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Islamic Republic of Mauritania: Ex Post Assessment of Longer-Term Program Engagement

This ex post assessment of longer-term program engagement for the Islamic Republic of Mauritania was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on June 7, 2011. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Islamic Republic of Mauritania or the Executive Board of the IMF.

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ISLAMIC REPUBLIC OF MAURITANIA

Ex Post Assessment of Longer-Term Program Engagement

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Appendices

EXECUTIVE SUMMARY

- This Ex-Post Assessment Report covers three PRGF arrangements approved in 1999, 2003 and 2006 respectively. Only the first program was completed. The 2003 PRGF went off track before the first review and the 2006 PRGF was suspended after three reviews in 2008 following a military coup. Mauritania reached HIPC completion point in 2002 and benefited from debt relief under the MDRI in 2006. The discovery of misreporting in 2004 –05 changed the perception of Mauritania as a strong reformer and had an important effect on program design thereafter. Misreporting also complicates the task of evaluating the programs' quantitative frameworks of the 1999 and 2003 PRGFS which were designed using distorted data.

- The objectives of the three PRGFs were the same (macroeconomic stability, high and sustainable growth, diversification of the economy, and a significant reduction in poverty) and the macroeconomic frameworks were similar, but the programs differed markedly on the structural front. Structural conditionality was detailed and extensive in the 1999 and 2003 PRGFs but was refocused and streamlined significantly in the 2006 PRGF—perhaps excessively in light of serious deficiencies in the safeguards area. The programs provided a useful framework for the provision of technical assistance by the Fund and others to strengthen administrative, absorption, and implementation capacities.

- A basic degree of macroeconomic stability was achieved during the period under review but gains on the structural front were more modest. However, macroeconomic stability is not yet underpinned by a sound policy framework; growth is not yet high enough to sustain significant poverty reduction and produce meaningful improvements in social indicators; and the economy is still very vulnerable to external shocks and does not have built in mechanisms to cope with external volatility. Mauritania faces significant economic and social challenges and needs to mobilize substantial external resources at concessional terms. The Fund can play an important role in this context.

- Based on the lessons learned, this evaluation identifies four areas that are critical for a successful engagement with Mauritania aimed at producing high and inclusive growth and poverty reduction in a context of macroeconomic stability. First, there is a need to enhance transparency in the public sector, especially the central bank. Second, structural reforms to strengthen further the macroeconomic policy framework need to be pursued, and they should be supported by technical assistance. Third, growth oriented policies aimed at creating a market friendly environment and reforming the financial sector need to be identified and monitored carefully. Fourth, social spending must be targeted more efficiently, with increased focus on poverty reduction outside Nouakchott. Fiscal space for social spending needs to be protected by containing other government expenditures. To be effective in supporting the proposed reform agenda, the Fund will need the support of the World Bank and other donors.

I. INTRODUCTION

1. **Mauritania's economy is small, heavily dependent on a few extractive activities, and vulnerable to external shocks.** Mauritania is a relatively large country with a sizeable coastline (350 miles or 592 km) on the Atlantic Ocean. But the territory is mainly deserted, with the notable exception of the fertile Senegal River valley in the south and the grazing land in the north. The economy displays a dualistic structure: a relatively modern sector consisting of capital-intensive activities such as mining, fishing and a small area of irrigated agriculture that contrasts with the traditional subsistence sectors of livestock and artisanal fishing. The economy grew at a moderate pace in the last decade, but the economic structure did not change significantly and the export base remains narrow—with mining (excluding oil) and fishing accounting for 80 percent of total exports. Most consumption and capital goods, as well as essential intermediate inputs, are imported and the economy is highly vulnerable to external shocks and political instability. With a per-capita income of 940 dollars in 2009 Mauritania is one of the poorest countries in the world.

Table 1. Mauritania: Summary of Lending Arrangements, 1984-2010
(In thousands of SDRs)

Type of Facility	Date of Arrangement	Date of Expiration or Cancellation	Amount Agreed	Amount Drawn
Extended Credit Facility	15-Mar-10	14-Mar-13	77,280	11,040
Poverty Reduction and Growth Facility	18-Dec-06	1-Nov-09	16,100	10,310
Poverty Reduction and Growth Facility	18-Jul-03	7-Nov-04	6,440	920
Enhanced Structural Adjustment Facility	21-Jul-99	20-Dec-02	42,490	42,490
Enhanced Structural Adjustment Facility	25-Jan-95	13-Jul-98	42,750	42,750
Enhanced Structural Adjustment Facility	9-Dec-92	24-Jan-95	33,900	33,900
Structural Adjustment Facility	24-May-89	23-May-92	50,850	16,950
Structural Adjustment Facility	22-Sep-86	18-May-89	23,730	23,730
Standby Arrangement	4-May-87	3-May-88	10,000	10,000
Standby Arrangement	26-Apr-86	25-Apr-87	12,000	12,000
Standby Arrangement	12-Apr-85	25-Apr-86	12,000	12,000
Total			327,540	209,310

Source: Mauritania staff reports.

2. **Mauritania has a long history of engagement with the Fund and became a formal prolonged user of Fund resources in 2009**. Since 1985, the country has been almost continuously under programs supported by the Fund, mainly through concessional facilities (Table 1). With the exception of the 1989, 2003, and 2006 arrangements, all programs were completed and the full amounts approved were drawn. The 2003 PRGF was cancelled in November 2004 before a single review could be completed and after only one disbursement. The 2006 PRGF was suspended in October 2008 after three reviews had been completed and

nearly two thirds of the approved amount had been drawn; it was cancelled in November 2009 (Table 2).[2] Despite these interruptions, Mauritania became a long-term Fund program user in March 2009, as programs are considered active until formally cancelled—not until they go off track.

Table 2. Mauritania: Summary of Programs, 1999-2009

Arrangement	Approval date	Access		Actually disbursed	Reviews completed	Original expiration date	Actual expiration or cancellation
		(SDR million)	(percent of quota)	(SDR million)			
2006 PRGF	12/18/2006	16.1	25	10.3	3/6	12/17/2009	11/1/2009
2003 PRGF	07/18/2003	6.4	10	0.9	0/6	07/17/2006	11/07/2004
1999 ESAF/PRGF	7/21/1999	42.5	66	42.5	6/6	12/20/2002	12/20/2002
Memorandum:							
2006 SMP		…	…	…	2/2	06/30/2006	06/30/2006

Source: Mauritania staff reports.

3. **Mauritania provided inaccurate data to the Fund during the 1990s and first half of the 2000s, while under Fund supported programs**. The authorities' admission in 2005 that key macroeconomic data provided to the Fund had masked several adverse developments in the past raised doubts about Mauritania's reputation as a strong performer and led to the adoption of several corrective measures in subsequent programs. As discussed in the next section, misreporting complicates the task of evaluating the effectiveness of Fund supported programs during that period, because these programs were designed on the basis of seriously deficient data.

4. **This Ex-Post Assessment (EPA) looks at Mauritania's experience with the three programs in place during the period 1999–2009**: the 1999 ESAF, and the 2003 and 2006 PRGFs.[3] The report is organized as follows: section II provides a brief description of the programs, focusing on their stated objectives and associated conditionality; section III reviews Mauritania's performance under the program, looking closely at compliance with conditionality as well as progress in meeting the economic and social objectives of the programs; section IV looks at cooperation with the World Bank in the areas program design

[2] The 2003 PRGF was canceled at the request of the authorities following their admission of misreporting. The 2006 PRGF was suspended by the Executive Board in October 2008 following a military coup in August of that year and subsequently cancelled at the request of the authorities.

[3] Technically, the first arrangement was approved in 1999 as an ESAF, and subsequently converted to a PRFG. For simplicity, all three arrangements are referred to as "PRGFs" in the remainder of this report.

and monitoring; and section V concludes with a discussion on the main lessons learned and recommendations for future engagement.

II. The 1999, 2003, and 2006 PRGFs: Objectives and Strategies

5. **The three programs covered by this report shared the same objectives but differed significantly in other respects**. The programs aimed at consolidating gains in macroeconomic stabilization, achieving high growth and improving social conditions. The negotiation phases were, however, different with those preceding the first two programs riding on Mauritania's successful record with the Fund and the last one marked by the misreporting episode that broke up in 2004: the successful completion of a 6-month track record Staff Monitored Program was a precondition for the 2006 PRGF. The volume and distribution of conditionality also varied significantly across programs, although these differences seems to reflect mainly institutional priorities (e.g., the streamlining initiative of 2000 and the new conditionality guidelines of 2002) rather than specific developments in Mauritania. Access under the programs also differed, with the 1999 PRGF providing access to the equivalent of 66 percent of quota, in contrast with the low access of the other two programs (10 and 25 percent of quota respectively under the 2003 and 2006 PRGFs). Phasing was relatively uniform in all programs.

6. **Mauritania achieved several milestones under the programs reviewed here**. During the 1999 PRGF Mauritania reached the requirements for the decision point under the enhanced HIPC Initiative in February 2000 and the completion point in May 2002.[4] In June 2006, Mauritania secured relief under the MDRI.[5] The achievement of these milestones was preceded by strong performance but, unfortunately, those episodes were also followed by significant relaxations of policies amidst substantial political instability.

7. **Misreporting, which came to light in 2004, changed the perception of Mauritania as a strong reformer and shaped relations with the Fund for years**. In January 2004, a safeguards assessment (SA) mission could not confirm the end-2002 level of international reserves of the central bank (CBM). This prompted a series of enquiries by Fund staff that led eventually to the authorities' admission of misreporting of data for more than a decade. As a result, the first disbursement made under the 2003 PRGF and the last two made under the 1999 PRGF were found to be noncomplying according to the Fund's misreporting guidelines. In the event, the authorities would repay all noncomplying

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[4] Reaching of the completion point under the enhanced HIPC Initiative coincided with the 5th review under the 1999 PRGF.

[5] The 2006 SMP was a not only a precondition for the 2006 PRGF but also key for eligibility under the MDRI. Qualifying actions for the MDRI included the resolution of data-related problems; improvements in budget formulation, execution, and reporting; the elimination of all extra-budgetary spending; progress in eliminating payments arrears and regularizing the public accounts; and improvements in tracking public expenditures.

purchases and request the cancellation of the 2003 PRGF.[6] However, the Fund would subsequently require a number of corrective actions. A set of measures with immediate impact was requested under the 2006 SMP, such as the auditing and publication of the CBM's financial statements. Other measures, such as the correction of several governance problems at the CBM, were phased in gradually in the 2006 PRGF. As discussed later in this report, some of the latter measures have not yet been fully implemented.

A. Program Objectives

8. **The stated objectives of the three PRGFs were the same, and the macroeconomic frameworks were broadly similar.** The objectives were to consolidate macroeconomic stability, support sustainable economic growth, diversify the economy, and achieve a significant reduction in poverty. The macroeconomic frameworks were anchored on the expected path of external debt conditional on debt reduction operations, as Mauritania's external debt in 1999 was considered unsustainable. Fiscal policy aimed at keeping domestic demand growth in check and maximizing social spending within the space provided by debt relief (tax and expenditure reforms were expected to increase fiscal space gradually). Exchange rate restrictions were to be eliminated and the exchange rate made more flexible to cope with significant external volatility. This rendered monetary growth the main tool for controlling inflation.

9. **The focus of the programs' structural reform agendas shifted over time.** Creating a supportive environment for private sector development was consistently identified as critical for the achievement of the programs' objectives and this was addressed through a changing mix of first and second generation reforms. The 1999 PRGF emphasized trade liberalization and exchange rate reforms, state owned enterprise (SOE) reform, and privatization.[7] In the 2003 PRGF, the focus shifted to financial sector reform, capacity building and governance, while the emphasis of the 2006 PRGF was on oil revenue management, monitoring and control of budget execution and civil service reform.[8] In this

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[6] In November 2004, the authorities repaid the noncomplying purchase and requested cancellation of the 2003 arrangement, see *Islamic Republic of Mauritania—Report on Noncomplying Disbursement*. However, they stressed that data provided under previous arrangements were correct. A year later, the authorities provided revised data going back to 1992 which revealed previous instances of provision of misleading data. Because of a statute of limitation under the misreporting guidelines, only the last two disbursements made under the 1999 PRGF were found to be noncomplying.

[7] Key measures included the reduction in surrender requirements and elimination of remaining exchange rate restrictions, the privatization of the national airline and other public enterprises, and steps to prepare for the privatization of the post and telecommunications company and of the energy wing of the electricity and water companies.

[8] A broad reform of the financial sector reform was envisaged to deepen financial intermediation and improve the functioning of the banking system. Key measures included the gradual correction of the high degree of

(continued…)

context, there was to be considerable technical assistance from the Fund and other agencies to strengthen administrative, absorptive, and implementation capacities.[9]

B. Conditionality[10]

10. **The programs were based initially on ambitious growth and inflation targets, but these had to be adjusted to more realistic levels later in response to shocks.** The 1999 and 2003 PRGFs expected growth to accelerate gradually from 4 to about 6 percent during the program period, with the 2003 PRGF expecting a surge in growth to nearly 10 percent in 2006 with the coming on board of the Chinguetti oil field. For subsequent years, the 2006 PRGF revised down the growth projections significantly in response to a series of technical setbacks in the oil field.[11] As regards inflation, the 1999 PRGF targeted a gradual reduction to 2.5 percent in the final program year, while the 2003 PRGF targeted a flat 3.5 percent. Reflecting a surge in inflation in the preceding years, the 2006 PRGF had to adjust upwards its first-year target to nearly 9 percent but aimed at lowering inflation to 4 percent by the final program year.

11. **Tight fiscal targets under the 1999 PRGF were relaxed in subsequent programs to allow for the use of the fiscal space provided by debt relief.** Government surpluses in the 1999 PRGF gave way to moderate deficits in the 2003 PRGF, and the 2006 program relaxed the targets further following debt relief under the MDRI.[12] The programs' goal of

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credit concentration, improvements in supervision, a clean-up of commercial banks' balance sheets, and modernization of the payments system.

[9] The design of the 2003 PRGF took into account lessons from the previous program. One of them was the need to provide carefully targeted technical assistance to overcome capacity constraints (*Islamic Republic of Mauritania—Staff Report for the 2003 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility,* IMF country report No. 03/314).

[10] Because macroeconomic data used in the design and monitoring of the 1999 and 2003 PRGFs were found later to be incorrect, this section focuses mainly on the rationale for the proposed policies and Section III looks at the behavior of the main macroeconomic variables rather offering detailed comparisons between targets and outcomes.

[11] The Chinguetti oil field was declared commercially viable only in 2004 and began production in 2006 at scale of 75,000 barrels per day (bpd), but ran into technical difficulties almost immediately. As a result, daily output declined by more than half during 2006 and continued to do so since. By 2009 production had declined to 10,000 bpd or about 1/10 of the potential estimated initially.

[12] The 1999 PRGF targeted a government surplus of 1.3 percent of GDP for 2000, excluding grants amounting to 3 percent of GDP in that year. This surplus was programmed to decline gradually to 0.4 percent of GDP in 2002 (*Mauritania—Request for Arrangements under the Enhanced Structural Adjustment Facility*). With an improved debt profile resulting from the achievement of HIPC completion point in 2002, the 2003 PRGF targeted a government deficit excluding grants of 2.1 percent of GDP in 2003, 2.7 percent in 2004 and 2.9 percent in 2005. However, the 2003 deficit was expected to be more than financed by grants, external

(continued…)

higher levels of social and infrastructure spending was to be further supported through compression in other categories of spending.

12. **Reserve targets were ambitious in the first two programs, but not in the 2006 PRGF**. The 1999 PRGF targeted an unchanged ratio of reserves to imports of about 5½ months, while the 2003 PRGF contemplated a decline in this ratio from 7.2 to 5½ months. A critical factor in both cases was the belief that reserves were at comfortable levels initially, which was not the case, as discovered later: according to revised figures, the reserve ratio was at 1.5 months at end-1999 and less than 1 month at end-2003. The 2006 PRGF, on the other hand, did target an increase in reserve coverage but the targeted level was set at the customary 3 months of imports (excluding FDI and external aid-financed imports), an insufficient level in light of the uncertainty surrounding oil export projections, and volatile terms of trade and aid disbursements.

Table 3. Structural Conditionality

Program	Prior actions	Structural Benchmarks	Structural Performance Criteria	Total
		Number of normalized conditions[1/]		
1999 ESAF	7.3	15.0	10.3	32.7
2003 PRGF 2/	6.0	14.0	6.0	26.0
2006 PRGF	0.7	0.0	2.0	2.7

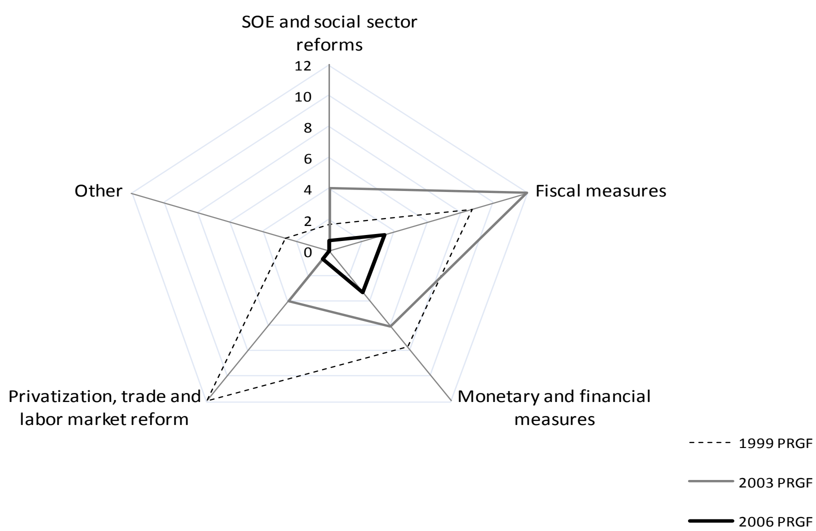
Source: MONA database and staff reports.
1/ Total number of conditions divided by the actual length of the program expressed in years.

2/ No review was completed; length assumed for normalization of conditions was 0.5.

borrowing and debt relief, thus leading to a significant accumulation of deposits at the CBM (*Islamic Republic of Mauritania—Staff Report for the 2003 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility*, IMF country report No. 03/314). Following substantial debt relief through MDRI, the (December) 2006 PRGF targeted a wider overall deficit of 4.1 percent of GDP in 2007, which was expected to rise temporarily in 2008–09. This program allowed for an increase in poverty related and infrastructure spending, offset in part by reductions in the wage bill, discretionary current spending (through improved procurement procedures) and lower subsidies to SOEs (*Islamic Republic of Mauritania—Second Review under the Staff Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility*, IMF country report No. 07/43).

13. **The number of structural conditions varied significantly across programs**. The first two programs had around ten times as many conditions (32.7 and 26 conditions per program year) as the 2006 PRGF (2.7 conditions per program year, Table 3). The number of conditions in the two earlier arrangements is significantly higher than the average for PRGF programs, which declined from 17–18 in the late 1990s to 13–14 by 2003–04. Also notable is the heavy use of prior actions in the first two PRGFs, in contrast to the marked decline in prior actions in the average PRGF program in this period. In contrast, the 2006 PRGF had considerably less conditions than the average PRGF in that year. This may come as a surprise since the 2006 PRGF was the first arrangement since the misreporting episode. As discussed later, however, the marked fall in the number of structural conditions may be related to the perception of strong ownership by the Mauritanian authorities since 2006.

Figure 1. Mauritania. Streamlining of Structural Conditionality in 1999-2009
(number of structural conditions normalized by program year)



Sources: MONA database and country staff reports.

14. **There are also marked differences in the distribution of structural conditionality across functional areas** (Figure 1 and Appendix III)**.** The 1999 PRGF focused on privatization and trade and labor market reforms to foster private sector development. Consistent with the 2002 Conditionality Guidelines, but also in response to the lessons from the experience with the 1999 PRGF, the 2003 PRGF relied more heavily on public expenditure management, fiscal transparency, financial sector reform and governance.[13] This trend continued into the 2006 PRGF, which focused almost exclusively

[13] Despite its large volume, structural conditionality under 1999 PRGF contained only a few links to fiscal transparency and governance—e.g., the preparation of a medium-term expenditure framework and the revision of the procurement code—even though the budget was fragmented into an operating and an investment budget,

(continued…)

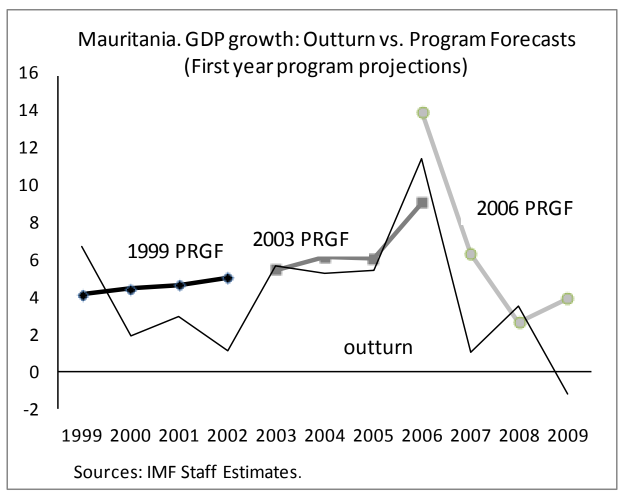
on fiscal issues and the financial sector. Structural reforms in other areas, such as public enterprise restructuring, were expected to continue, but were not covered by formal conditionality in the latter two PRGFs.

15. **Structural conditionality in the 2006 PRGF may have been streamlined excessively, particularly in the safeguards area**. The 2006 SMP requested audits of the CBM's 2003–04 accounts and the 2006 PRGF had structural benchmarks calling for the publication of its 2006 accounts and, later, for the resolution of the auditor's observations. The 2006 PRGF also contained a performance criterion (PC) asking for an ordinance on the status of the CBM that would, among other things, protect the governor from arbitrary dismissal. However, the program did not have a strategy for the completion of interventions that had begun years before, such as the establishment of an adequate internal audit mechanism and the implementation of policies for the management of external reserves. Also, the program did not have formal conditionality on the CBM's adoption of International Financial Reporting Standards (IFRS), which is key to ensuring the integrity of data needed for program monitoring.[14] The lack of emphasis on a durable solution to the CBM's vulnerabilities contrasts with the program's strong conditionality on fiscal governance.

III. Performance under the Programs

A. The Macroeconomic Record

16. **At 3.9 percent on average, growth in 1999–2009 was lower than in the previous decade and compares unfavorably with that in Sub-Saharan Africa (SSA)**. Mauritania's growth in this period was significantly lower than the 5.4 percent recorded by SSA. Growth accelerated in 2006 with the coming on board of gold and copper large mining projects and, especially, the start-up of the Chinguetti oil field. But the growth momentum created by this project was short



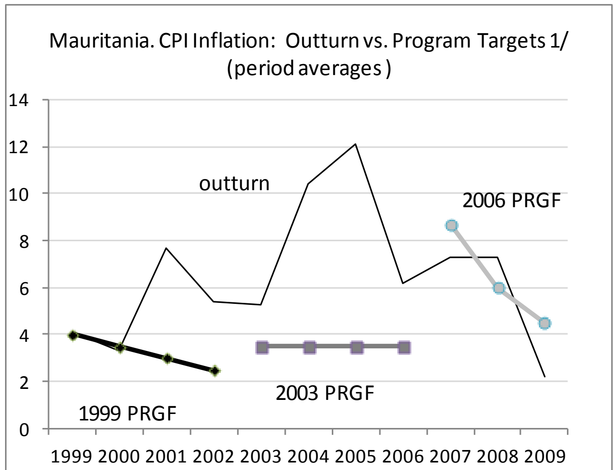
the Minister of Finance did not have sufficient authority to supervise expenditures, record keeping was poor, and reporting was made on a paper basis. However, program documents do reveal early concerns about the integrity of the CBM balance sheet and audits were requested; staff also asked for improvements in the process for selecting external auditors. These requests were not part of the program's formal conditionality.

[14] The CBM's General Council approved the transition to IFRS in 2004, but little action has taken place since then.

lived, as discussed earlier. Growth became negative in 2009, as the global demand for iron ore and other commodities collapsed.

17. **Growth also lagged expectations under Fund programs, due to unexpected shocks and delays in the implementation of key reforms**. Program projections were adjusted for the difficulties experienced by the oil sector since 2006. Nonetheless growth underperformed almost consistently during the decade. The largest deviations from programmed levels reflect unexpected shocks: in 2002, when the country experienced a severe drought, and in 2009 amidst the global economic slowdown. However, the disappointing performance is also the result of delays in the implementation of key growth enhancing structural measures. In addition, energy supply has remained constrained due to inaction to resolve the financial problems of the national electricity company, and transportation networks are still severely underdeveloped. These problems have been compounded by the persistence of an unfriendly business environment.

18. **Inflation rose initially in response to external shocks but declined markedly in the second half of the decade**. Developments in inflation reflect both the impact of exogenous shocks and the macroeconomic policy stance. The program target was met in the first program year (2000) but missed subsequently due to a spike in food prices triggered by a drought and the adjustment of domestic oil and gas prices. The ambitious targets of the 2003 PRGF were missed by wide margins, fuelled by the monetary expansion associated with large fiscal overruns of 2003–04 and increases in international oil prices. Inflation declined markedly in 2006, and again in 2009, in response to tightening macroeconomic policies and measures to control the prices of selected products.



1/ First year program targets; 2003 targets are end of period.
Source: Mauritanian authorities and Fund staff estimates.

19. **Fiscal performance was erratic, with adjustments often followed by significant relaxations in the policy stance.** The balance of the central government excluding grants fluctuated within a range of 20 percentage points of GDP during 1999–2009. A surplus of 3.8 percent of GDP in 2002 was followed by a deficit of 16.4 percent in 2003, due to substantial off-budgetary spending aimed at curbing the effects of the ongoing drought, and the large buildup in military spending that followed a failed military coup.[15] Through a wide

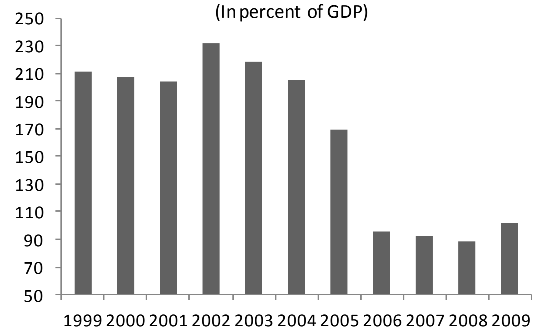
[15] Timely information about the off-budget spending was not provided to the Fund by the authorities or donors. As discussed later, sharing of information among development partners is essential for the success of programs.

range of measures that included a tax reform and reductions in subsidies to state owned enterprises, the authorities regained control of the fiscal situation and ran a 1 percent surplus in 2006 and a small 0.6 percent deficit in 2007. But, once again, this effort could not be sustained and large expenditure overruns led to deficits of 7.3 and 5.9 percent in 2008 and 2009 respectively, following another military coup.

20. **A sizeable increase in the wage bill crowded out much needed capital spending throughout the decade**. Improvements in tax revenue mobilization in the early 2000s were reversed in the second half of the decade. At the same time, the wage bill doubled from 4.9 percent of GDP in 2000 to 9.7 percent in 2009 (or nearly 40 percent of government spending).[16] Against the backdrop of a steady decline in externally-financed capital spending and low implementation capacity, the result has been a compression in capital spending by the central government from a high of 13 percent of GDP in 2003 to 6.5 percent in 2009.

21. **Public debt dynamics was driven mainly by relief operations that have left Mauritania facing only a moderate risk of debt distress**. The ratio of public and publicly guaranteed (PPG) debt to GDP fell by some 60 percentage points from an unsustainable level in 2002, when the HIPC completion point was reached, to 2005. It fell another 70 points in 2006 mainly on account of MDRI. Since then the PPG debt ratio has hovered around 90 percent of GDP, with a marked uptick in 2009 caused by the decline in GDP. But these figures include substantial arrears (some 35 percent of GDP in 2009) on "passive" debt, which Debt Sustainability Analysis (DSA) carried out since the 1999 PRGF have assumed to be rescheduled.[17] As a result, at the time of the 2009 Article IV consultation Mauritania was found to be at only a "moderate risk of distress." While there are

Mauritania. Public Sector Debt, 1999-2009
(In percent of GDP)



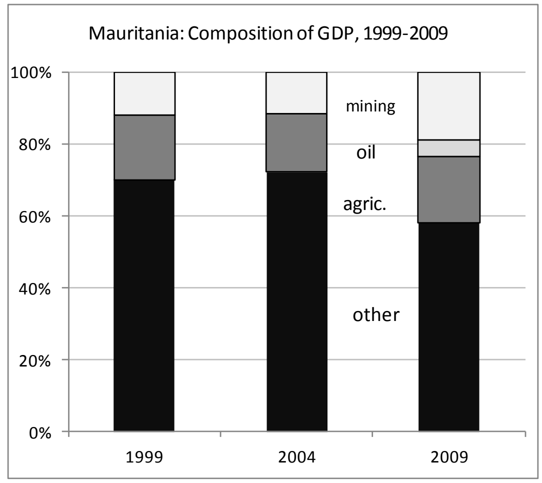
Sources: Mauritanian authorities; and Fund staff estimates.

[16] The largest increase in the wage bill took place in 2005 following a decision by the government to raise salaries in anticipation of the start-up of the Chinguetti oil field. Mauritania's wage bill relative to GDP in 2009 was significantly higher than in Algeria, Benin, Senegal, Burkina Faso, Cameroon, Togo, Chad, Mali, and Niger.

[17] This debt, amounting to some US$1.1 billion at end-2009, is owed to Kuwait, a non-Paris Club creditor. Technically, the assumption of debt relief by Kuwait in line with debt reduction under HIPC is consistent with LIC DSA guidelines for post-completion point countries.

risks to this outlook and challenges continue to exist with respect to the clearance of arrears, the achievement of public and external debt sustainability validates the main macroeconomic pillar of the programs reviewed in this report.

22. **Against the backdrop of an unfriendly business environment, Mauritania has made little progress in diversifying its productive base**. The relative importance of a few extractive activities rose during 1999–2009, driven by an increase in the share of mining (such as iron ore and gold) from 12 percent of GDP in 1999 to 19 percent in 2009. Oil production came on board in 2006 and accounted for nearly 5 percent of GDP in 2009. With the share of agriculture stable at around 18 percent throughout the period, other activities (mainly services and manufacturing) became relatively less important, rendering GDP relatively more vulnerable to swings in commodity prices. Also, given the capital intensity of extractive activities, growth has not been inclusive and has not generated significant gains in employment.



23. **At the same time, Mauritania did not develop institutional mechanisms to cope with substantial volatility in external variables**. Mauritania was subject to serious political shocks in the last decade and was also vulnerable to external developments. While the volatility of its terms of trade sits in the middle of the range shown in Table 4, its aid was among the most volatile. More telling, however, is the extent to which these and other sources of volatility have impacted domestic variables. GDP is less volatile than that of the SSA comparators but higher than in the Maghreb group. If domestic demand is used instead, volatility is higher than in all other countries except Chad. The same is true when the comparisons are based on private consumption. Against this background, it is worrisome that, while the authorities created several committees entrusted with addressing the impact of external volatility and uncertainty during 1999–2009, these committees were set up in an ad-hoc manner and lacked the technical capabilities and clout needed to provide advice to policy makers effectively.

Table 4. Mauritania: Macroeconomic Volatility: International Comparisons 1/
(Coefficients of variation for 1999–2009)

	External variables			Domestic variables		
	Terms of trade	Offical Development Assistance 2/	Current account excluding grants	GDP	Domestic demand	Private consumption
Mauritania	0.20	0.45	0.97	0.86	2.05	2.80
Maghreb						
Algeria	0.27	0.33	0.88	0.44	0.66	0.42
Morocco	0.05	0.16	2.32	0.54	0.54	0.78
Tunisia	0.08	0.20	0.45	0.30	0.36	0.16
Sub-Sahara Africa						
Chad	0.28	0.27	0.86	1.60	2.52	4.23
Mali	0.27	0.10	0.67	3.64	1.36	1.47
Niger	0.22	0.19	0.97	1.07	0.90	1.24
Senegal	0.04	0.21	0.72	0.47	0.50	1.78

Sources: Sub-Sahara Regional Economic Outlooks; World Bank, World Development Indicators; Mauritanian authorities; and Fund staff estimates.

1/ Underlying variables in percent of GDP, except for terms of trade.
2/ Covering the period 1999–2008; underlying variables in percent of Gross National Income.

B. The Structural Reforms

24. **Formal compliance with structural conditionality varied significantly across programs and was highest under the 2006 PRGF**. A simple measure of compliance was computed for each structural measure, attaching a score of 1 to conditions met on time, 0.5 percent to those met only partially or with a delay, and 0 to those not met. Table 5 shows the average scores for each type of measure (structural benchmarks and performance criteria) under each program. Admittedly, these measures can overstate the degree of compliance in programs that were not completed because they may not fully reflect the reasons why the program went off track. However, a simple comparison of scores shows that compliance was highest for each type of measure under the 2006 PRGF and lowest under the 2003 PRGF, with the latter reflecting that the policy slippages of 2003 and 2004 were not confined to the macroeconomic policy area. Under the 1999 PRGF, average compliance was 0.59 percent, as about one third of structural benchmarks and 20 percent of structural performance criteria failed to be met, mainly in the areas of public enterprise reform and privatization.

Table 5. Compliance with Structural Conditionality 1/

Program	Structural Benchmarks	Structural Performance Criteria	Total
1999 ESAF	0.49	0.70	0.59
2003 PRGF	0.29	0.50	0.35
2006 PRGF	0.71	1.00	0.82

Source: MONA database, staff reports and Fund staff estimates.
1/ Individual measures were scored a 1 if met on time, 0.5 if met partially and/or with a delay, and a 0 if not met.

25. **Reform in areas not covered by structural conditionality was also strongest during the first half of the 2006 PRGF**. It could be argued that the better scores of the 2006 PRGF were due to the streamlined and selective approach (focused on areas in which the authorities were more likely to embark on reforms) used in that program. However, reform was also strong in areas not covered by conditionality. In 2007, the Mauritanian government embarked on an ambitious program of fiscal reforms that covered tax administration; measures to increase transparency; budget preparation, execution, and controls; modernization and streamlining of the civil service; and policies to strengthen oil revenue management.[18] Some progress was also made in implementing the recommendations of the 2007 FSAP.[19] However, all these reform efforts came to a halt with the August 2008 military coup. In some cases, this was followed by significant backtracking, including in safeguards-related areas.

26. **A closer look at broader measures of progress under the programs reveals a more troubling picture.** Measures of formal compliance with program conditionality fail to measure their impact on the medium- and long-term objectives of the programs. When these factors are considered, the overall record with structural reform is not a very good one. Some progress was made in strengthening the policy framework but efforts to improve the business climate, reduce poverty and improve living conditions were less fruitful.

[18] *Islamic Republic of Mauritania—Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criterion* (IMF country report No. 07/375).

[19] *Islamic Republic of Mauritania—Staff Report for the 2008 Article IV Consultation and Third Review Under the Three-Year Arrangement Under the poverty Reduction and Growth Facility* (IMF country report No.08/231).

27. **Important progress was made in upgrading the policy framework, although important challenges remain**:

- Reforms in tax policy and administration have resulted in some simplification of tax procedures and higher tax revenues. However, there remains a need to strengthen budget preparation, execution, and monitoring. The World Bank's Country Policy and Institutional Assessment (CPIA) consistently give Mauritania its lowest ratings in the areas of quality of budget and financial management and fiscal policy (scores of 2.6 and 2.8 on a scale of 1 to 6, respectively). Although the index recorded improvement in 2005–09, Mauritania still scores significantly below Mali, Niger, and Senegal.

- There has been some progress in strengthening the CBM's operational, supervisory, and regulatory capacity. However, critical vulnerabilities still exist in its safeguards framework in the areas of financial reporting and oversight. Important recommendations made in Safeguard Assessment (SA) reports to address these vulnerabilities have not yet been implemented.[20] Also unresolved is the issue of central bank independence, as the appointment of the Governor, Deputy Governor, members of the Monetary Policy Council, and the General Council coincides with the electoral cycle.

- Governance continues to be a serious concern. Mauritania's Corruption Perception Index (CPI) of 2.2 for 2010 on a scale of 0–10 percent puts Mauritania in 143rd place out of 178 countries. Furthermore, the situation has worsened since 2006 when Mauritania ranked 84th out of 163 countries with a score of 3.1, and the score has been consistently below that of regional peers in recent years. The World Bank's CPIA ratings tell a similar story, with Mauritania receiving an average of 2.6 (on a scale of 1–6) for 2005–09 in the area of transparency, accountability and corruption in the public sector.[21] This score is below the 2.8 recorded by Sub-Saharan Africa and the 3.1 obtained by regional peers.

- Production of reliable statistics. Staff reports for the period under review consistently indicate that the data provided by the authorities are "broadly adequate for surveillance." However, SA reports continue to voice concerns about the quality of data relevant for program monitoring.

[20] These recommendations include the preparation of financial statements on the basis of IFRS and establishment of independent oversight of the CBM financial reporting, audit, and control frameworks.

[21] The score did not change significantly after Mauritania's adhesion to the Extractive Industries Transparency Initiative (EITI).

28. **Only limited progress was made in creating a business-friendly environment and implementing growth-enhancing measures**:

- Mauritania made significant progress in liberalizing trade (Mauritania gets its highest sub-scores in the World Bank's CPIA ratings in the area of trade with a 3.9). There have also been improvements in the functioning of the foreign exchange market, and the country now has a more flexible exchange rate, which was a program goal in the 1999 and 2006 PRGFs. The premium on the parallel foreign exchange market, which was as high as 10–20 percent until late 2005, virtually disappeared shortly thereafter.[22] It re-emerged after the introduction of rationing in the foreign exchange market in late 2008, but it has again returned to very low levels.

- Mauritania's business environment consistently ranks low and can still be characterized as "unfriendly." The World Economic Forum ranks Mauritania 104th out of 127 countries on the quality of its national business environment. The World Bank Group puts it in 165th place out of 183 countries on the basis of its Doing Business Index, and in 142nd place out of 202 countries in terms of regulatory quality (on this, Mauritania has dropped about 20 places between 2006 and 2008).

- The financial sector continues to be an impediment to private sector growth. The banking sector maintains its oligopolistic structure, with eight of the nine commercial banks that dominate the financial sector belonging to multi-sectoral conglomerates and functioning mainly as their financial branch. Financial intermediation is weak—access to financing is consistently mentioned as the most problematic factor for doing business in Mauritania in Global Competitiveness Reports produced by the World Economic Forum. There have been some improvements in financial sector regulation and supervision, but the banking system remains fragile with nonperforming loans in excess of 25 percent at end-2009. Financial sector reform has faced strong resistance from powerful economic groups.

- Despite significant efforts at reform, public enterprises continue to be a drain on the budget—with subsidies and transfers amounting to 2.7 percent of GDP in the 2009 budget. While some success with privatization was achieved under the 1999 PRGF—particularly in the case of the telecommunications company—the national water and electricity company SONELEC could not be privatized as contemplated in the 1999 PRGF, but was separated into the electricity company (SOMELEC) and the water company (SNDE) in 2001. SOMELEC continues to perform poorly and electricity cuts are a frequent occurrence and an important drag on growth.

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[22] *Islamic Republic of Mauritania—Financial System Stability Assessment*.

C. Poverty Reduction and the MDGs

29. **Some progress in reducing poverty was made, but the level of human development indicators is quite alarming**. The incidence of extreme poverty declined from about 46 percent in 2000 to 42 percent in 2008—with a substantial share of the improvement due to developments in Nouakchott, where extreme poverty incidence declined from 29.2 to 15.6 percent. Much more is needed, however, to meet the MDGs (Table 6). In 2010, UNDP's Human Development Index ranks Mauritania 150th on health and on education out of 169 countries.

30. **Mauritania is at risk of missing the majority of the MDGs in 2015**. Progress in closing gaps with the MDGs has been slow and, in some cases, the MDGs look out of reach. The gaps are relatively narrow in the areas of extreme poverty and primary school enrollment. However, the targets for maternal mortality and access to reproductive health do not seem achievable. Strikingly, Mauritania's record on the latter trails the average for SSA by a wide margin.

Table 6. Mauritania: Millennium Development Goals: Mauritania versus Sub-Saharan African Peers, 2010

	2015 Target	Current value
Goal 1. Eradicate extreme poverty and hunger		
Target 1. Halve the proportion of people whose income is less than $1 a day	28.3	
Mauritania		42.0
SSA		51.0
Target 2: Achieve full and productive employment and decent work for all, including women and young people	100.0	
Mauritania		27.0
SSA		65.0
Target 3: halve, between 1990 and 2015, the proportion of people who suffer from hunger	0.0	
Mauritania		31.2
SSA		26.0
Goal 2. Achieve universal primary education		
Target 1. Ensure that children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	100.0	
Mauritania		71.6
SSA		76.0
Goal 3. Promote gender equality and empower women		
Target 1. Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education	100.0	
Mauritania		100.0
SSA		91.0
Goal 4. Reduce child mortality		
Target 1. reduce by two thirds, between 1990 and 2015, the under-five mortality rate	45.0	
Mauritania		122.0
SSA		144.0
Goal 5. Improve maternal health		
Target 1. Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	232.0	
Mauritania		686.0
SSA		n.a.
Target 2. Achieve, by 2015, universal access to reproductive health	100.0	
Mauritania		9.0
SSA		70.0

Source: Mauritanian authorities; and Fund staff estimates.

IV. Cooperation with the World Bank

31. **Cooperation with the World Bank was generally effective, despite the absence of budgetary support by the Bank during most of the period**.[23] Areas of close collaboration included: public expenditure management (e.g. budget formulation and execution, preparation of sectoral medium-term expenditure frameworks); financial sector reform (mainly through the 2007 FSAP); and poverty and social impact analysis (PSIA). Since 2005, the Fund and the Bank supported the authorities in the implementation of the EITI in the nascent oil industry and the management of oil revenues. In addition, both institutions worked closely with the authorities on the elaboration of the poverty reduction strategies (2000 and 2007) and preparations for HIPC and MDRI eligibility. The World Bank led the policy dialogue on structural reforms related to private sector development (e.g. rural development, infrastructure and urban development, and public enterprise reform and divestiture) and poverty monitoring and evaluation.

32. **Close collaboration was vital for the monitoring of reforms in areas of World Bank expertise**. The 1999 PRGF initially contained conditionality on SOE reform and privatization, as well as on the liberalization of certain markets. These reforms were supported by three different Bank projects (Appendix IV). As described earlier, Fund conditionality was subsequently streamlined, especially under the 2006 PRGF. In that context, World Bank engagement on structural issues—such as public enterprise reform and divestiture, and private sector development—was key in guiding and monitoring reform in these areas. A salient example is the Bank's contribution to the restructuring of the electricity company during the 2006 PRGF, which led to reduced demands on the budget and helped Mauritania meet structural benchmarks set out in the Fund-supported program.

V. Lessons and the Road Ahead

A. Lessons and Policy Challenges

33. **When measured against their stated objectives, the programs covered by this report were only moderately effective.** While it is impossible to know what would have happened in the absence of Fund programs, it is clear that their main contribution was to help the authorities delineate the policy agenda and establish priorities. This, in turn, provided the basis for the provision of much needed technical assistance in various areas, which was key in overcoming technical and capacity constraints. The programs helped in securing macroeconomic stability—especially towards the end of the decade under review—and in

[23] Their last budget support credit was a fiscal reform support operation approved in May 2000 and covering the first year of the 1999–2002 tax reform agenda. Its focus was on revenue mobilization (direct tax reform) and the allocation of adequate public resources to social sectors (education, health) and basic infrastructure.

upgrading the macroeconomic policy framework. They were less successful in promoting higher and sustainable growth.

34. **The impetus for reform imparted by the programs was strongest when domestic politics provided the right opportunities**. However, the programs, and particularly the conditionality contained in them, were less effective at securing the new achievements in the face of deterioration in the political climate. Structural conditionality provided important markers of the reform process but cannot be counted on to safeguard reform in the face of adverse political developments.[24] Political instability in Mauritania, with its associated risks for policy implementation and the continuity of reforms, may well represent a reality with which subsequent programs will have to contend.

35. **A basic degree of macroeconomic stability was achieved under the programs, but these gains are not yet underpinned by a sound policy framework**. Macroeconomic stability was threatened at different times by significant shocks (droughts, increases in food prices and oil) with destabilizing effects during the first half of the last decade. But the country avoided an exchange rate crisis and brought inflation under control in the latter years. In addition, the programs, together with targeted technical assistance, contributed to an upgrade of the macroeconomic policy framework, although much work is still needed to strengthen the fiscal (PFM, transparency, and poverty tracking) and monetary (central bank independence, stronger supervisory capacities) areas.

36. **Virtually no progress was made in the development of mechanisms to cope with macroeconomic volatility**. The macroeconomic framework needs to incorporate explicit mechanisms to cope with uncertain and volatile sources of revenue. Budgets need to be formulated increasingly within a medium-term framework and mechanisms should be developed to minimize the impact of temporary shortfalls in tax revenues or aid disbursements on key categories of government spending. A more ambitious reserve accumulation target may be needed to support these efforts.

37. **Progress in structural areas beyond the macroeconomic framework was limited**. The programs have not yet succeeded in creating the basis for high, durable and inclusive growth in Mauritania. This reflects in part the programs' failure to contribute to creating a friendly business environment, fostering competition, and broadening access to credit. As a result, growth is still driven by capital intensive extractive activities that do not generate sufficient high quality employment. The challenge going forward is how to best

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[24] The extensive and detailed structural conditionality of the 1999 PRGF helped in guiding the reform process, but the reform effort was not sustained beyond the life of the program. The much more streamlined approach of the 2006 PRGF, which came on the back of a successful performance under the previous SMP, also led to initial gains, including in areas closely monitored by the Fund but not subject to formal conditionality. Yet, these efforts could not be sustained either and, in some areas, substantial backtracking was observed.

leverage the available natural resources to provide dynamism to other sectors in the economy, including SMEs which can be a valuable source of employment generation. Future programs need to address these problems, although this task will need to be carried out in cooperation with the World Bank and other development partners.

38. **The impact of the programs on social indicators has been somewhat disappointing, highlighting the need for better targeted strategies.** The authorities have often resorted to generalized subsidies to mitigate the impact of higher international food and oil prices. The cost of these nontargeted measures is sizeable. Significant gains in poverty reduction (especially outside Nouakchott) will require not only additional resources but also well-targeted social programs, cast in a coherent macroeconomic and social policy agenda. Creating fiscal space, and protecting it by controlling other categories of public spending, over the medium term is of paramount importance, and future programs should carefully monitor these developments.

39. **The Fund responded appropriately to the misreporting episodes, but should have required stronger follow-up actions**. The proper corrective actions were identified in the SA reports and the most pressing issues were addressed by the 2006 PRGF and the SMP that preceded it. However, formal conditionality relied excessively on measures with an immediate impact but little or no effect on the underlying problems. The best example of this is the regular use of external audits of the CBM's financial statements and monetary data reported to the Fund. These audits have been essential for the viability of Fund lending operations. However, programs did not request formally that the audits be accompanied by measures that address key institutional deficiencies at the CBM over a well-defined time frame.

B. Recommendations

40. **The Fund should continue to help the authorities in developing and implementing a policy agenda consistent with the goals set out above**. The best way to do this is through an Extended Credit Facility (ECF) in an environment of high commitment to reform and ability to overcome political obstacles. The ECF should be supported with technical assistance directed at alleviating capacity constraints. The lessons discussed in the previous section suggest that, to achieve the goals of higher growth and significant poverty reduction in a context of macroeconomic stability, the ECF would need to focus on and monitor carefully developments in four critical areas, which are discussed below.

41. **It is essential to take prompt action to increase the independence and transparency of the CBM**. Fund lending operations need to be part of a transparent relationship between Mauritania and the international financial community. Concrete measures include the adoption by the CBM of IFRS; the development of proper internal

control mechanisms; and the necessary modifications to the relevant laws to provide the central bank with independence from the executive branch.[25] These measures have been identified in previous SA missions and, in some cases, have been set as program conditions. But their implementation has been irregular or purely formal. While capacity constraints may have delayed the adoption of some of these measures, lack of political will appears to have played at least an equally important role.

42. **To solidify macroeconomic gains, the proposed ECF would need to focus on measures to further improve the framework of macroeconomic policy.** On the fiscal front, needed measures include improvements in tax administration and the tax system and PFM (including increased emphasis on medium-term budgeting and improved poverty tracking). To minimize the impact of external and tax revenue uncertainty and volatility on domestic spending, consideration should be given to setting up a small fund financed with higher reserve targets, to be drawn in case of temporary revenue shortfalls.

43. **In order to achieve high quality growth, it is essential to strengthen the financial system, upgrade infrastructure, and improve the business environment.** These are medium- to long-run goals but concrete steps to achieve them are likely to be critical for the program's objectives and, thus, could be covered by formal conditionality. In the financial sector, aside from measures to strengthen its resilience, it is important to further increase competition and address impediments to bank financing access, especially by SMEs. Supply side bottlenecks, such as the unreliable supply of electricity call for substantive improvements in the efficiency of SOEs. Upgrading the national infrastructure will require sustained efforts to rationalize and prioritize public spending.

44. **The quantity and quality of poverty related spending should be increased**. The meager progress observed in key MDGs calls for a stronger sustained effort at poverty reduction. To create room for increases in social spending, it will be essential to mobilize additional domestic and external resources, as well as to maintain discipline in other categories of spending. But the quality of social spending needs to improve too, and this requires better targeted subsidies and broader efforts to combat poverty, especially outside Nouakchott.

45. **To be effective in supporting the proposed reform agenda, the Fund will need the support of the World Bank and other donors**. As explained earlier, World Bank cooperation in the prioritization and sequencing of critical reforms, and the monitoring of policies complementary to those covered by formal Fund conditionality was critical in the

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[25] The implementation of some of these measures would take time and, therefore, programs should focus on identifying intermediate actions. For example, adoption of IFRS could be pursued over a 2-3 year horizon through the following sequence of measures: quantification of differences between IFRS and current accounting standards, preparation of pro-forma financial statements, and ongoing training of staff.

period covered by this report, and this will continue to be the case in the future engagements. Every effort should be made to secure the cooperation of the World Bank and other development partners.

46. **In all likelihood, Mauritania will continue to need the support of the international community, and the Fund in particular, beyond the current program.** The reforms that are needed to put the economy firmly on a sustainable, high growth path will take some years to implement and bear fruit. In the meantime, Fund support through lending operations—along with financial support from the donor community—and technical assistance can be very valuable if met with strong ownership of reform.

APPENDIX I: AUTHORITIES' COMMENTS ON THE EX-POST ASSESSMENT REPORT[26]

The authorities appreciated the initiative to assess, for the first time, the economic and social impact of the past three programs and welcomed the opportunity to comment on the EPA report. They broadly agreed with the findings and recommendations, and stressed that one of the lessons they had drawn from the last decade was the need to promote transparency and good governance. However, they noted that the Fund shares some responsibility for the failures of previous programs because some of their objectives were excessively optimistic. The authorities also stressed that poor performance reflected the unusually high degree of political turbulence of the 2000s. They added that Mauritania had been pressed to accept the earlier arrangements because bilateral funding had shrunk significantly in the aftermath of the first Gulf war. In this context, trade was liberalized too quickly and, as a result, the private sector failed to provide the boost to growth that was expected under the programs. There was general agreement that the main contribution of the programs was the achievement of macroeconomic stability and debt sustainability, and that these gains are still fragile.

Central bank officials indicated that Fund support for central bank independence has been valuable and that substantial progress had been made to strengthen the CBM more generally. Notably, the CBM's internal audit unit is, de facto, operating independently, although an independent audit committee needs to be formally put in place. A key challenge continues to be the adoption of an integrated information system to support the auditing unit's risk analysis. The lack of an integrated information system is also seen as the major factor for hampering CBM efforts to transition to international financial reporting standards. CBM officials acknowledged that other remaining challenges include the provision of legal protection to CBM management and staff in their duties as bank supervisors; bolstering the CBM's capacity to mop up excessive liquidity through recapitalization or securitization of existing claims on the government; and modernizing the payments system.

Officials from the ministries of Finance and Economic Affairs and Developments agreed that growth had not been sufficiently high and had not generated enough employment opportunities. They stressed the need to develop a clear growth strategy supported by sectoral policies that are in line with Fund recommendations. Promoting the development of rural agriculture and integrating informal activities in the formal economy are seen as essential for fostering inclusive growth. They agreed that a dynamic SME sector was also essential for achieving higher quality growth, and that measures to support bank lending to this sector—beyond those already adopted—were needed.

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[26] The report was discussed with the governor and senior staff of the BCM, and officials from the Ministry of Finance, Ministry of Economic Affairs and Development, and the National Statistics Office during a staff visit to Nouakchott in May 10-11.

The authorities noted that the various indicators of business climate used in the EPA report are subjective and do not reveal clearly the underlying problems. Further, they raised concerns that these indicators could damage Mauritania's image abroad. The authorities stressed that they have already taken action to improve the business environment, such as introduction of a new investment code and a new procurement law. They also find it necessary to provide greater SME access to bank financing, meet the large infrastructure investment needs, and reinforce the legal judicial system. They have also deployed a national strategy for fighting against corruption.

The authorities agreed that it is imperative to build fiscal space to provide for much needed infrastructure and social spending through greater external resource mobilization and controlling current spending, particularly the public sector wage bill. Larger volumes of aid need to be coupled with improvements in Mauritania's ability to absorb foreign aid, for which technical assistance would be welcome. In addition, the authorities pointed out that limits on concessional borrowing in Fund-supported programs are very costly and should be relaxed for large priority projects. The authorities agreed that poverty reduction policies could be better directed at those most in need to benefit the poorest population. To address this, they intend to put in place a less costly targeting mechanism aimed at the neediest population.

The authorities noted that World Bank's financial and technical assistance had declined in recent years, and called for a stronger presence of the World Bank and other multilateral agencies.

Appendix II. Misreporting and Corrective Actions: A Timeline

Background

In January 2004 a safeguards assessment (SA) mission found that about 85 percent of the CBM's end-2002 foreign reserves could not be reliably confirmed by an external audit. As a condition for resuming the discussion for the first review under the 2003 PRGF, which was ultimately not concluded, staff requested that a special audit of the end-2003 reserves be carried out.

The safeguards assessment report completed in May 2004 identified serious deficiencies in the CBM's financial reporting (including reporting of monetary data to the Fund) and internal controls, and in its internal audit mechanisms and legal structure.[27] A number of recommendations were made to address these vulnerabilities, including with respect to audits of reserves and monetary program data, the preparation of financial statements on the basis of International Financial Reporting Standards (IFRS), and measures to improve controls in reserves management.

First misreporting event

During a staff visit in September 2004, the authorities submitted revised fiscal and monetary figures for 2003 and the first half of 2004. The new data revealed large extra-budgetary expenditures financed by monetary expansion and a drawdown of official reserves. All quantitative performance criteria and most other targets for the first review had been missed by wide margins. More damaging, however, was the finding that a prior action for the approval of the program related to the accurate provision of monetary and fiscal data had not been met, which rendered the first disbursement noncomplying under the Misreporting Guidelines. Management informed the CBM governor of the situation in a letter dated October, 20 2004 and stressed the need for: (a) a special audit for end-August 2004 foreign reserves; (b) external certification of the end-2003 central bank financial statements; and (c) proof that end-2002 and prior data submitted to the Fund in 2001 were correct.

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[27] In April 2002, an off-site safeguards assessment report was prepared in the context of the safeguard framework's transitional procedures for member countries with Fund arrangements in effect on June 30, 2000. Based on documentation provided by the CBM, the assessment concluded that the external audit mechanism of the CBM may not be fully adequate to safeguard the Fund's resources. The report's main recommendations, the appointment of external auditors and publication of audited financial statements, were included, and satisfactorily met, as part of the conditionality (a performance criterion) of the 6th review of the 1999–2002 PRGF.

Authorities' response and corrective actions

In November 2004, the CBM governor volunteered to repay the noncomplying purchase and requested the cancellation of the arrangement. In light of this, the Fund's Executive Board agreed not to take further action. The CBM governor also informed staff of a number of corrective measures that had been or were in the process of being implemented. These included: approval by the General Council of the CBM of a transition to international reporting and accounting standards (October 2004); the incorporation of the recommendations made in past audits in the preparation of the CBM's end-December 2004 financial statements; and the reappointment of the external auditor that carried out the audits of the CBM's 2000–02 financial statements. The external audit of the financial statements for 2004, which was to report also on the situation in the preceding years, was expected to be finalized by end-May 2005.

Second misreporting event

Following a military coup in August 2005, and a change in key government posts, the new Mauritanian authorities informed staff in October 2005 of their decision to take immediate actions to resolve all pending data issues. A month later, they notified staff that information related to performance under previous PRGF-supported programs was also inaccurate and supplied a set of revised monetary data covering the period 1992–2004.[28] The data revisions showed that the fiscal and monetary slippages reported in September 2004 might have started earlier than reported then. The revised data revealed that program performance at end-December 2001 and end-June 2002 was substantially less favorable than reported at the time of the fifth and sixth reviews under the 1999 PRGF and that the corresponding disbursements made after the completion of those reviews were noncomplying under the Misreporting Guidelines.[29] A letter was sent by the MD to the CBM's governor in January 2006.

Authorities' response and corrective actions

In response to the MD's letter, the CBM's governor regretted the practice of providing erroneous data and provided assurances that these practices had been irrevocably stopped. He also listed key corrective measures were being taken: (a) external audits for the CBM's accounts in 2003 and 2004, and the initiation of the external audit for the 2005 accounts; (b) progress in preparing fiscal reporting, reconciling Treasury and CBM's accounts; and (c) preparation and publication of a report on economic statistics for the past decade. These actions were incorporated in the Staff Monitored Program (SMP) as structural indicators.

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[28] Until then, the official position had been that all data prior to 2003 were correct.

[29] Given the four-year limitation period under the Misreporting Guidelines, only the last two disbursements of the 1999–2002 ECF (PRGF) arrangement were subjected to a misreporting procedure.

Progress in the Implementation of safeguards' recommendations

An update safeguards assessment was completed in April 2007 following the approval of the PRGF in December 2006. The assessment found that, with the exception of appointing an international audit firm, the central bank had made little progress in strengthening the framework since the 2004 assessment. In particular, critical vulnerabilities were found to remain in the areas of financial reporting (including reporting of monetary data to the Fund), and controls.

The safeguards assessment update recommended that the CBM established an action plan and a timetable for the implementation of a new integrated accounting system and IFRS, and that the external auditor should continue to conduct special reviews of the foreign reserves data for each test date under the ongoing PRGF arrangement. Conditionality under the PRGF included structural benchmarks on the publication of the CBM's financial statements and the resolution of the external auditor's qualifications. In addition, the authorities committed to improving the CBM's management and accounting procedures. The authorities met all the safeguards related conditionality through the 3rd review of the 2006 PRGF. They also began implementing a new chart of accounts and a program for transitioning to IFRS, but these efforts came to a halt in mid 2008.

The latest assessment of the CBM concluded in 2010 found that economic and political challenges in 2008–09 exacted a toll on the safeguards framework of the bank and that significant risks continue to exist. It recommended action on several fronts including to restore independent governance oversight and timely publication of the financial statements, along with new procedures to ensure the integrity of data reported to the Fund. The permanent cessation of the cash operations of the CBM foreign offices was also identified as a safeguards priority.

Since the completion of the assessment governance oversight was restored, and timely publication of the audited financial statements resumed. Further action is needed on developing capacity in the areas of financial reporting, information systems and internal audit; and updating procedures to ensure the integrity of data reported to the IMF.

Appendix Table 1. Mauritania: Structural Conditionality in the 1999, 2003 and 2006 PRGF

Economic sector	Prior Actions							Strcutural Performance Criteria							Structural Benchmarks						
	Request	1st	2nd	3rd	4th	5th	6th	Request	1st	2nd	3rd	4th	5th	6th	Request	1st	2nd	3rd	4th	5th	6th
Economic sector	Jun-99	Dec-99	Jun-00	Dec-00	Jun-01	Dec-01	Jun-02	Jun-99	Dec-99	Jun-00	Dec-00	Jun-01	Dec-01	Jun-02	Jun-99	Dec-99	Jun-00	Dec-00	Jun-01	Dec-10	Jun-02
1.1 Revenue measures, excluding trade policy.	1	2									2		1					3			1
1.2 Revenue administration, including customs.					1						1						1	1			
1.3 Expenditure measures, including arrears clearance.																					
1.4 Combined expenditure and revenue measures.																					
1.5 Debt management.																					
1.6 Expenditure auditing, accounting, and financial controls.						1	1												1	1	
1.7 Fiscal transparency					1									1				1			
1.8 Budget preparation												1		1				2			
1.9 Inter-governmental relations																		1			
2.1 Central bank operations and reforms.		1				1	1								1	2		2			1
2.2 Central bank auditing, transparency, and financial controls.		1												2							
3. Civil service and public employment reforms, and wages																					
4.1 Pension reforms																					
4.2 Other social sector reforms																					
5.1 Public enterprise pricing and subsidies	1									1	1							2			
5.2 Privatization, public enterprise reform and restructuring, other than pricing	1								1		1					8		3			
6.1 Financial sector legal reforms, regulation, and supervision					1					2	1								1		
6.2 Restructuring and privatization of financial institutions	2								1									3			
7. Exchange systems and restrictions (current and capital)	3	1							3	3	4	1			5	1		1			
8. International trade policy, excluding customs reforms																					
9. Labor markets, excluding public sector employment																					
10. Economic statistics (excluding fiscal and central bank transparency)																					
11.1 Private sector legal and regulatory environment reform (non financial sector)	2										2		1					2			1
11.2 Natural resource and agricultural policies (excl. public enterprises and pricing)																					
11.3 PRSP development and implementation																					
11.4 Anti-corruption legislation/policy																					
	10	5	0	0	3	2	2	0	5	6	12	2	2	4	6	11	1	21	2	1	3
Total	**10**	**5**	**0**	**0**	**3**	**2**	**2**	**0**	**5**	**6**	**12**	**2**	**2**	**4**	**6**	**11**	**2**	**21**	**2**	**1**	**3**

Source: MONA database and staff reports.

Appendix Table 2. Mauritania: Structural Conditionality in the 2003 PRGF

Category	Prior Actions	Strcutural Performance Criteria	Structural Benchmarks
1.1 Revenue measures, excluding trade policy.			
1.2 Revenue administration, including customs.			
1.3 Expenditure measures, including arrears clearance.			
1.4 Combined expenditure and revenue measures.			
1.5 Debt management.			1
1.6 Expenditure auditing, accounting, and financial controls.	2		1
1.7 Fiscal transparency			
1.8 Budget preparation		1	
1.9 Inter-governmental relations			
2.1 Central bank operations and reforms.			
2.2 Central bank auditing, transparency, and financial controls.			1
3. Civil service and public employment reforms, and wages		1	
4.1 Pension reforms		1	1
4.2 Other social sector reforms			
5.1 Public enterprise pricing and subsidies			
5.2 Privatization, public enterprise reform and restructuring, other than pricing			
6.1 Financial sector legal reforms, regulation, and supervision	1		
6.2 Restructuring and privatization of financial institutions			1
7. Exchange systems and restrictions (current and capital)			2
8. International trade policy, excluding customs reforms			
9. Labor markets, excluding public sector employment			
10. Economic statistics (excluding fiscal and central bank transparency)			
11.1 Private sector legal and regulatory environment reform (non financial sector)			
11.2 Natural resource and agricultural policies (excl. public enterprises and pricing)			
11.3 PRSP development and implementation			
11.4 Anti-corruption legislation/policy			
	3	3	7
Total	**3**	**3**	**7**

Source: MONA database and staff reports.

Appendix Table 3. Structural Conditionality in the 2006 PRGF

	Prior Actions			Strcutural Performance Criteria			Strcutural Benchmarks		
Category	Request Oct 06- Sep 07	1st Dec-06	2nd Jun-07	1st Review Dec-06	2nd Jun-07	3rd Dec-07	1st Review Dec-06	2nd Jun-07	3rd Dec-07
1.1 Revenue measures, excluding trade policy.									
1.2 Revenue administration, including customs.						1			1
1.3 Expenditure measures, including arrears clearance.									
1.4 Combined expenditure and revenue measures.									
1.5 Debt management.									
1.6 Expenditure auditing, accounting, and financial controls.							1		
1.7 Fiscal transparency								1	
1.8 Budget preparation	1								
1.9 Inter-governmental relations									
2.1 Central bank operations and reforms.				1			1		
2.2 Central bank auditing, transparency, and financial controls.								1	1
3. Civil service and public employment reforms, and wages									
4.1 Pension reforms									
4.2 Other social sector reforms									
5.1 Public enterprise pricing and subsidies							1		
5.2 Privatization, public enterprise reform and restructuring, other than pricing									
6.1 Financial sector legal reforms, regulation, and supervision				1					
6.2 Restructuring and privatization of financial institutions									
7. Exchange systems and restrictions (current and capital)				1					
8. International trade policy, excluding customs reforms									
9. Labor markets, excluding public sector employment									
10. Economic statistics (excluding fiscal and central bank transparency)									
11.1 Private sector legal and regulatory environment reform (non financial sector)									
11.2 Natural resource and agricultural policies (excl. public enterprises and pricing)									
11.3 PRSP development and implementation									
11.4 Anti-corruption legislation/policy									
Total	1	0	0	3	0	1	3	2	2

Source: MONA database and staff reports.

APPENDIX III. TECHNICAL ASSISTANCE TO MAURITANIA: 1999–2009

A. Technical Assistance provided by the Monetary and Financial Department

Technical assistance mission on deepening of financial sector reforms and strengthening of the financial system: February 18–March 3, 1999.

Advisor to the CBM governor on the development of foreign exchange market and related operations: May 1999–February 2000.

Technical assistance mission on monetary instruments: May 6–20, 2000.

Technical assistance mission on money market development and reform of monetary instruments: September 30–October 10, 2000.

Follow-up TA mission on reform of monetary instruments and assessment of technical assistance needs: February 7–20, 2001.

Peripatetic TA missions by panel expert on the exchange system reform: 1999–2002.

Resident expert on banking supervision: August 1, 2001–February 2, 2003, and January 6–February 3, 2004.

TA mission on foreign exchange market issues: January 9–23, 2005.

Peripatetic TA missions by panel expert on foreign exchange reserves management: July 13–26, 2005.

TA mission on money market instruments: March 7–19, 2006.

TA mission on foreign exchange market: December 17–19, 2006.

TA mission on central bank accounting: March 6–May 4, 2007.

TA mission on securitization of government debt: September 9–21, 2007.

TA mission on central bank accounting: October 20, 2007 – October 20, 2008.

B. Technical Assistance provided by the Fiscal Affairs Department

TA mission on reinforcing fiscal administration and improving VAT performance: April 25–May 9, 1999.

Follow-up mission on improving VAT performance: November 10–17, 2000.

Long-term resident technical advisor on tax administration and tax system reform: April 25, 2000–April 24, 2001.

TA mission on tracking poverty-reducing expenditures: October 10–17, 2001.

TA mission on setting up a VAT refund system: November 18–23, 2001.

TA mission on reforming taxes on income and profits: July 7–21, 2003.

TA mission on public expenditure management: April 3–19, 2005.

TA mission on fiscal administration reform: June 14–18, 2005.

TA mission on tax policy: May 25–June 8, 2006.

TA mission on customs administration: June 5–16, 2006.

TA mission on oil revenue management: October 24–November 7, 2006.

TA mission on tax administration: March 12–23, 2007.

TA mission on tax policy: February 27–March 11, 2008.

TA mission on Public Financial Management: June 16–17, 2008.

C. Technical Assistance provided by the Legal Department

TA mission on the drafting of laws to combat money laundering and the financing of terrorism: February 23–March 1, 2005.

D. Technical Assistance provided by the Statistics Department

TA mission on balance of payments statistics: August 30–September 9, 1999.

TA mission on monetary statistics: January 9–22, 2002.

TA mission on real statistics: June 2–15, 2003.

TA mission on GDDS: April 14–28, 2004.

TA consultant on banking and monetary statistics: November 8–22, 2005.

TA mission on balance of payments statistics: April 5–18, 2006.

TA mission on monetary and financial statistics: July 13–26, 2006.

TA mission on National Accounts Statistics: April 16–27, 2007.

E. Technical Assistance provided by AFRITAC

Several TA missions in 2003 and 2004, including on tax and customs administration, computerization of public expenditure chain, and external debt management.

Several TA missions in 2005–07, including on tax and customs administration, computerization of public expenditure chain, external debt management, public finance statistics, and microfinance supervision and regulation.

Several missions in late 2008 and early 2009, including microfinance supervision, tax and customs administration, public debt management and development of financial markets, and external debt statistics.

Participation of PFM advisor in needs assessment visit, December 2009.

APPENDIX IV. WORLD BANK OPERATIONS WITH MAURITANIA, 1999–2010

	Activity	Amount (US $ million)	Approval date
1	Phase II: EITI implementation	0.28	July 2010
2	Urban Development Project (additional financing)	22.5	June 2010
3	Transport Sector Institutional Development and Technical Assistance Project	4.5	July 2008
4	Business Environment Enhancement Project	5	May 2008
5	Education Sector Development Program	14	April 2008
6	Avian Flu Rapid Assessment	0.03	February 2007
7	Second Mining Sector Capacity Building Supplemental	5	July 2006
8	Public Sector Capacity Building Project	13	July 2006
9	Community Based Watershed Management Project	6.01	June 2006
10	EITI implementation	0.24	June 2006
11	Health and Nutrition Support Project	10	June 2006
12	National Strategy for the Development of the Statistical System	0.11	December 2005
13	Integrated Development Program for Irrigated Agriculture	39	March 2005
14	Higher Education Project	15	August 2004
15	Community Based Rural Development	45	April 2004
16	Second Mining Sector Capacity Building Project	18	July 2003
17	Multi-sector HIV/AIDS Control Project	21	July 2003
18	Global Distance Learning Center	3.3	November 2001
19	Education Sector Development Program	49.2	October 2001
20	Urban Development Project	70	October 2001
21	Supplemental Credit to the Fiscal Reform Support Operation	18.3	December 2000
22	Cultural Heritage Project	5	June 2000
23	Energy/Water/Sanitation Sector Reform Technical Assistance Project	9.9	June 2000
24	Fiscal Reform Support Operation	30	May 2000
25	Fourth Amendment to Public Resource Management Credit	0.14	November 1999
26	Integrated Development Project for Irrigated Agriculture	38.1	July 1999
27	Telecommunication and Postal Service reform Project	10.8	June 1999
28	Mining Sector Capacity Building Project	15	May 1999
29	Nutrition, Food, Security, and Social Mobilization Project	4.9	March 1999
30	Public Resource Management Supplemental	0.14	February 1999

INTERNATIONAL MONETARY FUND
Public Information Notice
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October 4, 2011

International Monetary Fund
700 19th Street, NW
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IMF Executive Board Discusses the Ex Post Assessment of Longer Program Engagement with Mauritania

On June 22, 2011, the Executive Board of the International Monetary Fund (IMF) discussed an ex post assessment (EPA) of longer program engagement with Mauritania.

Background

An EPA is required for all members having longer-term program engagement with the Fund. EPAs are intended to provide an opportunity to step back from continuing program relations to consider an analysis of the economic problems facing the country, review progress under Fund-supported programs, and draw forward-looking lessons for future Fund engagement.

Mauritania has had several programs supported by the Fund under its various concessional lending facilities and a first EPA was prepared to provide input to the ongoing arrangement. The EPA looks at Mauritania's experience with three then-existing Poverty Reduction and Growth Facilities approved in 1999, 2003 and 2006.

The EPA found that the programs helped achieve a basic degree of macroeconomic stability but less progress was achieved on the structural front, and identifies critical areas for successful engagement, including transparency and governance, sound macroeconomic frameworks, a market friendly economic environment and a better targeted social spending.

Executive Board Assessment

Directors broadly agreed with the conclusions of the Ex-Post Assessment of Mauritania's economic performance under the last three Fund-supported programs. They agreed that the newly finalized poverty-reduction strategy paper and the current Extended Credit Facility (ECF)-supported program appropriately address the challenges identified by the EPA. They stressed that structural reforms aimed at restructuring public enterprises, enhancing the labor market, strengthening transparency, and improving the business climate are essential to promote sustainable employment and broad-based inclusive growth.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.