PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

July 31, 2016
Report No.: AB7870

Operation Name	Mauritania Fiscal and Diversification Reforms DPO
Region	AFRICA
Country	Mauritania
Sector	Central Government (34%); Other Agriculture, Fishing and Forestry (33%);Other domestic and international trade (33%)
Operation ID	P160592
Lending Instrument	Development Policy Credit
Borrower(s)	Islamic Republic of Mauritania
Implementing Agency	Ministry of Economy and Finance
Date PID Prepared	July 31, 2016
Estimated Date of Appraisal	
Estimated Date of Board Approval	November 30, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

1. **Mauritania's recent growth has been largely driven by favorable terms of trade benefitting the key extractives sector in the country.** Over the past decade and a half, the extractive industries have been the engine of Mauritania's economic development, representing an average of 25 percent of GDP, 82 percent of exports and 23 percent of domestic budgetary 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.

2. **Following the collapse of global commodity prices in 2014-15 the country is struggling to recalibrate its state-driven growth model.** High commodity prices prompted a surge in foreign direct investment (FDI),[1] which further increased demand for non-tradeable services, including construction, utilities, transportation and communications, and resulted in the gradual appreciation of the real exchange rate. Other primary subsectors such as agriculture and fisheries have also performed well in recent years, helping to expand the economy's productive base. 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 that began during the second half of 2014 has dramatically reduced Mauritania's growth rate and exposed a number of critical macroeconomic vulnerabilities.

[1] FDI increased from 5.1 percent of GDP in 2006 to 19.9 percent in 2013.

3. **Years of pro-cyclical fiscal policy have caused a sharp increase in the debt burden**. The intensifying concentration of domestic revenues in the mining and oil sectors, coupled with a reliance on foreign grants and intermittent pressures on public spending,[2] contributed to a failure to build much-needed fiscal buffers when commodity prices were high. The expansion of the government's ambitious public investment program (PIP), and increased foreign borrowing to finance the PIP, compounded rising fiscal pressures as commodity prices fell. Despite a series of major tax reforms launched in 2011, [3] the public debt stock rose from 75.5 percent of GDP in 2007 to 85.4 percent in 2015 (**Error! Reference source not found.**).

4. **The commodity super-cycle exacerbated underlying structural imbalances in the balance of payments of the country, resulting in large and sustained current-account deficits.** As commodity prices rose, resource exports accounted for an increasingly large share of foreign-exchange inflows, yet these earnings were more than offset by the capital-goods and services imports required by the extractive industries and the PIP, and by the repatriation of profits to foreign-owned companies. This resulted in net foreign-exchange outflows, which exceed both private remittances and official transfers, straining the reserves of the central bank (*Banque Centrale de Mauritanie*, BCM) and increasing the country's vulnerability to the reduction in FDI that occurred as commodity prices crashed. Foreign-exchange controls and a rigid exchange-rate policy limited the BCM's ability to address structural imbalances and respond to terms-of-trade shocks. It also reduced the competitiveness of the economy since it gave little transparency for current and potential investors.

5. **In this context, the proposed operation will assist the authorities in addressing those vulnerabilities by supporting structural fiscal reforms and encouraging economic diversification.** The operation's first pillar supports measures 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-resource revenues, rationalize the PIP and consolidate its management process, and tackle key fiscal risks and transparency issues related to parastatals. The second pillar of the operation would support private-sector-led diversification in the non-extractives economy 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 pressure on the balance of payments.

II. Proposed Objective(s)

6. **The program development objective of the** operation is to support the Government of Mauritania in implementing structural fiscal reforms and boost economic diversification to tackle macroeconomic instability post commodity prices boom.

III. Preliminary Description

[2] Mauritania experienced several exogenous shocks, including droughts and security crises that demanded emergency spending.

[3] See: World Development Indicators (2016). At 17 percent of GDP, Mauritania's non-resource tax revenues are above the Sub-Saharan Africa average of 13.7 percent. Mauritania's non-resource revenues are also higher than those of regional comparators such as Mali (15.6 percent) and Ghana (14.9 percent), but below those of Senegal (19.2 percent) and Morocco (23.9 percent).

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

7. **The proposed operation is structured around two pillars:** (1) Reduce fiscal risks by increasing domestic revenue mobilization, enhancing fiscal transparency and boosting the efficiency of public spending; (2) Support the economic diversification agenda through increased private sector participation in non-extractives sectors.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

7. **The land-tenure and property-rights agenda supported under Prior Action 9 is expected to have a directly positive poverty and social impact.** The proposed DPO program supports the government's efforts to develop a legal and institutional framework capable of effectively allocating and protecting rights to land and other property. The supported reform program is expected to have especially beneficial effects 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 physical improvements, facilitate borrowing against equity, and shield the property of the poor from illegal infringement or expropriation.

8. **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 property-rights 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, and specific attention must be devoted to the protection of vulnerable groups, such as women, children, youth and the elderly.

Environmental Aspects

9. **The operation entails minimum environmental risks.** Measures designed to promote investment, such as those supported under Prior Actions 3, 7 and 8, could have negative environmental implications if the resulting investment projects are not well-managed. The World Bank team will work to ensure that appropriate environmental safeguards are effectively integrated into all DPO-supported actions.

10. **The PIP framework supported under Prior Action 3 will include clear provisions for incorporating environmental and social impacts into the project selection, execution and evaluation process.** The PIP framework will reflect international good practices for environmental and social impact assessments. The framework will also be rooted in the country's existing system of environmental safeguards for public investment projects. These include the country's major environmental law (#2000-045) and related implementation decrees, as well as the decree on environmental impact assessments (#2007-105) and its accompanying procedural manual.

11. **The draft PPP law supported under Prior Action 7 will include similar environmental provisions and safeguards.** 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.

12. **Compliance with OIE standards will attenuate the inherent environmental risks involved in expanding livestock production.** In addition, Mauritania is currently participating in a World Bank regional livestock project ((*Projet Régional d'Appui Au Pastoralisme Au Sahel*) that will include the introduction of an environmental and social management framework for the livestock subsector. the World Bank's Regional Project for Livestock Support in the Sahel

V. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0.00
IDA Grant		20.00
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	20.00

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