PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

October 18, 2016
Report No.: 111026

Operation Name	Mauritania First Fiscal Consolidation and Private Sector Reform DPO
Region	AFRICA
Country	Mauritania
Sector	Central government administration (34%); General agriculture, fishing and forestry sector (33%); Other domestic and international trade (33%)
Operation ID	P160592
Lending Instrument	Development Policy Lending
Borrower(s)	
Implementing Agency	
Date PID Prepared	October 18, 2016
Estimated Date of Appraisal	
Estimated Date of Board Approval	December 15, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
Other Decision *{Optional}*	*Teams can add more if they wish or delete this row if no other decisions are added*

I. Country and Sector Background

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

2. **The end of the commodity super-cycle prompted the need to adjust external and fiscal imbalances**. As commodity prices rose, extractives exports accounted for an increasingly large share of foreign-exchange inflows, yet 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, 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 dropped. 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 much-needed 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.

II. Operation Objectives

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

4. **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.

5. **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.

III. Rationale for Bank Involvement

6. **The Bank involvement comes in support of the GoM announced program for reforms**. The MEF's fiscal consolidation plan 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 by introducing new policy instruments and by increasing exchange-rate flexibility. 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.

7. **The World Bank is collaborating closely with the IMF and Mauritania's other development partners to engage on the reform program**. 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.

IV. Tentative financing

Source:	($m.)
BORROWER/RECIPIENT	
IDA Grant	20
Borrower/Recipient	
IBRD Others (specifiy)	
Total	20

V. Tranches *(Not applicable)*

	($m.)
First Tranche	
Second Tranche	
Etc.	
Total	

VI. Institutional and Implementation Arrangements

8. **The Ministry of Economy and Finance (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 technical teams 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. Bank staff will continue focusing on monitoring the progress towards expected results.

VII. Risks and Risk Mitigation

9. **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 1: Risk Ratings by Category

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

10. **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.

11. **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.

12. **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.

13. **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.

14. **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

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

15. **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.** Using Mauritania's 2014 household survey, the World Bank team simulated the distributional impact of eliminating VAT exemptions on a range of consumer products, including staple foods and utilities (see Program Document for details). 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 VAT exemptions would increase the tax burden on some households that are near or below the poverty line, and the headcount poverty rate could increase by as much as 2.7 percent if all VAT tax exemptions were removed. 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.

16. **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 advising the government on the potential development of a targeted cash transfer program, which could be used to directly offset the impact of future tax-exemption reforms on poor households.

17. **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.

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

19. **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.[1] 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.

Environmental Aspects

20. **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 Project Document for more details). The World Bank team will work to ensure that such safeguards are integrated into all DPO-supported measures.

21. **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 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 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.

22. **The draft PPP law supported under Prior Action 6 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.

23. **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

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

environmental assessment and provisions will be undertaken through various TA projects. The DPO will rely on the agreed agenda and the TA.

24. **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.

IX. Contact point

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