructure projects in partnership with the private sector.** An effective PPP framework will allow the government to advance its ambitious investment agenda while containing the growth of public spending. Encouraging greater private investment, including FDI, will also accelerate technology transfer and facilitate economic diversification away from the extractive industries.

B.2: Land Tenure and Property Rights

65. **Mauritania's outdated legal framework for land rights is a serious obstacle to social and economic development.** Under the current law, which dates from 1983, all land belongs to the state. Obtaining formal property rights is an expensive and time-consuming process, and due to conflicts between formal, customary and religious law, as well as the limited capacity of the public administration, these rights are often very difficult to enforce.

66. **The overlapping authority of formal legislation, traditional practices and sharia law creates serious ambiguities in the definition, protection and adjudication of land rights.** The resulting insecurity of property rights has deeply negative effects for firms and citizens alike. Uncertainty regarding property rights discourages investment in fixed assets such as land improvements, and 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 businesses and households.

67. **Structural weaknesses in the land-tenure system have exacerbated exogenous shocks, intensified credit constraints and partly hindered growth of the non-extractives primary sector.** In agriculture**,** tensions are increasing on irrigated lands where community land rights are not formally recognized. In the Senegal River Valley, the return of displaced people has intensified competition for access to land, and shrinking grazing areas and transhumance corridors have given rise to conflict between farmers and pastoralists. Moreover, unclear property rights have also slowed urban development and limited the potential for land taxation. Finally, the absence of fair and inclusive mechanisms to facilitate access to land for investment is both a key obstacle to economic diversification and a cause of social unrest.

68. **The government has launched an ambitious program to strengthen the framework for property rights and land tenure.** The first stage of this program is a national policy dialogue conducted through a series of regional workshops. The second is a thorough review of land regulations. And the third is the development and implementation of a new policy framework for land tenure. An inter-ministerial land-reform steering committee chaired by the Prime Minister and a technical commission for land reform led by the MEF are planning to pilot innovative land-rights management systems in different contexts. The donor community is supporting this process, and an implementation calendar has been agreed upon with the government. Further financial support and TA are linked to the progress of the reform agenda.

69. **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 largely provisional, and banks typically do not accept them as collateral. Moreover, the prevalence of employment in the informal sector eliminates the possibility of payday loans. As a result, land title becomes a vital collateral to private credit. While Mauritania's new legal framework for property rights should conform to international best practices, the land-reform process must be tailored to reflect the country's unique system of customary and religious law.[27]

70. **The process of reforming Mauritania's property-rights framework is already underway.** The government has established a dedicated technical coordinating committee[28] presided over by the MEF's Director General for Land. The committee includes representatives from both the MEF and the Ministry of Justice. The issue of property rights in general, and land tenure in particular, involves a large number of stakeholders, which must be fully engaged in the reform process. These include the Ministry of the Interior and Decentralization, the Ministry of Islamic Affairs, the Ministry of Agriculture, and the Ministry of Urban Development and Land Planning.. However, a robust public-private dialogue is crucial to build consensus and ensure broad-based ownership of the reform program. For this reason, a consultative process, supported by the Development Partners, has begun and will incorporate members of the private sector and civil society. These representatives will participate alongside government officials in three regional workshops and a national workshop in the capital are scheduled for 2017. The government's land committee is also planning a series of field visits to various communities, and discussions with members of parliament and local governments are underway.

[27] Modern property-rights regimes typically focus on individual private tenure secured by a legal title ("*titre foncier*"). However, it is important, particularly in rural contexts, to consider other forms of tenure in which community membership and customary practices are the basis for determining access to land, as opposed to a strictly private conception of property rights.
[28] See: *Arrêté Conjoint no. 1366/MJ/MAED/MF du 23 Juillet 2015 portant Création d'un Comité de Coordination de l'Elaboration du Code des Droits Réels*.

71. **The DPO will support the ongoing process of strengthening property rights and reforming the land-tenure system**. Land reform is a complex process due to its inherent social and political sensitivity. The DPO series is aligned with the government's land-reform program and the implementation schedule agreed upon by the government and its development partners. The first operation will support the establishment of an inclusive consultative process to guide the development of the reform program, as well as an appropriate institutional framework to implement the necessary measures. The operation will also assist the authorities in accessing global technical expertise to inform the design and implementation process.

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.*

Trigger 9: The Council of Ministers has adopted a new property rights code "Code des Droits Reels" that modernizes, reconciles and consolidates the current regimes in application.

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.

72. **The second operation will support the adoption of new legal texts and policy documents that reflect both international best practices and the domestic consultative process.** The operation will encourage the Council of Ministers to adopt a new law that modernizes, reconciles and consolidates the current formal, traditional and religious frameworks for defining property rights. The operation will also support a new institutional framework for land policy reforms. This framework will build on the work of the Inter-Ministerial Steering Committee for Land Reform in reviewing and approving land sector policy document. This work will complement ongoing TA projects designed to foster a more inclusive land-tenure system.

73. **The establishment of a new property-rights framework that modernizes the process for defining and enforcing land tenure will boost formal title ownership, hence expanding credit access and facilitating the development of a formal real estate market.** Enforceable asset titles will alleviate credit constraints by enabling both individuals and firms to borrow against equity. Enhancing the security of property rights will also promote increased private investment and encourage property development. 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

74. **Livestock is Mauritania's dominant agricultural subsector, and it has the greatest potential for rapidly increasing non-extractive exports.** The livestock subsector accounts for an average of 77 percent of agricultural value added and about 15 percent of GDP. It is estimated at 1.6 million head of cattle, 16 million sheep and goats, and 1.4 million camels. Livestock production is the country's main agricultural activity and is practiced mainly in the Saharan and Sahel-Saharan zones. Pastoralism is a major source of rural livelihoods, and livestock also play 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 covers 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 leading sectors in terms of poverty reduction and among the sectors that have created the most employment and welfare for rural areas in recent year[29].

75. **However, low sanitary quality prevents the livestock sector from reaching its full production and export potential.** Limited veterinary care and low-quality animal feed contribute to poor animal health, which increases livestock mortality rates and diminishes productivity. As a result, 70 percent of milk is imported despite the large size of the 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 Middle East and the Maghreb region. Moreover, poor quality inhibits the development of other transformation sub-sectors such as hives and skins, and discourages investors from expanding such businesses and boost exports.

76. **The DPO supports the passage of new livestock sector regulations based on international best practices.** The Ministry of Livestock is preparing a new set of 10 executive decrees under the existing livestock law that reflect the standards of the World Organization of Animal Health (OIE).[30] The government is expected to adopt five of these decrees during the first operation and the other five during the second. These reforms represent part of a broader agenda for the development of the livestock sector, which will be supported not only by the proposed DPO, but also by TA provided through the World Bank's Regional Project for Livestock Support in the Sahel (*Projet Régional d'Appui au Pastoralisme au Sahel*).

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.*

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.

77. **The second operation in the proposed series will build on these reforms by supporting additional measures to promote productivity in the livestock subsector.** The operation will support the approval of the remainder executive decrees by the Council of Ministers and Minister of Livestock. These regulations will govern the regional management of grazing lands and transhumance corridors, the development of pastoral infrastructure and the professionalization of livestock production.

78. **These reforms are expected to bolster livestock production, facilitate exports and encourage the diversification of the non-extractive primary sector.** The implementation of the regulations supported by the DPO series will be observable both in the domestic livestock value chain and at export points. Enhancing quality and safety standards will broaden livestock producers' access to international markets, and rising livestock exports will attenuate the economy's reliance on natural resources to generate foreign exchange. Increased livestock production will also reinforce domestic food security and boost incomes among pastoralists and smallholder farmers.

[29] World Bank 2016 "Islamic Republic of Mauritania, Poverty Dynamics and Social Mobility 2008-2014".

[30] 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.

Table 4: Prior Actions and Analytical Underpinnings

Prior actions	Analytical Underpinnings
Support fiscal consolidation by increasing domestic revenues, enhancing fiscal transparency and increasing the efficiency of public spending.	
A.1 Tax Expenditures	
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.*	• World Bank, 2016. "Tax Expenditure in Mauritania. Definitions and Estimates for 2013 and 2014." Washington, D.C.: The World Bank Group Key findings: Generous nature of the exemptions and ineffectiveness of the system both in terms of subsiding the poorest population or stimulate investments.
A.2 Public Investment Management	
Prior Action #2: *The Council of Ministers has adopted 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 approved the budget law proposal for 2017 that includes an integrated public investment budget with combined domestic and foreign financed projects.*	• 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: absence of any systemic process for selection and prioritization of investment projects. Detailed description of the fragmented budget procedure that allows for off-budget capital spending, an issue that led to rapid accumulation of debt and increased fiscal risks.
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 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.*	• 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: rapid expansion of public enterprises in the last 5 years and increased in fiscal risks due to accumulated losses, weak governance, and reliability on government transfers.
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.*	• 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 definition or framework for PPP since the amendments of the procurement Act in 2010. Governance constraints to the development of PPP including: i) No clear national strategy regarding PPP nor champion. ii) Lack of legal and institutional framework to reassure private investors and give clear business environment signals. iii) Capacity building constraints and Misconceptions of potential PPP operation and financial modeling. iv) Failed PPP attempts in the past that may influence the credibility of further PPP operation.

B.2 Land Tenure and Property Rights	
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.*	• 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." Key findings: Weak regulatory framework for land that created uncertainty and past conflicts. Negative effects on domestic and foreign investments, and a constraint to private sector credit and private sector participation.
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.*	• 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.* » Key findings: Lack of sanitary standards and the high degree of informality in the sector and in the professions linked to it are major impediments to the development in the livestock sector and its exports potential.

4.3 LINKS TO THE CPF, OTHER BANK OPERATIONS AND WORLD BANK GROUP STRATEGY

79. **The DPO is closely aligned with the FY2013-2016 CPS.** The CPS, which was finalized in September 2013, is designed around two strategic pillars. The first, "Growth and Diversification," focuses on increasing productivity by promoting private sector competitiveness, infrastructure investment and financial sector development. The second, "Economic Governance and Service Delivery," concentrates on enhancing the effectiveness of the public sector, including local government agencies, in the areas of education, skills development and food security. The structure of the proposed DPO series reflects these two pillars while approaching Mauritania's economic development challenges from the perspective of sustainable macroeconomic management and long-term fiscal stability. As the CPS period comes to an end, emerging risks to macroeconomic stability could jeopardize the progress made under the strategy. The proposed operation seeks to address these risks and reinforce Mauritania's resilience to external shocks, and it will provide a programmatic anchor for the preparation of a new 2017-2020 CPS.

80. **The reform agenda supported by the proposed DPO series builds upon the achievements of several World Bank capacity-building projects implemented under the 2013-2016 CPS.** These include the Mauritania 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 Mauritania Regional Project for the Support of Livestock in the Sahel.

4.4 CONSULTATIONS AND COLLABORATION WITH OTHER DEVELOPMENT PARTNERS

81. **The design of the DPO series is informed by the government's development strategy, as well as recent World Bank reports and TA projects.** 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. Some of these consultations were led by the government, while others were led by the World

Bank or by Mauritania's other development partners. Several of the prior actions supported under the first operation have direct budgetary implications and will be subject to legislative review and approval. The World Bank team has already engaged the legislature's Finance Committee in a series of fiscal policy discussions, workshops and technical trainings. Additional consultations with representatives of civil society and the private sector are expected to be held during the DPO preparation phase.

82. **The World Bank team collaborated closely with the IMF and Mauritania's other development partners to define the reform program supported by the DPO series**. In addition to regular bilateral discussions Mauritania has well-established multi-donor coordination mechanisms, including coordinating committees 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 management. The IMF, the EU, the AfDB and other development partners are also implementing TA projects in key DPO-supported reform areas, especially fiscal policy. The AfDB has anchored its own prospective budget support operation to the private sector participation pillar of the proposed DPO, which will target a complementary set of reforms. The World Bank and AfDB teams have held joint meetings with government officials and continue to collaborate closely. Like the proposed DPO series, the AfDB operation would be implemented over the next two years, beginning with a credit of US$10 million in the first year. The operation will be presented to AfDB's Board of Directors in November 2016.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

83. **The reforms to the tax exemption regime supported under Trigger 2 for the proposed second operation could have an adverse impact on poor households depending on the specific exemptions targeted for elimination in year two.** Using Mauritania's 2014 household survey, the World Bank team simulated the distributional impact of eliminating VAT exemptions on 144 consumer products including staple foods and utilities (See Annex 5). The results indicate that while these exemptions systematically benefit wealthier households more than the poorer ones, the size of these exemptions as a share of household spending is largest among households in the second-lowest quintile. As a result, eliminating these 144 VAT exemptions would increase the tax burden on some households that are near or below the poverty line, increasing the headcount poverty rate by as much as 2.7 percent. However, the negative impact on poverty results almost entirely from the removal of VAT exemptions on staple foods (e.g., rice, flour and oil), while removing VAT exemptions on electricity and water appears to have no effect. The simulations are intended to show the type of analysis needed before taking decision on the specific tax exemptions and are in effect an upper bound as they assume the elimination of all 144 exemptions. The DPO series does not support these actions but will rather work with government on identifying those that do not hurt the poor in the second year, after determining the benchmark model.

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

85. **The land-tenure and property-rights agenda supported under Prior Action 9 is expected to have a positive and direct impact on poverty and social development.** The proposed DPO program supports the government's efforts to develop a sound legal and institutional framework for allocating and protecting rights to land and other property. The supported reforms are expected to have especially beneficial implications for poor households and informal firms, which tend to be most vulnerable to the insecurity and conflict generated by ill-defined or unenforceable property rights. Moreover, greater title security will promote investment in land improvements, facilitate borrowing against equity, and shield the property of the poor from illegal infringement or expropriation.

86. **However, land-reform processes entail an inherent risk of elite capture.** It will be critical to ensure that the supported reform program reflects core principles of fairness and equity, that it does not unduly empower any constituency, and that it reflects the unique system of customary and religious law through which property rights are adjudicated in much of the country. Moreover, the allocation of land for public projects or commercial purposes must reflect the principle of Pareto-efficiency; i.e., that any change in land use should yield a net economic gain, and that any costs incurred by individuals or groups should be fully compensated by those who benefit. Successful land reform will require broad-based ownership and multi-stakeholder consensus. Consultative processes must include representatives from the public sector, the private sector and civil society. The envisaged donor-financed regional and national workshops will ensure such representations. Moreover, specific attention must be devoted to ensuring that the land reform provides direct benefits for women and vulnerable minority groups and allows them to access land rights. The reform is still at an early conceptual stage and no specific compensation mechanisms have yet been designed or discussed. This is expected to come much later in the process after the DPO series. Current safety nets in Mauritania are geared towards crisis response and structure around food aid. The most important are the Emel program, food transfers and fuel subsidies. Other small infrastructure projects also exist and targets areas where vulnerable groups live. This is the case of Tadamoun agency that was created to tackle the sequel of slavery.

87. **The land-rights measures supported by the DPO series are upstream measures that are part of an elaborate multi-donor engagement with the GoM.** A detailed reform schedule has been developed by the government and its development partners, who will support the government's land reform through a combination of TA, project financing and budget support.[31] The DPO focuses on early actions to initiate those reforms. To mitigate the social risks associated with land reform, the international community will continue to closely scrutinize the design and implementation of the proposed reforms. The domestic consultative process is ongoing, and a series of land-reform workshops will be held in 2017. Moreover, the government's land committee is engaged in both national-level consultations and community-outreach efforts.

5.2 ENVIRONMENTAL ASPECTS

88. **The reforms proposed are not likely to have negative effects on the country's environment.** Measures designed to promote investment, such as those supported under Prior Actions 2 and 6, could have negative environmental implications if the resulting investment projects are not subject to appropriate environmental safeguards (see Annex 4). The World Bank team will work to ensure that such safeguards are integrated into all DPO-supported measures.

[31] These include the World Bank, the AfDB, the EU, the French Development Agency and the UN agencies.

89. **The PIP framework supported under Prior Action 2 will include clear provisions for incorporating environmental and social impacts into the project selection, execution and evaluation process.** The current country system for environmental safeguards for public investment projects is quite sound. These include 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. These regulations mandate infrastructure projects to be categorized by level of perceived damage. As such, they require various degrees of environmental and social impact assessments and mitigation reports. The Ministry of Environment (MoE) is the primary custodian. However, the lack of budget and staff hinders execution and often limits the assessment to projects financed through development partners. To improve safeguards and address these concerns, the new PIP framework and its related manual of procedures will reflect international good practices for environmental and social impact assessments. It will also require a more systemic MEF engagement including through ensuring funds for environmental feasibility studies...

90. **The draft PPP law supported under Prior Action 6 will include similar environmental provisions and safeguards.** The creation of a new PPP framework will be an opportunity to strengthen country environmental safeguards systems linked to such projects. With support from the World Bank TA on PPPs, environmental and social requirements for establishing PPP arrangements based on international good practices will be clearly defined in the law and its implementing regulations. Private partners will be required to complete a full economic and social impact assessment before a project commences. The Minister of Environment will be included in the PPP steering committee that oversees the integration of environmental safeguards. Furthermore, the future PPP Unit will have a requirement to include an environmental Senior Specialist who will assess any PPP technical proposal for infrastructure project. FIAS TA will also provide capacity building for lines Ministries and PPP unit on environment and social impact.

91. **DPO supports upstream land reform under prior action 7 and is part of a wider multi-donor support, which reduces the environmental risks.** The prior action focuses on initiating the preparation phase of land reforms by appointing the inter-ministerial committee that will steer the reform. The operation falls under a broader multi-donor reform agenda and environmental assessment and provisions will be undertaken through various TA projects. The DPO will rely on the agreed agenda and the TA.

92. **Compliance with OIE standards will attenuate the inherent environmental risks involved in expanding livestock production, which is supported under Prior Action 8.** In addition, Mauritania is currently participating in the World Bank's Regional Project for Livestock Support in the Sahel, under which it will introduce an environmental and social management framework for the livestock subsector.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

93. **Mauritania's PFM system remains weak, and recent progress has been uneven.** A 2014 Public Expenditure and Financial Accountability assessment registered limited improvements in PFM since 2008, as well as a deterioration in some areas. A 2016 Public Expenditure Review also reveal mixed progress on PFM, which it attributed to a combination of weak institutional capacity and limited political ownership of the reform agenda. These challenges are also reflected in Mauritania's Country Policy and Institutional Assessment (CPIA) rating, which rose from 3.1 in 2013 to 3.3 in 2015, above the average for IDA countries but below the benchmark for medium CPIA performers. Mauritania's recent progress on the CPIA was driven by improvements in the "Transparency, Accountability and Corruption in the Public Sector" indicator, which rose from 2.5 in 2013 to 3 in 2014.

94. **The World Bank and other development partners will continue to support the government's efforts to address challenges in the PFM system.** In 2012, the government developed a PFM reform action

plan for 2012-2016, and the 2014 Public Expenditure and Financial Accountability assessment recorded substantial progress in its implementation. Revenue administration has been enhanced, procurement competition and controls have been strengthened, and intergovernmental fiscal relations have been made 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.

95. **Greater budgetary credibility will be necessary in order to align actual spending with the government's development agenda.** The budget is subject to weak internal and external controls and irregular oversight. Externally financed public investment is only incorporated as an annex to the budget law, not an element of the budget itself. Transfers to parastatals and the assumption of contingent liabilities also impose a substantial burden on the public finances and represent important sources of fiscal risk. Little information is available on the performance of parastatals, and financial oversight is severely deficient. In 2016, with support from the World Bank's Public Sector Governance Project, the MEF began developing a comprehensive database of financial information on SOEs to inform policy discussions. This database has just been completed in October 2016.

96. **Budgetary transparency has improved in recent years.** 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 website, though the timeliness of their publication could be improved. In September 2016 the government submitted its draft annual financial statements for 2013 and 2014 to the Court of Accounts, where they remain under review along with the draft statements for 2010, 2011 and 2012. All financial statements are expected to be submitted to Council of Ministers for approval by end-October 2016.

97. **The most recent BCM safeguards assessment was carried out in FY2010, and no assessment has been scheduled for 2016.** The IMF's 2016 Article IV Consultation report noted the government's limited progress in implementing the recommendations of the 2010 safeguards assessment. While the BCM has published its 2014 audited financial statements, albeit after a significant delay, its financial reporting remains deficient. 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. The BCM continues to impose restrictions on the foreign-exchange market, though the authorities are committed to removing these restrictions in the near term as part of its larger monetary policy reform agenda. In the meantime, for the purpose of this operation, additional fiduciary risk mitigation measures will be triggered as described below.

98. **The BCM is regularly audited by an international auditing firm**. Audit reports for 2014 and subsequent years are posted on the BCM's website, though the respective management letters are not included. The World Bank reserves the right to request these management letters, which should provide additional information on risk management and the BCM's internal controls.

99. **The proposed grant will be disbursed following the standard IDA procedures for development policy operations**. A grant in the amount of SDR19 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. 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. 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 accounted in the country's budget-management system, including the relevant fiscal-accounting information, the date of the grant and the exchange rate used.

100. **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

101. **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 DPO 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.

102. **Communities and individuals who believe that they have been adversely affected by specific country policies supported as prior actions or tranche-release conditions under a World Bank development policy operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank'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 World Bank's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of the World Bank's noncompliance with its own policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and 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 RISK MITIGATION

103. **The overall risk rating for the DPO 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 programmatic series. The most salient risks are described in greater detail below.

Table 5: Risk Ratings by Category

Risk Categories	Rating (H, S, M or L)
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	High
6. Fiduciary	Substantial
7. Environmental and social	Substantial
8. Stakeholders	Moderate
Overall	High

104. **Political and governance risks are substantial.** Mauritanian political economy is complex, and previous reform efforts have been delayed, manipulated and even derailed by powerful interest groups. The government has signaled a credible commitment to the DPO-supported reform agenda based on a broad political consensus, but the effectiveness of this commitment and the government's ability to manage political and institutional pressures are not assured. To mitigate these risks, the measures supported by the DPO 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 DPO will benefit from the recent consolidation of the MEF and the formation of the new government economic team, which is currently building a strong multi-stakeholder coalition to support the reform agenda.

105. **Macroeconomic risks are high**. The level of public debt, persistent weak revenues from the extractives sector, unidentified fiscal risks from the broader public sector, insufficient monetary policy instruments, and exchange rate misalignment are all factors that renders the macroeconomic risks high. External shocks affecting any of these parameters could derail the fiscal and reserves targets of the GoM especially under an inflexible exchange rate policy. Moreover, the absence of an accommodating monetary policy could hurt future growth given the fiscal consolidation program especially as liquidity tightens and starts affecting the real economy. While the DPO has focused on accompanying the government in its fiscal consolidation effort, the World Bank has also initiated discussions with the BCM and further joint work is being devised on the financial infrastructure. Moreover, the central bank has recently received TA from the IMF on monetary and exchange rate policy reform and is now in discussion for implementation.

106. **Institutional capacity for implementation and sustainability risks are high.** Despite recent progress in institutional capacity-building, the effectiveness of public agencies remains highly variable, which inhibits the government's ability to implement complex reforms. The reforms supported by this DPO series span several ministries and departments, and the challenges involved in inter-agency coordination compound existing capacity risks. However, the expanded authority of the newly consolidated MEF will enable the government to more effectively and comprehensively implement its economic and fiscal policies. Moreover, an adverse external climate has reinforced the government's commitment to addressing structural economic constraints and implementing deep and lasting fiscal reforms. While not all of the identified risks can be mitigated directly, the TA and capacity building provided by the World Bank through ongoing projects in the areas of PFM, CPIA improvements, PPP arrangements, land reform and the development of the livestock sector will facilitate the sustainable implementation of the DPO-supported reform agenda.

107. **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 most recently updated in 2014. The authorities have made progress in a number of 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 completion 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, the existing PFM information systems are incomplete and largely uncoordinated, and the government's internal and external oversight institutions are often ineffective. Mauritania's auditing and accounting subsector 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, the implementation of GFMIS, public procurement reform, and accounting, auditing and financial controls.

108. **Environmental and Social Risks are substantial**. The DPO has inheritant environmental and social risks given that it supports actions linked with tax expenditure, PPP, land reforms and livestock. However the nature of the actions supported are mostly regulatory, procedural and /or upstream in the reform agenda. However, as described earlier, mitigation measures are in place for each reform whether through enhanced PSIA analysis or through technical assistance projects that are already in place and led by the World Bank and other Donors. Moreover, the national framework for the environment is taken into account and will be enforced through the legislation supported in this operation.

ANNEX 1: POLICY AND RESULTS MATRIX

<table>
<tr><th colspan="2">Prior actions and Triggers</th><th rowspan="2">Results</th></tr>
<tr><th>Prior Actions under DPO 1</th><th>Triggers for DPO 2</th></tr>
<tr><td colspan="3">Pillar A: Support fiscal consolidation by increasing domestic revenues, enhancing fiscal transparency and increasing the efficiency of public spending.</td></tr>
<tr><td colspan="3">A.1 Tax Expenditures</td></tr>
<tr><td><u>Prior Action 1:</u> 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.</td><td>(Indicative) Trigger # 1: Publish the tax expenditures estimations in an appendix of the Budget Law 2018.</td><td rowspan="2">Number of tax exemptions categories eliminated under the tax benchmark model

Baseline (2016): 0.
Target (2018): 2</td></tr>
<tr><td></td><td>(Indicative) Trigger # 2: Eliminate selected poorly designed inefficient tax expenditures regimes with negative effects on budget revenues and that do not respect their intended objectives either in sectoral promotion or poverty mitigation.</td></tr>
<tr><td colspan="3">A.2 Public Investment Management</td></tr>
<tr><td><u>Prior Action 2:</u> 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.</td><td>(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.</td><td rowspan="2">Share of public investment projects prepared and executed based on new framework.

Baseline (2016): 0.
Target (2018): >75%.</td></tr>
<tr><td><u>Prior Action 3:</u> 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.</td><td>(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.</td></tr>
</table>

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.	(Indicative) Trigger # 6: 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.	The number of eligible administrative public agencies (EPAs) and agencies included in the automated expenditure-chain system (RACHAD) increases. Baseline (2016): 0. Target (2018): 81 The share of budget transfers to parastatals administered through RACHAD Baseline (2015): 0% Target (2018): 79%
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.	(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.	
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.	*(Indicative) Trigger # 7:* The Inter-ministerial committee validates the updated PPP portfolio and officially decides to engage in PPP operations under the new framework	The number of public-private partnership (PPP) projects under implementation using the new framework increases. Baseline (2016): 0. Target (2018): 2
	(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.	

B.2 Land Tenure and Property Rights		
	(Indicative) Trigger # 9: The Council of Ministers has adopted a new property rights code “Code des Droits Reels” that modernizes, reconciles and consolidates the current regimes in application.	Increase in formal properties titled. Baseline (2015): 27168 (cumulative) Target (2018): >28000
<u>Prior Action 7:</u> 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.	*(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.	
B.3 The Livestock Sector		
<u>Prior Action 8:</u> 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.	*(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	The traceability of livestock-product exports improves. Increase in the percentage of verified products in slaughterhouses’ total products. Baseline (2016): 0%. Target (2018): 8%. and 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

République Islamique de Mauritanie
Honneur – Fraternité – justice

Ministère de l'Economie et des Finances

N° 00000157.6 M.E.F/M

بســـــــم الله الرحمن الرحيم

الجمهـــوريـــة الإسلاميـــة الموريتانيـــة
شـــرف – إخـــاء – عـــدل

وزارة الاقتصـــاد والماليـــة

Nouakchott le : 24 OCT 2016 :انواكشوط في

Le Ministre الــوزيــر

A
Monsieur Jim Yong Kim
Président de la Banque Mondiale
- Washington D.C. USA -

Objet : Lettre de politique de développement

Monsieur le Président,

La présente lettre de politique de développement (LPD) rappelle d'une part, l'évolution économique et sociale récente de la Mauritanie et d'autre part, brosse l'état d'avancement de la future stratégie de développement du pays 2016-2030, appelée Stratégie de croissance accélérée et de prospérité partagée (SCAPP).

I. Evolution récente de l'économie

Durant les cinq dernières années, l'économie mauritanienne a été caractérisée par :

1. Une croissance économique réelle soutenue au cours des cinq dernières années (5,2%) en liaison avec la mise en œuvre d'importants programmes d'investissements publics et au dynamisme des secteurs des transports et télécommunications (15,3%), du BTP (13,6%), de la pêche (7,2%) et des minerais métalliques (4,1%). Ces résultats ont été obtenus grâce à des politiques appropriées et aux progrès enregistrés sur le plan structurel, en dépit des effets combinés d'une conjoncture internationale difficile et des aléas climatiques non favorables.

En effet l'activité économique a été affectée, depuis la fin de l'année 2014, par un ensemble de chocs exogènes (dépréciation des cours des produits miniers, baisse continue de la production pétrolière et détérioration des termes de l'échange) qui ont eu un impact négatif sur la croissance et les revenus de l'Etat. Sur la base des projections révisées des indicateurs d'activité, le taux de croissance économique, en termes réels, serait ainsi de l'ordre de 4,0% en 2016, contre une moyenne de plus de 5% par an sur la période 2011-2014.
En dépit de cette conjoncture, la gestion budgétaire 2016 a continué à s'inscrire dans une optique de soutenabilité des finances publiques et de maîtrise de l'endettement, afin de préserver la stabilité macroéconomique.

Sous l'impulsion de la plus haute autorité du pays, le gouvernement a opéré une réorientation stratégique pour insuffler plus de transparence dans la gestion des affaires publiques et pour rationaliser les dépenses publiques. Ainsi, il a créé le Comité de suivi en charge de la mise en œuvre de la Stratégie

BP : 238 - Tél : +(222) 45 25 30 80 :هاتف / Fax: +(222) 45 25 42 81 :فاكس Nouakchott - Mauritanie

nationale de lutte contre la corruption (SNLC), et a orienté la politique macroéconomique sur l'élimination des dépenses extrabudgétaires et du financement budgétaire par la Banque Centrale de Mauritanie (BCM), ainsi que sur la réduction des dépenses courantes.

Cette situation s'est traduite par une amélioration plus importante du solde budgétaire global qui s'établit à un déficit de 10.893.889.000Ouguiya au 30 juin 2016 contre un déficit de 20.615.205.000 Ouguiya à la même période de 2015.

2. Plusieurs réformes visant à renforcer le développement du secteur privé, l'assainissement de l'environnement des affaires afin d'attirer des investissements productifs à travers la création du guichet unique et l'amélioration du cadre opérationnel de la politique monétaire et de change.

C'est dans ce cadre que de nouveaux codes d'investissements et des marchés publics ont été mis en place. Les structures administratives dédiées à la promotion du secteur privé ont été redynamisées et renforcées ce qui a permis de simplifier, de faciliter et de réduire les procédures de création d'entreprises. La Zone Franche de Nouadhibou a été créée avec pour objectif de définir et d'améliorer l'environnement général des affaires et de l'investissement en Mauritanie.

Les investissements du secteur privé ont représenté environ 12% du PIB au cours des cinq dernières années. Parallèlement, les investissements directs étrangers (IDE) ont connu un dynamisme au cours de la dernière décennie. En effet, le stock des IDE a été multiplié par 10 en dix ans, passant de près de 400 millions USD en 2003 à plus de 2,2 milliards USD à partir de 2008. Ces IDE sont principalement (plus de 90%) orientés vers les activités extractives.

Ces réformes ont porté sur la politique monétaire et de change, suite aux recommandations de la mission d'assistance technique du FMI, qui a évalué le cadre de politique monétaire et de change (30 mai au 10 juin 2016), la Banque Centrale de Mauritanie (BCM) a identifié les actions appropriées à mettre en œuvre pour renforcer l'efficacité de son action sur la stabilité des prix, en visant d'abord une cible d'agrégat monétaire, avant de passer à un ancrage sur les taux d'intérêt dans un second temps. Sa politique de change est caractérisée par une flexibilité progressive du taux de change qui aboutira à terme à amortir les chocs exogènes et préserver la viabilité extérieure.

Sur le court terme, l'objectif de ces réformes est d'alléger les contraintes de trésorerie du système bancaire, par le refinancement des banques en vue de soutenir le crédit au secteur privé et ainsi accompagner la reprise de l'activité économique. Une attention particulière est portée également au développement du marché interbancaire pour accroitre l'échange de liquidité entre les banques.
Enfin la prise en charge par le Gouvernement des coûts de la politique monétaire, permettra à la BCM de conduire une politique monétaire autonome, qui sera renforcée par l'adoption de son nouveau statut et de la loi bancaire en cours.

Secteurs porteurs de la croissance : La croissance économique est portée principalement par les secteurs suivants : le secteur rural, les activités extractives, les industries, l'artisanat et le commerce et services divers.
Le secteur agricole dispose d'un potentiel 513 mille hectares de terre cultivables dont les superficies irrigables sont d'environ 135 milles ha dont 34% aménagés principalement sur la rive droite du Fleuve Sénégal.

Pour ce qui est de la filière riz, sa production brute a augmenté en moyenne annuelle de 21%, passant de 78 999 tonnes en 2003/04 à 293 219 tonnes de paddy en 2014/15. Suite à l'amélioration de la production et de la qualité du riz mauritanien et d'autres mesures de protection du marché, les importations du riz ont baissé.

Quant au blé, réintroduit à grande échelle, sa production brute a enregistré une progression annuelle moyenne de 17,6%, entre 2008 et 2015, dénotant de la réussite de cette expérimentation.

Pour ce qui est de l'élevage, la Mauritanie dispose d'un potentiel d'**élevage** dont les effectifs sont évalués à 16 millions d'ovins et de caprins, 1,6 million de bovins et 1,4 million de camelins. Dans le cadre du renforcement de la productivité du cheptel et d'amélioration des retombées du secteur, un programme en cours d'exécution portant sur la réalisation de parcs de vaccinations, de construction et d'équipement de mini laiterie, d'usines de traitement de lait, de bergeries, de fermes d'insémination artificielle...

S'agissant du secteur de la pêche, la croissance du secteur a été plus dynamique sur les cinq dernières années (7,2%) en raison surtout de l'augmentation de l'armement national.
Pour asseoir une transparence au niveau de la gestion technique des pêcheries d'une part et des revenus tirés de la pêche d'autre part, la Mauritanie est le premier pays qui s'est engagé pour un plaidoyer au niveau sous régional, régional et international à la mise en place d'une Initiative pour la Transparence dans le secteur des pêches (**Fisheries Transparency Initiative –FiTI**).

Au cours des dernières années, plusieurs avancées ont été enregistrées dans le domaine de la gouvernance du secteur, avec notamment la généralisation progressive des systèmes de quotas dans les régimes d'accès aux ressources halieutiques et le retrait de capacités de pêche excédentaires sur les ressources surexploitées. Le nouvel accord de pêche sur la période 2015-2019 avec l'Union Européenne incorpore des améliorations par rapport aux accords précédents.

En ce qui concerne les activités extractives, elles ont significativement progressé à partir de 2006 avec l'arrivée de nouvelles activités (pétrole, or et cuivre) et l'exploitation du gisement pétrolier de Chinguetti. Suite à cette diversification, le poids du secteur extractif est passé de 8,3% avant 2006 à plus de 14% du PIB entre 2006 et 2015 dans un contexte marqué par la reprise de la demande mondiale pour les secteurs miniers et à la hausse des prix des matières premières de façon générale. Dans le cadre de renforcement des capacités du secteur minier, d'importantes mesures ont été prises concernant notamment la création d'une école des mines et d'un centre de formation de la SNIM à Zouerate.

Dans le domaine des hydrocarbures, l'existence d'importants champs gaziers et pétrolifères ainsi que les réformes institutionnelles et le renforcement des dispositions législatives et réglementaires réalisées sont de nature à améliorer la situation du secteur.
Le secteur de l'industrie : En 2015, la stratégie de l'industrie a été actualisée afin de soutenir l'amélioration de la compétitivité du secteur industriel, de favoriser son intégration à l'économie nationale et de faciliter son accès aux différents marchés.

Le secteur de l'artisanat qui comporte environ 180.000 artisans, est jugé porteur de croissance du fait qu'il pourvoie de nombreux emplois sans besoins d'investissements importants, et représente l'un des domaines où le secteur privé pourrait se développer d'une manière importante.

Pour ce qui est des activités de commerce et de services, la révision du Code des investissements en 2012, a amélioré le régime concurrentiel du pays et l'a ouvert à plus de concurrence étrangère.

Le tourisme mauritanien qui a décliné à partir de 2007 pour des raisons de menaces sécuritaires dans la sous-région, devra pouvoir bénéficier des conditions de stabilité et de sécurité dont jouit le pays depuis plusieurs années. Dans ce cadre, une vaste campagne de communication et de promotion de la destination Mauritanie a été lancée auprès du principal marché émetteur (la France) tout en ciblant d'autres destinations (Belgique, Espagne et Allemagne).

S'agissant des infrastructures de soutien à la croissance, d'énormes efforts ont été consentis ces dernières années. Ainsi, le secteur des transports a enregistré une forte augmentation avec la multiplication des sociétés de transports et le développement du trafic entre la Mauritanie et les pays voisins à travers le développement, la réhabilitation et l'extension du réseau routier et au développement des infrastructures portuaires et aéroportuaires. Le linéaire des routes bitumées est passé de 1760 km en 2001 à 3069 km en 2010 avant d'atteindre 4867 km en 2014 dépassant ainsi la cible initialement fixée par le CSLP pour 2015 qui est de 4858 Km.

Concernant les infrastructures de transport aérien, la Mauritanie dispose de plusieurs aéroports et aérodromes répartis sur l'ensemble du territoire. Deux aéroports sont classés internationaux, un troisième ouvert au trafic international et les sept autres aéroports n'accueillent que les vols intérieurs. Le nouvel aéroport de Nouakchott, situé à 25 km du centre-ville, est conçu pour accueillir les nouvelles générations d'aéronefs de type A 380 et B 747- 400, et est déjà opérationnel.

Concernant les infrastructures de transport maritime, la Mauritanie dispose de plusieurs ports à Nouakchott et Nouadhibou : (i) le Port Autonome de Nouakchott (PANPA) ; (ii) Port de Commerce et de Pêche de Nouadhibou (PAN), (iii) l'appontement pétrolier de Nouadhibou, (iv) le terminal minéralier de Nouadhibou, (v) le port de pêche artisanale de Nouadhibou et (vi) le port de Tanit et de N'Diago en construction. Sur la période récente (2010- 2015), la croissance du trafic du port de Nouakchott, est restée forte, passant de 2.772.448 tonnes (vrac) et 83.745 TEU (containers) à 3.851.434 Tonnes et 116.828 TEU (pleins et vides), correspondant à une croissance annuelle sur le tonnage de 6.79% et 6.88% sur le trafic des containers. Le PANPA a obtenu sa certification au code international pour la Sûreté des navires et des installations portuaires (ISPS). Un projet relatif à la construction d'un terminal à containers est envisagé.

Les activités du secteur des Bâtiments, ont pris de l'importance durant les cinq dernières années avec la multiplication de projets de construction d'infrastructures de transports et des bâtiments. L'Etat a mis en place un important programme de construction de bâtiments et d'équipements publics au profit des divers secteurs.

Pour ce qui est de l'Energie, la production d'électricité est estimée en 2015 à 749 millions Kwh contre 415 Millions de Kwh en 2007 enregistrant ainsi une hausse globale de 80% sur toute la période.

Le taux d'accès des ménages au réseau d'électricité a connu une évolution notable passant de 18,8% en 2000 et 41,1% en 2013. Le développement de l'énergie renouvelable (avec une production de 26 Gwh en 2013) et le mix énergétique se manifeste à travers l'électrification depuis 2012 de plusieurs localités par des centrales hybrides.

Dans le domaine des Technologies de l'Information et de la Communication, la Mauritanie a procédé, en 2012, à la mise à jour de sa stratégie nationale et du cadre réglementaire du secteur. Les principales réalisations dans le domaine des TICs ont concerné la mise en place de la connectivité internationale par câble sous-marin pour accélérer l'accès à la société mondiale de l'information, l'élaboration de programmes nationaux d'accès universel aux services des TIC et renforcement de la couverture télécoms, le développement des systèmes d'information de l'Administration pour la doter d'un système cohérent et fiable de traitement de l'information et la mise en place d'un observatoire national des TIC pour fournir les indicateurs nécessaires au pilotage du secteur et à l'évaluation de ses réformes.

3. En dépit de progrès enregistrés au cours des dernières années, mesurés par l'Indice de Développement Humain (d'IDH), **le développement du capital humain** a encore beaucoup de progrès à faire en Mauritanie.

De nombreux atouts s'offrent au secteur de **l'éducation** dont notamment : l'existence d'une importante offre d'éducation ; l'encouragement par les pouvoirs publics de l'enseignement scientifique et de la formation professionnelle ; le dynamisme de l'enseignement privé et sa contribution élevée à l'élargissement de l'accès à tous les niveaux du système éducatif.

Dans le domaine de **la santé,** en dépit des importants efforts déployés durant les quinze dernières années par le gouvernement, des défis persistent encore dans les domaines de la mortalité maternelle et infantile, de la lutte contre la maladie, d'organisation de l'offre des services de santé, de formation et de gestion des ressources humaines, d'approvisionnement en médicaments et de financement de la santé. Les importants résultats, jusqu'ici enregistrés, restent en dessous des attentes des populations et des pouvoirs publics.

En matière d'emploi et d'insertion, les efforts du Gouvernement ont été axés, ces dernières années, en plus de l'effet de la croissance économique soutenue, sur l'élaboration des stratégies, la mise en place des structures, le développement des outils et des approches et la mise en œuvre de programmes. Le taux de chômage est estimé en 2014 à 12,85% (enquête EPCV) contre 10,1% en 2012 (ERE-SI). Il est surtout un phénomène urbain (17,2%) plus que rural (6,9%) en 2014. le chômage reste ainsi un défi majeur en dépit de la création d'opportunités au cours des dernières années dans le secteur minier et des administrations publiques.

4. Pour ce qui est du **renforcement de la bonne gouvernance**, des résultats encourageants ont été enregistrés ces dernières années, mais d'importants efforts sont encore requis pour consolider et compléter les acquis obtenus dans les domaines clés que sont le respect de l'autorité de la loi, la stabilité politique et le renforcement des principes et des valeurs démocratiques, la qualité des réglementations, l'efficacité et l'efficience des administrations, le contrôle de la corruption, et la citoyenneté et la responsabilité.

II. Etat d'avancement de la SCAPP

A l'achèvement de quinze années d'exécution du CSLP sur la période 2001-2015, le Gouvernement a enclenché le processus d'élaboration de la stratégie de Développement post 2015 dénommée **Stratégie de Croissance Accélérée et de Prospérité Partagée (SCAPP).**

Elle 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 et qui puisse offrir aux citoyens la possibilité de vivre dignement et d'être fiers d'appartenir à leur patrie. Cette vision est déclinée en trois leviers stratégiques de changement.

Leviers stratégiques (LS) de la SCAPP :

- ☐ 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 et 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 considérés comme prioritaires.
- ☐ LS3: **Renforcement de la Gouvernance dans toutes ses dimensions** : il analyse 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 ; (iii) le fonctionnement de l'administration publique ; (iv) la gouvernance locale et territoriale et environnementale; (vi) la place et le rôle de la société civile et du secteur privé dans la vie économique et sociale du pays.

La SCAPP sera finalisée et adoptée au cours du dernier trimestre de 2016.

2.1. Le Gouvernement Mauritanien est convaincu qu'en poursuivant les réformes en cours, notamment celles relatives à l'assainissement des finances publiques et à la lutte contre la corruption, la promotion du secteur privé, la consolidation des équilibres macro-économiques, la promotion du système productif hors industries extractives..., il réussira, avec l'aide de ses partenaires, notamment le Groupe de la Banque Mondiale, à atteindre ses objectifs de réduction de la pauvreté et de développement durable.

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

El Moctar OULD DJAY

الــوزيــر
Le Ministre

November 14, 2016

This letter updates the assessment of the staff report for the 2016 Article IV Consultation (IMF Country Report No. 16/115) discussed by the IMF Executive Board on April 25, 2016. Since the press release (PR No. 16/213) is more than six months old, an assessment letter is needed as per standing policy. The thrust of the assessment remains broadly unchanged.

Recent Economic Developments, Outlook, and Risks

Developments since the time of the Article IV Consultation have been broadly as expected. Mauritania faces a persistent terms-of-trade shock due to low iron ore prices since 2014. Growth picked up as expected in 2016, with higher non-extractive growth but lower mining sector growth despite a rebound in production of iron ore. Inflation remained low due to commodity and food price trends and is projected to average 1.3 percent in 2016. Fiscal performance is expected to remain broadly in line with the revised 2016 budget law adopted in September, with an overall deficit (excluding grants) of 3.2 percent of non-extractive GDP (NEGDP)—lower by 2½ percent of NEGDP relative to last year on the back of strong consolidation efforts. However, despite higher-than-expected grants in 2016, public debt continued to rise (to a projected 100 percent of GDP by year-end) and the risk of external debt distress remains high. The external current account deficit is expected to narrow to 13 percent of GDP this year (down from 19 percent in 2015) on account of lower private sector investment in extractive industries and related capital imports. As of October, the exchange rate had depreciated by 7 percent annually against the U.S. dollar. This, and the discontinuation of direct sales of foreign exchange by the central bank outside of regular auctions, helped maintain gross official reserves at 6½ months of next year's non-extractive imports.

The medium-term outlook remains broadly favorable, but hinges in large part on global commodity prices developments, with risks tilted to the downside. Real GDP growth is projected at 4 percent in 2017, driven mainly by developments in the extractive sector and still subdued non-extractive growth. Tight and volatile liquidity conditions could pose a short-term risk to financial stability and growth. Despite further deterioration in the terms of trade, the current account is projected to continue to narrow to 11 percent of GDP in 2017. Under current policies, gross official reserves are projected to fall below the authorities' target of three months of non-extractive imports by 2020. Risks are tilted to the downside and the economy remains vulnerable to external shocks, such as higher-thanenvisaged oil prices and/or lower iron ore prices, deterioration in regional security, and domestic policy implementation risks. These could hinder investment plans in the iron ore, gold, and gas sectors. On the upside, a rebound in iron ore prices, an expansion in gold mining capacity, accelerated exploration associated with gas discoveries, and determined implementation of the authorities' growth and diversification strategy would boost prospects.

Macroeconomic and Structural Policies

The authorities' determination to advance fiscal consolidation is welcome. Based on preliminary information, the 2017 budget will target an overall deficit (excluding grants) lower than

2 percent of NEGDP—another 1¼ percent reduction from this year—mainly by better prioritizing public investment. The adoption of a decree establishing an institutional framework for public investment is a welcome step to enhance project selection and monitoring. The authorities should continue their efforts to broaden the tax base, streamline tax exemptions, and strengthen tax administration. Further adjustment efforts will also be needed to put debt on a downward trend over the medium term while safeguarding growth.

Initial steps are being taken to strengthen monetary and exchange rate policies, with a view to supporting the external position. The authorities have started implementing a more flexible exchange rate policy with the gradual depreciation of the currency and the discontinuation of direct sales of foreign exchange. This, together with determined fiscal consolidation and structural reforms, would allow for smoother adjustment to fundamentals and improve external stability by making the economy more resilient to shocks. The authorities have indicated their intention to take further steps to strengthen the monetary policy framework and reform foreign exchange markets in support of greater exchange rate flexibility, with technical assistance from the Fund. Those steps will include reforming the foreign exchange auction system, reactivating monetary policy instruments, and strengthening coordination between monetary and fiscal policies.

The authorities are firmly committed to maintaining financial stability. They are working on new banking and central bank laws to strengthen the prudential and bank resolution frameworks and the operational independence of the central bank, in line with the FSAP recommendations.

Economic diversification, higher productivity, and more inclusive growth continue to be key challenges. The authorities recognize the need to promote economic diversification and private sector development, while protecting the most vulnerable. They have progressed in enhancing the business environment (gaining five ranks in the 2017 Doing Business survey), preparing a framework for public-private partnerships, and implementing a targeted social transfer program. Further efforts are needed to promote private investment and FDI, improve governance, raise the quality of education and training, and enhance access to finance.

Fund Relations

Mauritania currently does not have a Fund arrangement; however, the authorities have expressed renewed interest in a Fund-supported program. Mauritania successfully completed in June 2013 a three-year Extended Credit Facility arrangement totaling SDR 77.28 million (equivalent to 120 percent of quota). The next Article IV consultation mission is tentatively scheduled for February 2017, and could be combined with discussions on a Fund-supported program should the authorities confirm their interest.

Table 1. Mauritania: Selected Economic and Financial Indicators, 2013–17

	2013	2014	2015	2016	2017
		Est.	Est.	Proj.	
	(Annual change in percent; unless otherwise indicated)				
National income and prices					
Real GDP	6.1	5.7	1.3	3.1	4.0
Real non-extractive GDP	5.6	6.9	2.5	3.4	3.4
GDP deflator	3.0	-7.7	-5.8	0.9	1.9
Consumer price (period average)	4.1	3.8	0.5	1.3	4.2
External sector					
Terms of trade	34.2	-23.2	-16.8	-4.2	-4.9
Current account balance (in percent of GDP)	-22.0	-26.8	-18.8	-12.7	-10.7
Gross official reserves 1/					
In millions of U.S. dollars, end of period	996.4	639.1	822.8	826.7	715.2
In months of following year's non-extractive imports	5.9	5.3	6.7	6.6	5.7
Public external debt (percent of GDP) 2/	66.5	72.8	92.0	96.7	98.8
Money					
Broad money (M2)	13.6	8.6	0.4	4.2	6.8
Credit to the private sector	11.1	11.2	9.7	9.4	5.8
	(Percent of nonextractive GDP; unless otherwise indicated)				
Central government operations					
Total revenue and grants	34.1	30.5	32.0	33.3	31.3
Nonextractive revenue and grants	23.6	22.2	29.1	31.6	29.5
Extractive revenue	10.5	8.4	2.9	1.7	1.8
Expenditure and net lending	35.2	34.5	35.8	33.8	31.6
Overall balance (in percent of GDP)	-0.8	-3.3	-3.4	-0.5	-0.3
Overall balance excluding grants	-2.0	-4.1	-5.7	-3.2	-1.9
Public sector debt (percent of GDP) 2/	70.6	78.9	97.5	100.5	102.1
Memorandum items:					
Nominal GDP (in billions of UM)	1,695.8	1,654.9	1,578.5	1,641.3	1,739.0
Iron ore production (million tons)	12.5	13.3	11.6	13.5	15.0

Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Excluding the oil account.
2/ Revised since the 2016 Article IV due to new available data.

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)
Pillar A: Reduce fiscal risks by increasing domestic revenue mobilization, enhancing fiscal transparency and boosting the efficiency of public spending		
A.1 Tax Expenditures		
Prior Action 1: The Minister of Finance has issued a decree identifying the benchmark tax model for tax exemptions and has compiled a tax exemption registry for firms benefiting from tax exemptions under the Investment Code and the Free Zone Area law.	No	No
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.	Yes	No
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.	No	No
A.3 The Parastatal Sector		
Prior Action 4: The Minister of Economy and Finance has issued an executive circular instructing the expansion of the automated expenditure-chain system (RACHAD) to include all eligible EPAs in Nouakchott beginning January 1, 2017.	No	No

Prior Action 5: The Recipient has caused the publication of the latest audited financial statements to be published for the five largest commercial enterprises in which its ownership stake exceeds 50 percent, on their individual websites or on the website of the Ministry of Economy and Finance (MEF).	No	No
Pillar B: Support economic diversification by increasing 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 the decrees regarding the composition and operation of the inter-ministerial and the technical committees for PPP, and published these in the official gazette.	Yes	No
B.2 Land Tenure and Property Laws		
Prior Action 7: The Minister of Economy and Finance has established the institutional framework for land reform by issuing the decree creating a technical committee for land reform, appointing its members and validating its terms of reference.	No	Yes
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 the Minister of Livestock has issued 3 new decrees on poultry production an veterinary inspections; all in accordance with the World Organization of Animal Health (OIE) standards and published in the official gazette.	Yes	Yes

ANNEX 5: THE IMPACT OF VAT EXEMPTIONS ON HOUSEHOLD WELLBEING

Introduction

According to Art. 177 of the Tax Code, the government of Mauritania provides VAT exemptions to selected economic agents and products. These exemptions are originally designed to function as economic incentives but result in foregone government revenues generally known as "tax expenditures". This note presents the results of a simulation of the impact of VAT exemptions reforms and their removal on household wellbeing and the government budget. The objective is to help the World Bank and the Government of Mauritania to better understand the budget and welfare implications of keeping or removing these tax exemptions.

THE VALUE ADDED TAX (VAT)

1. The Value added tax (VAT) was first introduced in Mauritania with the 1994 financial law and it is regulated by the tax code. Art 177 of the code explains that the tax is administered to imports, sales that constitute property transfers, construction, services and non-commercial professions and leasing contracts. Banking and insurance are excluded and subject to separate taxation. The tax is imposed on corporate entities or private individuals who come under the real tax system (turnover in excess of UM 30 million). The base tax rate of the VAT was 14% before 2015 and it was increased to 16% with the 2015 financial law. It is also 18% for petroleum products and telephony and is 0% for export operations and other exempted products or companies.

2. As of September 2016, VAT tax exemptions include: i) Legal persons subject to the tax on industrial and commercial revenues (Art 28 of the Tax code); ii) Health expenses; iii) Sales of services to the public administration; iv) services provided to naval or airlines industry; v) sales to airways companies; vi) sales to navigation companies; vii) revenues from preparation and printing of newspapers excluding revenues from publicity; viii) Transfers of commercial properties whose clients are subject to formal registration; ix) operations of insurance companies; x) Banks operations; xi) Air transport towards foreign countries and relative travel agencies operations; xii) Public transports; xiii) Sales of products to navigation and fishing companies; xiv) Bread, bakery products and pastry; vegetables, meat, fish and shellfish, on the condition that these commodities are fresh or dried, salted or smoked; Seed Potatoes, seeds, spores, fruits, bulbs, tubers to inoculate, grafts and rhizomes, other plants and roots alive, including the cuttings and slips and the white of the fungi (the mycelium); fresh fruit, ice-cream; water and electricity up to 8M3 and 150 kw/h by month and per consumer (16 m3 and 300 kw/h per invoice if the latter includes 2 months) as well as the popular fountains supplying low income households; domestic production of milk, pasta, couscous, flour and biscuits.

3. Simulations using the EPCV survey can only cover consumption products and for this reason this note will focus exclusively on the products listed under Art. 177, comma 14 as described above. VAT exemptions represent approximately half of all tax exemptions provided by the government. For more details on macroeconomic estimates of VAT and other tax expenditures in Mauritania for the years 2013 and 2014 see CERFIP (2014) and World Bank (2015)[32].

32 CERFIP (2014) Portrait des Dépenses Fiscales de l'Année 2013 de la République Islamique de Mauritanie, Ministère des Finance, Cellule Des Etudes et des Reformes des Finances Publiques (CERFIP), Nouakchott.

Data and model

4. All simulations are based on the 2014 EPCV ("Enquête Permanente sur les Conditions de Vie des ménages") and they are updated to 2016 prices using the official national CPI (Consumer price Index).33 VAT exemptions are considered as a subsidy for consumers and as a tax expenditure for the government. Simulations are conducted with the model SUBSIM using a partial equilibrium model where we can take into account the consumer behavior related to the removal of tax exemptions[34].

5. The note is limited to direct effects only and indirect effects that operate through changes in prices of non-exempted products due to the removal of exemptions are not estimated the main reason is that the products considered are consumption products. Products such as rice or milk are mostly consumed as final products rather than intermediary products and products that can enter the production process such as water and electricity are exempted only for final consumers with very low consumption levels and these exemptions do not affect the production process.

6. We apply linear or non-linear price modelling depending on the product considered. All food products are subject to a single price or exemption independently of the quantities consumed and will be modelled with linear pricing. Water and electricity are subject to tariffs which vary according to the quantities consumed. These two products are therefore subject to non-linear modelling. In particular, VAT exemptions for water apply only to households consuming less than 16 m3 of water every two months and to households consuming less than 300 kWh of electricity every two months. Note that for electricity we have used the lowest tariffs (2 kilo volt per hour) as a baseline[35].

7. Based on a matching exercises conducted between the nomenclature of expenditures of the 2014 EPCV survey and the list of exempted items described in Art. 177, comma 14 of the Tax Code, the following list of the aggregated items will be used for all simulations (Table 1).

Table 1 - List of Final Products Used for the Simulations

#	Aggregated item	EPCV nomenclature
1	Milk	742-757
2	Rice	503-505
3	Cookies	514 and 532
4	Flour	507 and 515-519
5	Corn	523
6	Oil	771-775
7	Other food items	501 502 506 508 521
8	Transport	405/406
9	Drugs/hospitalisation.	211-213 /215/2016
10	Exempted electricity	Provided item
11	Exempted water	Provided item
12	Gas	276

Source: EPCV 2014 and Tax Code Art. 177.

World Bank (2015) Tax Expenditure in Mauritania. Definition, Estimation and Assessment of Tax Expenditure in Mauritania for 2013 and 2014. Mimeo, Washington DC.

33 The 2014 EPCV was the latest household expenditure survey available at the time of writing.

34 For more details on the model, see www.subsim.org.

35 For more information on water and electricity tariffs in Mauritania, see: http://www.somelec.mr/spip.php?page=factsimul and http://www.snde.mr/index.php/client/tarifs

8. Note that the VAT exemption on rice had been removed by the time of writing this note (September 2016). However, we will preserve simulations on rice as the simulations are equally useful to measure the impact of exemptions on household wellbeing and the government budget in the presence or absence of exemptions. As rice accounts for the largest impact across the products considered, this should be kept in mind when reading all results.

9. Two main assumptions are made for the distribution of the 2016 expenditures. The first is that the shape of the 2016 household expenditure distribution has not changed significantly from that of 2014 so that we can consider the 2014 distribution a good approximation of the 2016 distribution. The second is that household prices, on average, have evolved in line with CPI prices between 2014 and 2016 (an increase of about 4.3%) so that we can use the official national CPI for updating household expenditure to 2016. We also adjust the sampling weights by considering the demographic growth between the two years (an increase of about 4.8 %).

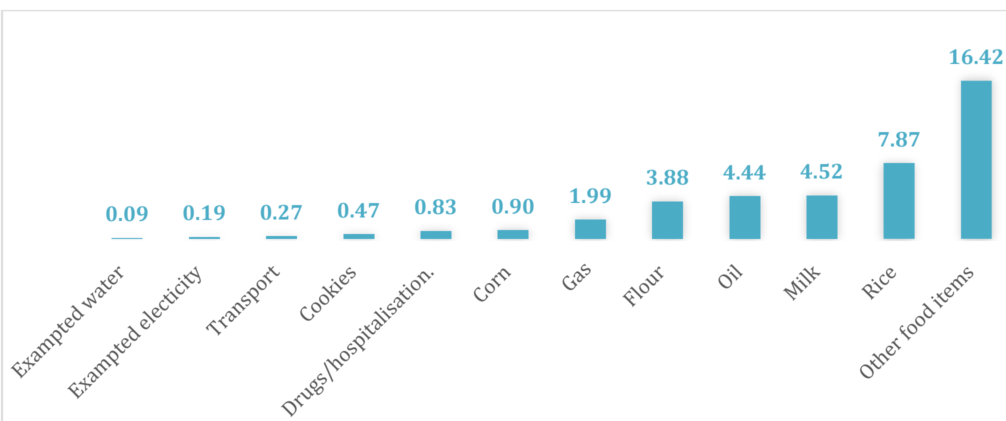
10. In summary, we performed the following steps to obtain the final simulations:

- Identify the post consumption-expenditures that can match with the list of exempted items.
- Generate the adequate expenditure variables using the EPCV-2014.
- Perform the simulations using SUBSIM (See results below).

Results

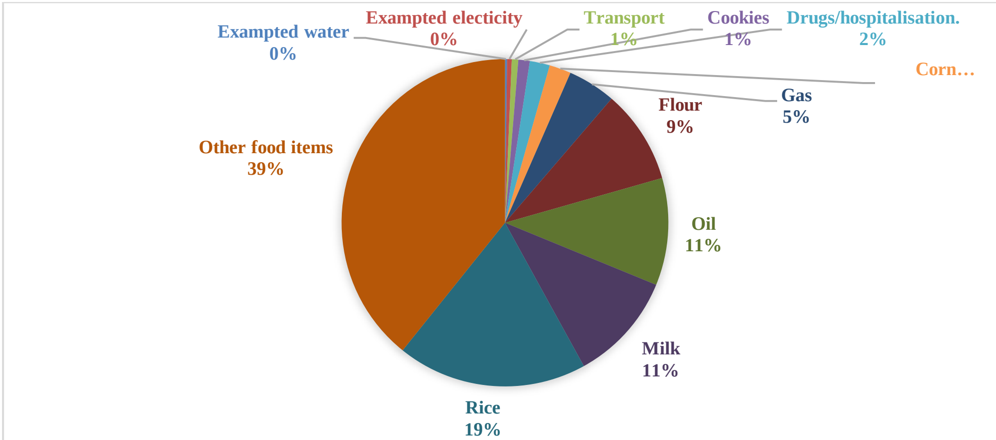
11. The estimated tax expenditures on the VAT exemptions is 41.9 billion MRO in 2016 (including rice). Food items account for about 38.5 billion MRO and the rest is represented by water, electricity, and transport and health costs. Note that the VAT exemptions on water and electricity only affect households with very low consumption levels. This explains why tax expenditures on these two products are very low in absolute (local currency, Figure 2) or relative terms (relative to other products, **Figure 3**). Rice alone (which is no longer exempted) represents 7.9 bn. MRO and 19 percent of total VAT tax expenditures on consumption products and the remaining VAT exemptions amount to approximately 34 bn. MRO (41.9-7.9=34). Milk, oil and flour follow in terms of importance, the first two products with an 11 percent share and the third product with a 9 percent share. In essence, by removing tax exemptions on rice, the government has removed the most important of the tax exemptions but the sum of the remaining exemptions remains sizable.

Figure 2 - The Government Tax Expenditures due to VAT Exemptions (In Billions of MRO)



Source: Authors' estimations based on the 2014 EPCV.

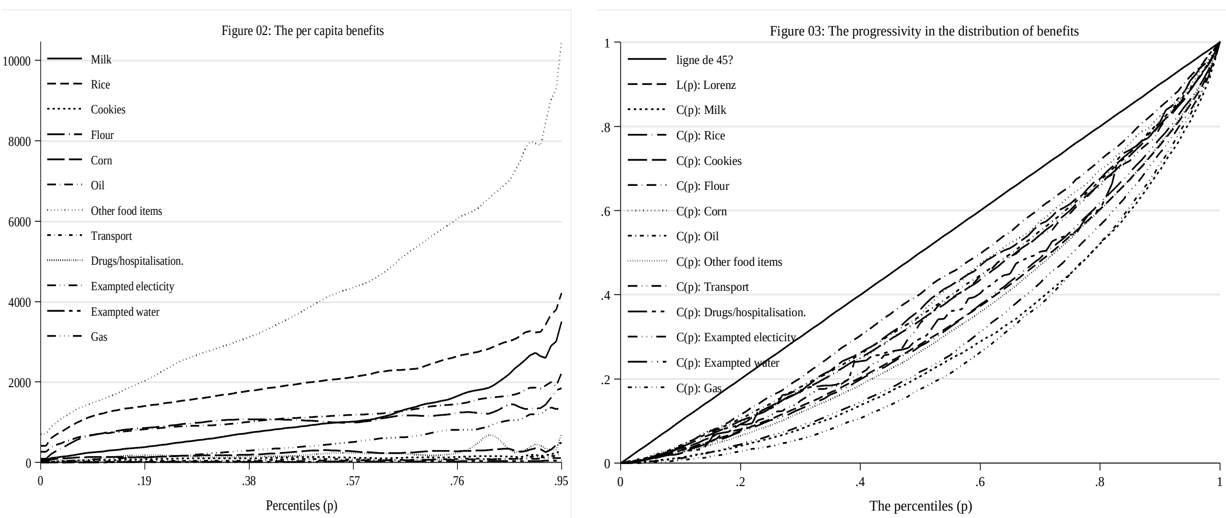
Figure 3 - The Distribution of Tax Expenditures by Product (Total=100)



Source: Authors' estimations based on the 2014 EPCV.

12. A distributive analysis of the absolute impact of VAT exemptions on household wellbeing shows that these exemptions are pro-rich. In other words, richer households benefit from the larger amounts. This is expected given that larger households spend more than poorer household in MRO terms. However, some products are more pro-rich than others (Figure 4). Other food items, rice, milk and gas are the most pro-rich of the products. Therefore, the government has discontinued exemptions for the most pro-rich of the products (rice) in absolute terms.

Figure 4 - The Distribution of Tax Expenditure by Percentile of Expenditure (per capita benefits)

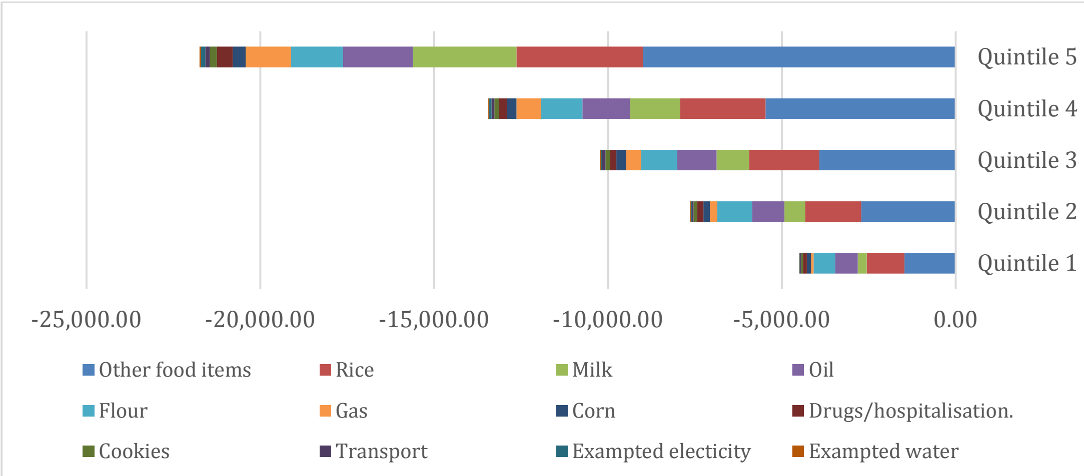


Source: Authors' estimations based on the 2014 EPCV.

13. Each product represents a different budget share for households depending on their consumption mix and the removal of tax exemptions will have different distributive effects. In absolute terms, richer households receive the greatest amount in local currency and the greatest share of the government budget. Figure 5 shows again that richer households (quintile 5) receive more than the poorest households (quintile 1) in absolute terms. However, it also shows that the consumption mix of these products is different for different quintiles as shown by the size of the different colors of the bars. This is clearer in Figure 6. Here we see that the share of the tax exempted products on total household expenditure is the highest for the second poorest quintile (quintile 2) with these products representing about 4.3 percent of total household expenditure. Therefore, in absolute terms (local currency) richer household lose more

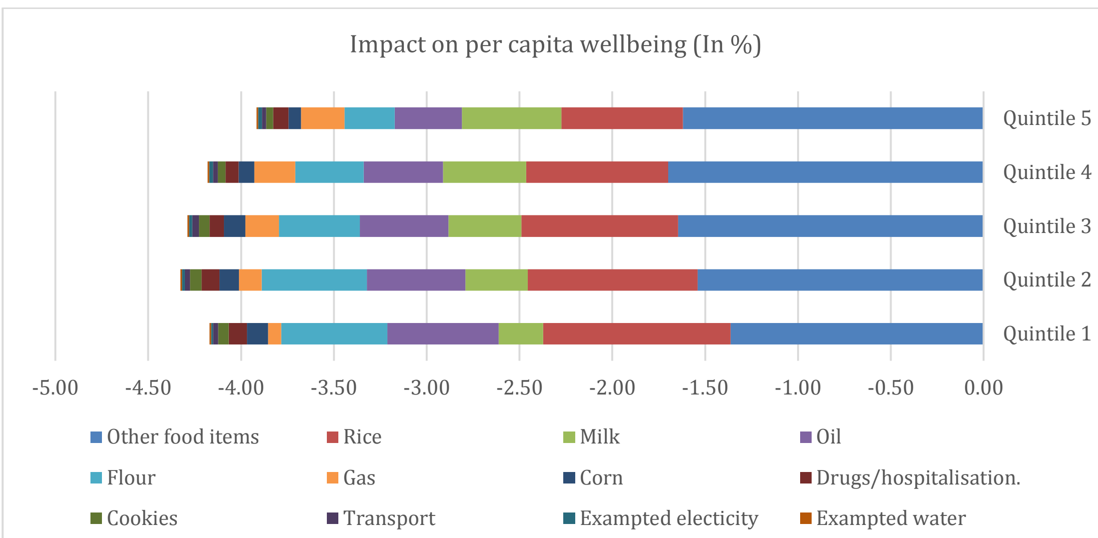
than poorer households but in relative terms (relatively to total household expenditure), VAT exempted products can be pro-poor and the removal of these exemptions can hurt the poor more than it hurts the non-poor. Products that are particularly pro-poor are rice, flour and oil suggesting that the removal of tax exemptions for rice have had a significant impact on the budget of the poor.

Figure 5 - Impact on per-capita wellbeing (MRO)



Source: Authors' estimations based on the 2014 EPCV.

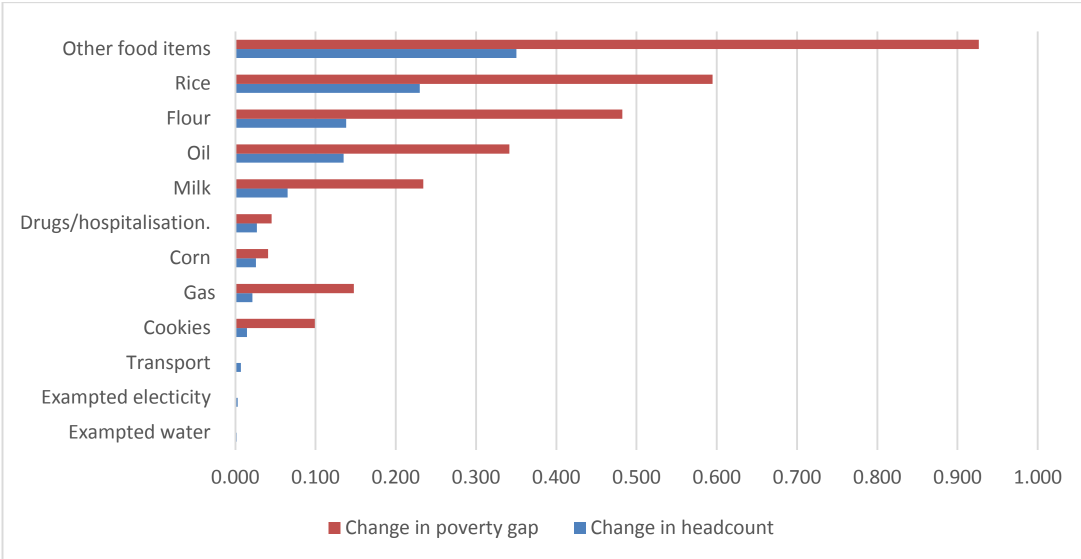
Figure 6 - Impact on per capita Wellbeing (in percentage)



Source: Authors' estimations based on the 2014 EPCV.

14. Eliminating tax exemptions would have a significant impact on poverty. The poverty rate (headcount poverty) is estimated to increase by 2.7 % if all VAT tax exemptions are removed (including rice). The main source of change is related to food items confirming the non-relevance of the VAT exemptions for electricity, water and transport. As mentioned above, VAT exemptions on water and electivity only concern households with very low consumption levels and the removal of these exemptions does not make a great difference to the total household expenditure of these households (and therefore to the poverty of these households). Rice, flour and oil are the products which explain the greatest increase in poverty (Figure 7).

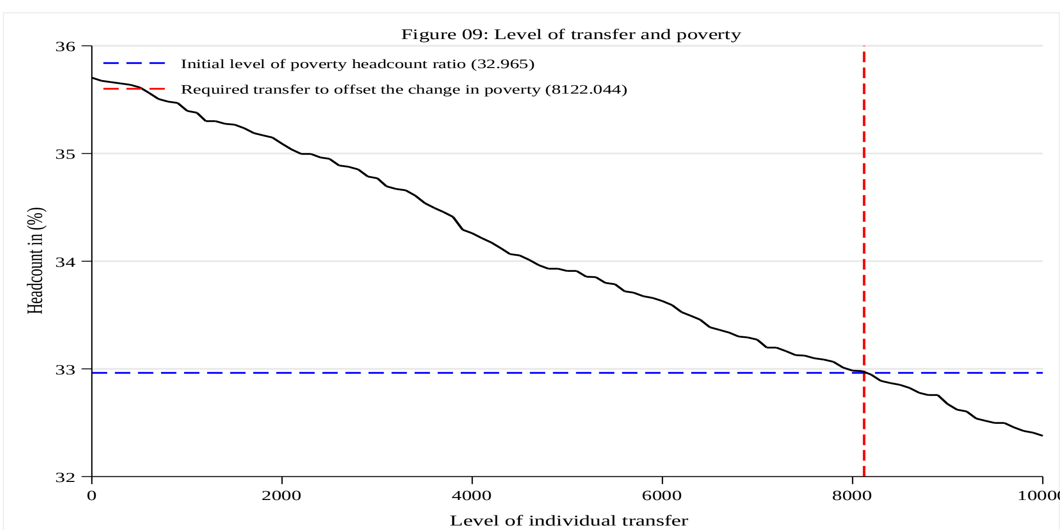
Figure 7 - VAT Reforms and Poverty



Source: Authors' estimations based on the 2014 EPCV.

15. Assuming the government would wish to compensate the population or a part of the population for the cost incurred due to the removal of exemptions, one question is what the amount to be transferred is. We estimated that a universal per capita transfer of 8122 MRO would re-establish the pre-reform poverty level and still save an estimated 11507 MRO per capita (or 12 bn. MRO in total). These savings can be further increased if the per capita transfer is targeted to selected sections of the population such as the poor. Therefore, a policy that would entail the elimination of tax exemptions and a poverty protection program would be able to reach significant budget savings, particularly if the cash transfer is targeted. **Figure 8** shows the curve obtained by plotting the poverty rates that would result from levels of universal transfers per capita between 0 and 10,000 MRO. This is useful to pinpoint the level of transfer necessary to obtain the pre-reform level of poverty but can be equally used by the government as a planning device for picking the optimal level of transfers given budget constraints and the poverty reduction objectives.

Figure 8 - Transfers and Poverty



Source: Authors' estimations based on the 2014 EPCV.

16. Table 2 summarizes the main results of the simulations. The removal of all VAT exemptions on the products considered (those listed in Art. 177, comma 14 of the tax code) would have a significant and negative impact on household welfare and poverty. This impact varies across the expenditure distribution, it is more costly for richer households in absolute terms but can be more costly for poorer households in relative terms, particularly for some products like rice, flour and oil. Universal cash transfers that would re-establish the pre-reform poverty level would still result in significant savings for the government and targeting could make those savings very significant.

Table 6 - Summary of main results

Main results			
	Pre-Ref	Post-Ref	Change
Welfare(per capita)	279,902.406	268,394.563	-11,507.844
Poverty (%)	32.965	35.703	2.738
Inequality (%)	31.903	32.007	0.104
Subsidies (in millions)	41,856.219	0.010	-41,856.207
Transfers (in millions)*	0.000	29,541.377	29,541.377
Total budget (in millions)	41,856.219	29,541.387	-12,314.832

Source: Authors' estimations based on the 2014 EPCV.

Next Steps

17. VAT exemptions on final products are not the totality of VAT exemptions and VAT exemptions are not the totality of tax exemptions. For example, the tax code lists other exemptions related to the naval and airways industries and the investment code lists other exemptions on selected investments. This note was confined to VAT exemptions on final products because of the limited data available (the EPCV survey). More could be done if a detailed Input-Output table was available and provided the tax exemption considered would be easily matched to sectors listed in the Input-Output table. Therefore, possible next steps would require (in this order) the identification of other tax exemptions that the government is considering removing, a brief assessment to understand whether the data needed for such analysis are available and an analysis focused on the individual exemptions identified.