



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

ISLAMIC REPUBLIC OF MAURITANIA

Climate Mitigation Policy Diagnostic

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High-Level Summary Technical Assistance Report

Fiscal Affairs Department

Islamic Republic of Mauritania: Climate Mitigation Policy Diagnostic

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: Mauritania requested capacity development from the Fiscal Affairs Department on carbon taxation, fossil fuel pricing and fiscal aspects of hydrogen development. This is a high-level summary of the technical assistant and the recommendations provided to the authorities. The report assesses options to gradually introduce a carbon tax to bring the country in line with its Nationally Determined Contribution for 2030 and net-zero pledge for 2050, including targeted support for vulnerable households. It then reviews approach to price fossil fuel products and proposes a revised methodology better aligned with international petroleum markets, along with a fiscally neutral smoothing mechanism to mitigate the impact of abrupt price changes on Mauritanian consumers. Finally, the report evaluates fiscal aspects related to the development of the low and zero-emissions hydrogen to ensure the country continues to position itself as an attractive investment destination without foregoing future revenue streams.

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Background

Mauritania is a small emitter of greenhouse gases (GHG), but per capita emissions fall above the regional average. Like in many developing economies, emissions consistently increased over the past two decades in line with Mauritania's development and economic growth, as emissions tend to rise with higher levels of GDP. Going forward, emissions are projected to continue a steady rise in the absence of new policies and fall short of the country's mitigation goals.

Summary of Findings

The authorities are committed to climate mitigation, including having updated the emissions-reduction target in their Nationally Determined Contribution's (NDC) in 2021 and committing to carbon neutrality by mid-century. Mauritania pledged to unconditionally reduce GHG by 11 percent in 2030 compared to the business-as-usual (BAU) scenario, avoiding 1.8 million tons of CO₂. In a conditional scenario, subject to substantial international financial support, the country pledged to reduce GHG by 92 percent in 2030.

The country also seeks to continue leveraging its vast renewable energy potential to decarbonize the power mix, close energy access gaps and promote investment in green hydrogen. However, the country would benefit from further developing its policy framework and institutional capacity for climate action and energy transition. The Ministry of Economy and Sustainable Development could play an active role in coordinating climate mitigation policies across ministries, including tracking progress on emission-reduction targets, while the Ministry of Finance could develop a fiscal policy framework for climate action, including policy impact assessments to ensure new measures are aligned with climate objectives.

The government acknowledges that additional efforts are needed to align policies with climate commitments and is currently considering the introduction of a carbon tax, as part of broader fossil fuel pricing reform, to address emissions from combustion of petroleum products. In addition, as the authorities seek to position the country as a green hydrogen investment hub and finalize the Hydrogen Code, they are considering various fiscal issues related to green hydrogen development, especially given the magnitude of potential investment flows and the pervasive uncertainty around this nascent industry.

Summary of Recommendations

This report evaluates different carbon tax and fuel pricing reform options for Mauritania. The mission used the Climate Policy Assessment Tool (CPAT) to model different reform scenarios against Mauritania's 2030 NDC target. Results are presented in terms of emissions reduction, energy prices, revenue raising potential, and effects on GDP, as well as possible impacts across households and firms. The report offers some considerations in case there is a need to recycle revenue from carbon taxes to compensate vulnerable households using the existing national social registry and cash transfer infrastructure. The mission also proposes an automatic fossil fuel pricing mechanism to align domestic retail prices with international markets and eliminate discretionary and unpredictable price setting. This mechanism could be complemented with a price adjustment cap (PAC) to smooth out the volatility of international prices.

The proposed carbon tax would be introduced in 2025 with a modest rate of \$5 per ton of CO₂, increasing gradually over time to \$50 per ton CO₂ in 2030. The tax would be part of a new fossil fuel pricing structure, where there is room to reduce the rates of custom duties currently applied to fossil fuel products sold at the retail level. The carbon tax would apply equally to small and large consumers of fossil fuels. The latter, which includes mining, power generation and fishery, are currently exempt from custom duties, VAT and other levies that apply to fuels consumed by households and small businesses.

This option would lead to energy-related emissions of around 11 percent below the NDC's baseline levels, resulting in the necessary emissions reduction to achieve the NDC target (assuming non-energy emissions fall in tandem). The impact of the carbon tax on energy prices is mixed. On one hand, the price of fossil fuel products for household consumption falls thanks to the reduction in customs duty rates, more than offsetting the introduction of the carbon tax. On the other hand, the carbon tax increases the price of industrial fuels and electricity, as large consumers are exempt from taxes and duties levied on fuels. On the fiscal side, the proposal generates significant additional revenue for the government. The mission estimates it can raise 0.7 percent of GDP in additional revenue by 2027 and over 1.5 percent in 2030. Most tax collections come from industrial diesel and heavy use fuel combustion, which is concentrated in the mining sector and power generation. The analysis indicates that vulnerable households are not expected to be impacted if oil prices remain at or below \$90 per barrel. However, a compensation scheme could be implemented to provide targeted support when prices are above that level. Other vulnerable groups, such as artisanal fishermen, could also be supported through the tax system.

The mission also proposes to introduce an automatic fuel pricing mechanism (AFPM) that better aligns domestic prices with international markets and removes discretionary price setting. The existing approach fixed prices for over ten years up to July 2022, when the government was forced to increase prices by 30 percent as subsidies reached close to 4 percent of GDP in that year. The proposed AFPM would be combined with a PAC specifying a maximum retail price change in any given period to smooth the volatility of international markets on domestic retail prices. The retail price will then gradually but systematically follow and catch up with international prices, ensuring full pass-through and fiscal neutrality over the medium-term. The choice of a PAC should reflect the government preferences on the trade-off between retail price and net tax volatility. A higher PAC implies higher retail price volatility but lower net tax volatility, and vice versa. Regardless of the automatic mechanism and the PAC chosen, the most important measure is to completely remove discretionary power to set fuel prices from ministries. One option would be to legally entrust the fossil fuel price setting mandate to an independent regulator.

The mission used the Fiscal Analysis of Resources Industries (FARI) modelling framework to evaluate fiscal regime options for green hydrogen development. As Mauritania continues to position itself as an attractive destination and develop a regulatory framework for green hydrogen, the government should not rush to enter into agreements or contracts that lock-in excessively generous fiscal terms for investors. Moreover, green hydrogen projects have little similarity to extractive industries and should be treated differently. The mission considers that the Investment Code provides an adequate fiscal regime for green hydrogen projects, subject to minor amendments. For example, the fiscal terms in the Investment Code could be complemented with an instrument to ensure the government receives a share of the upside if projects turn out to be highly profitable. Such a fiscal package would yield a stable and moderate government take at low to normal levels of profitability, increasing as projects become more profitable.

Finally, this regime secures modest early revenues through withholding taxes and a modest surface rental fee.