International Monetary Fund

Mauritania and the IMF

Press Release:
IMF Executive Board Approves US$118.1 Million Three-Year Extended Credit Facility Arrangement for Mauritania
March 15, 2010

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Mauritania: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

February 23, 2010

The following item is a Letter of Intent of the government of Mauritania, which describes the policies that Mauritania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Mauritania, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Nouakchott, February 23, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
USA

Dear Mr. Strauss-Kahn:

1. The elections organized in July 2009 with the assistance of the international community paved the way for the return to constitutional order. Since then, the new government is now focusing its attention on continuing the economic reforms undertaken in recent years, which have helped to raise the standard of living of the population and to further reduce poverty. Aware that further efforts are needed to reach the Millennium Development Goals, the government has prepared a wide-ranging program of reforms covering the period 2010-12.

2. The new program is primarily designed to address the fallout from the external shocks that have led to a decline in economic activity, strained public finances, and thereby slowed poverty reduction efforts. The much needed stabilization of the economy requires fiscal consolidation, a cautious monetary policy, and a flexible exchange rate policy. To put growth on a sustainable path, the program includes ambitious structural reforms aimed at enhancing public financial management, developing the financial sector, and creating a business climate conducive to private investment, a prerequisite for creating jobs and reducing poverty. Regarding exchange rate policy, we restored normal operation of the foreign exchange market on December 14, 2009. All exchange restrictions introduced since end-2008 on current account transactions payments were lifted.

3. The attached Memorandum on Economic and Financial Policies (MEFP) sets out the main elements of the government's program for the next three years. It also describes the macroeconomic objectives, structural measures, and indicators for the first year of the program supported by the ECF arrangement.

4. The government requests financial assistance from the IMF through an arrangement under the Extended Credit Facility (ECF) in the amount of SDR 77.28 million, i.e., the equivalent of 120 percent of the country's quota. The government will provide Fund staff with all the data and information necessary to monitor implementation of the program. The first and second reviews of Mauritania's performance under the arrangement will be completed by September 30, 2010 and March 31, 2011, respectively.

5. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program. Nevertheless, the government stands ready to adopt any measures that may prove necessary for this purpose. The government will consult with Fund staff on the adoption of these measures well in advance of any revisions to the policies stated in the MEFP, and in accordance with the IMF's policies on such consultations.

Sincerely yours,

/s/
Ousmane Kane
Minister of Finance

/s/
Sidi Ould Tah
Minister of Economic Affairs and Development

/s/
Sid'Áhmed Ould Raiss
Governor of the Central Bank of Mauritania

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2010–12

FEBRUARY 23, 2010

I. INTRODUCTION

1. The political change that occurred in August 2008 led to a domestic political crisis and a significant reduction in, or in some cases, the suspension of financial and technical assistance of several development partners. The Mauritanian people's deep commitment to democracy and the help of the international community made possible the organization of presidential elections in July 2009 and the return to constitutional order.

2. The new government remains steadfastly committed to continuing and accelerating the reforms begun in the past few years with a view to increasing the standard of living of its population and to achieving further reduction in poverty. This entails the pursuit of sound macroeconomic management and the acceleration of structural reforms to improve the business climate, promoting the private sector, and diversifying the economy.

3. This memorandum sets out the government program for the period 2010–12, for which we request the financial support of the International Monetary Fund (IMF) under the Extended Credit Facility (ECF). It also sets out the actions and objectives for the first year.

II. ECONOMIC ENVIRONMENT AND REFORMS: RECENT DEVELOPMENTS

4. Prudent macroeconomic management and the implementation of structural reforms, undertaken as part of the program supported by the Poverty Reduction and Growth Facility (PRGF) approved in 2006, had started to bear fruit, with sustained economic growth and inflation relatively under control. This performance, together with debt relief,[1] facilitated the allocation of additional resources to finance infrastructure and poverty-reducing social expenditure. Progress was therefore made toward achieving the Millennium Development Goals (MDGs), in particular in the education sector and access to drinking water.

5. In addition to the domestic political crisis and subsequent reduction in financial assistance from its main partners, Mauritania also suffered two further shocks in 2008 and 2009 that had a significant negative effect on its economy.

- First, the sharp rise in food prices in 2008, in response to which the authorities implemented a Special Intervention Program (SIP) for an amount of US$161 million, equivalent to 4.9 percent of non-oil GDP (PIBHP). The SIP helped to limit the impact of this crisis on the most disadvantaged sections of the population.

[1] Mauritania reached the Heavily Indebted Poor Countries (HIPC) Initiative completion point in 2002 and received assistance under the Multilateral Debt Relief Initiative (MDRI) in 2006.

- Second, Mauritania suffered the effects of the international financial crisis. The direct impact of the latter is very limited as financial intermediation is low and the Mauritanian financial sector is insulated from the global financial system. However, the global economic slowdown did affect Mauritania significantly through the fall in prices of and external demand for its main export commodities (iron and copper). World prices for iron and copper dropped between 2008 and 2009 by 36 percent and 28 percent, respectively.

6. These three shocks led to a contraction in the non-oil activity of about 1 percent in 2009. Furthermore, oil production continues to fall. In 2009, it reached 10,700 barrels a day compared with initial projections of approximately 75,000 barrels a day at the beginning of 2006. The external current account deficit is expected to reach 13 percent of GDP in 2009. The allocation of Special Drawing Rights (SDR) and financial compensation under the fisheries agreement with the European Union (EU) helped the Central Bank increase its foreign exchange reserves at end-December 2009 to approximately US$238 million, equivalent to 2.2 months of imports of goods and services.[2] The drop in tax revenues resulting from the global economic slowdown, together with the rise in spending under the SIP led to deterioration in the basic non-oil budget deficit excluding grants, which amounted to 5.3 percent of non-oil GDP in 2009.

7. Some progress was made in the area of structural reform. In the public finance area, consistent with IMF recommendations from 2008, measures being implemented seek to simplify the tax system, expand the tax base, and streamline and assess the quality of public expenditure. In this context, the government has undertaken several reforms since 2008 specifically aiming at (a) simplifying procedures; (b) reducing tax rates;[3] (c) creating the large enterprise unit responsible for collecting taxes from enterprises with turnover in excess of UM 100 million; (d) setting up the medium-sized enterprises directorate, responsible for tax collection from enterprises with turnover ranging between UM 30 and 100 millions; and (e) upgrading the Tax Centers (Centres des impôts—CDI) tasked with collecting taxes from small enterprises subject to a flat turnover tax.

---

[2] Excluding extractive industry imports and those financed by foreign aid.

[3] The Corporate income tax (*impôt sur les bénéfices industriels et commerciaux—BIC*) was reduced from 40 percent to 25 percent, the presumptive minimum tax (*impôt minimum forfaitaire—IMF*) was lowered from 4 percent to 2.5 percent, the tax on salaries and wages (*impôt sur les traitements et salaries—ITS*) decreased from 60 percent to 30 percent, the tax on noncommercial income (*impôt sur les bénéfices non commerciaux—BNC*) was reduced from 35 percent to 30 percent, and the tax on income from movable capital (*impôt sur les revenus de capitaux mobiliers—IRCM*) was cut from 16 percent to 10 percent.

8. On monetary policy, we have lowered in November 2009 the key interest rate of the Central Bank of Mauritania (BCM) from 12 percent to 9 percent, taking into account the fall in inflationary pressures and the sluggish state of the economy. The modernization of our management instruments is underway. In this connection, we adopted (a) a new charter for the Central Bank aimed at strengthening monetary policy efficiency by targeting price stability and ensuring greater independence for the central bank; and (b) new regulations and a new procedures manual for the money market. A monetary policy council chaired by the Governor tasked with setting BCM's monetary policy was also established. Furthermore, the legal framework for new policy instruments (BCM bonds, certificates of deposit, and commercial paper) was established, and the money market was expanded to include all economic agents.

9. Foreign exchange reforms included establishing as of January 2007 a procedure for auctioning foreign currencies on the foreign exchange market. However, this procedure was suspended in reaction to the financial crisis and the deterioration of Mauritania's external position, and temporary exchange restriction measures were introduced at end-2008.

10. We implemented important reforms in the financial sector. Accordingly, in line with the Financial Sector Assessment Program (FSAP) recommendations, we introduced various measures, including (a) new laws relating to the charter of the central bank, banking activity, and microfinance; and (b) several implementing regulations relating to the general order regulating credit institutions. In line with the objectives set out by the government, all but four of the banks have already increased their capital to UM 4 billion. In addition, since 2005 the financial statements and international reserves of the BCM were audited annually and semiannually, respectively, by an international audit firm hired through a competitive selection process. Significant headway has also been made in modernizing the payment system. For example, the launch of electronic banking was accompanied by the standardization by the central bank of the securities handled by the Clearing House.

III. Government Program

A. Medium-Term Objectives

11. The government's objective is to create adequate conditions for stronger growth in order to progress toward the Millennium Development Goals (MDGs) and to reduce the poverty incidence to less than 28.3 percent by 2015. In this context, the authorities intend to pursue structural reforms and macroeconomic policies during 2010-12 aimed at maintaining macroeconomic stability and in particular (i) keeping inflation at about 5 percent; (b) returning to an average annual non-oil GDP growth rate above 5 percent; and (c) accumulating foreign exchange reserves equivalent to about three months of imports by end-2012.

B. Policies

Fiscal policy

12. We have decided to reduce the basic non-oil deficit (excluding grants) from 5.3 percent of non-oil GDP in 2009 to about 1 percent in 2012, by increasing revenues while rationalizing public spending. In this connection, we will continue to implement measures aimed at further expanding the tax base and improving tax and customs administration with a view to increase tax revenues. Nevertheless, total revenues (excluding grants) are expected to stabilize given the fall in nontax revenues, in particular those relating to the fishery sector.

13. Regarding current expenditure, civil service reform and the modernization of government will contribute to a reduction in the wage bill by 1.7 points of non-oil GDP between 2009 and 2012 and to an improvement in the quality of public service. The ongoing civil service reform, in collaboration with our development partners, including the World Bank, will focus on updating the regulations and rationalizing the recruitment process, decentralizing the payroll, and paying salaries and wages through bank accounts. Using the findings of the comprehensive census of government employees, we will assess the operational staffing needs by ministry, ensure adequacy between staffing and needs, and strengthen personnel management. These measures will be part of a plan to rehabilitate the public sector, reduce budgetary transfers, and upgrade performance.

14. Lower transfers and subsidies to public enterprises will also help reduce current spending. To achieve this objective, we will carry out an assessment of the governance of public enterprises,[4] and program or performance contracts will be signed with the ultimate view of restoring balanced financial positions and reducing subsidies. We intend to pursue our efforts on public investment, consistent with the priorities targeted in the Poverty Reduction and Strategy Paper (PRSP), including with particular reference to human resources development, access by the poor to basic services, acceleration of economic growth, and promotion of employment. Under these circumstances, emphasis will be on building infrastructure and land-use planning to ensure a balanced and orderly development of the country. We have just set up an agency tasked with project monitoring and research, and we intend to adopt a new government procurement code to improve the quality of public investment. This new code will facilitate not only swifter execution of projects, but also greater transparency of government contract award procedures.

---

[4] Electricity company, Société Mauritanienne d'électricité (SOMELEC); gas company, Société Mauritanienne de Gaz (SOMAGAZ); rural development agency, Société Nationale de Développement Rural (SONADER); water company, Société Nationale d'Eau (SNDE); road maintenance, company Entreprise Nationale d'Entretien Routier (ENER); Mauritanian Hydrocarbon Company (Société Mauritanienne des Hydrocarbures - SMH), and Mauritanian Post Company (MAURIPOST).

15. Most state-owned enterprises are in financial distress and rely heavily on budgetary transfers to continue operating. In the context of our program to restructure the public enterprise sector, and in view of the fiscal risks posed by SOEs, we will put in place, in collaboration with the World Bank, recovery programs for all SOEs in financial distress. The objective is to enable these SOEs to continue supplying these public goods to the country in a sustainable way and in adequate conditions. We will seek grants and concessional loans to fund the restructuring plans.

16. The government is committed to carry on its ambitious PFM reform program, including improving the medium-term expenditure framework, moving to program budgeting, and creating a Treasury Single Account under a government account management agreement. The government is also committed to increasing poverty-reducing expenditures during 2010-12 and to pursuing reforms to further improve the quality, transparency, and efficiency of government expenditure

Monetary and exchange policy

17. We will pursue prudent monetary policy, consistent with our objective to keep inflation in check. The BCM will continue the reforms undertaken to modernize, adapt monetary policy instruments, and strengthen central bank operational independence. We will intensify our efforts in particular to develop an interbank market.

Structural reforms

18. In line with FSAP recommendations, we intend to implement reforms to strengthen the financial sector while improving access to financial services in a competitive environment. This reform will focus on strengthening the legal and regulatory framework of the financial sector, increasing transparency of accounting practices in the financial sector and the reliability of its financial statements, building the capacity of the various financial institution supervisory authorities, and implementing AML/CFT regulations. To safeguard transparency and to ensure adequate supervision of the financial sector, commercial banks' financial statements will be audited annually by an audit firm hired through invitation to tender. The authorities are also committed to studying various options to eliminating the stock of outstanding nonperforming loans held by the banks. Furthermore, the banks will continue to increase their share capital to the level of UM 6 billion by 2012.

19. We will continue to pursue a more flexible foreign exchange policy and to modernize the foreign exchange market. This market, based on a BCM-managed auctions system, could then be transformed into an interbank foreign exchange market.

20. We are committed to improving the business climate and to removing obstacles to private sector development. Measures under consideration include setting up a legal framework to facilitate the acquisition and enforcement of collateral and guarantees on movable and immovable property, simplification of the mechanisms to recover claims and

enforce contracts, the strengthening of the capacity of the courts regarding commercial law, financial law, and the settlement of trade disputes, and to improve the dissemination of legal information.

Strengthening the social welfare system and combating poverty

21. The current PRSP is organized around five pillars: (a) accelerating economic growth and maintaining macroeconomic equilibrium; (b) anchoring growth in the economic sphere of the poor; (c) developing human resources and improving access to basic social services; (d) enhancing governance and reinforcing institutional capacities; and (e) improving planning, monitoring and evaluation systems. The combination of higher output growth, relatively low inflation, and increased and improved social spending contributed to lower the national incidence of poverty from 47.6 percent in 2004 to about 42 percent in 2008. At this rate, achieving the Millennium Development Goal (MDG) by bringing down poverty rate to 28.5 percent in 2015 appears very challenging. However, some MDGs, particularly in the education sector will likely be achieved by 2015.

22. The government's steady commitment to achieving the MDGs and to strengthening the social welfare system will be reflected through additional resources to benefit vulnerable segments of the population, primarily at the local level, an improvement in the range of available services (in the design and implementation of sectoral policies), a strengthening of the institutional and human capacity to increase absorption capacity, and, finally, the linking of resources to specific targets, including the setting of performance indicators associated with the MDGs to facilitate the monitoring of expenditure effectiveness and efficiency. The program will help achieve higher economic growth and preserve macroeconomic stability while creating fiscal space for additional social and infrastructure spending, thereby facilitating progress toward the MDGS.

23. We recognize that the success of Mauritania's social and economic development national policies is more than ever predicated on crafting a governance policy that delivers transparent and efficient management of public goods. To address this major challenge, the government has decided to join a number of international agreements that will ensure effective implementation of its ambitions with regard to good governance and sound public resources management. We will make all efforts to mobilize technical and financial assistance from foreign partners in support of government policies.

IV. PROGRAM FOR 2010

24. Our objective for the 2010 annual tranche of our program is to attain a growth rate in the non-oil sector of 5.2 percent, to keep inflation below 5 percent, reduce the external current account deficit to about 12 percent of GDP, and to increase foreign exchange reserves to approximately 2.5 months of imports. Achieving these targets assume normal rainfall, the resumption of technical and financial assistance by our partners, the implementation of appropriate macroeconomic policies, and the continuation of structural reforms.

A. The Macroeconomic Program

Fiscal policy

25. The 2010 budget law is based on a solid resumption of economic growth, a significant improvement in revenue collection, a tight control in public spending growth, strengthened access to essential services, and improved living conditions of the population. The basic non-oil deficit (excluding grants) will be limited to UM 32.6 billion (3.8 percent of non-oil GDP).

26. Non-oil revenues will increase on account of both the economic recovery and tax measures to expand the tax base and modernize and strengthen the tax and customs administrations. The main measures include: (a) a 100 percent increase in the tax on vehicles used for public transportation of people or goods and a 50 percent increase on vehicles for personal use; (b) a raise from 14 to 18 percent in the value added tax (VAT) rate on petroleum products and telephony with a view to harmonizing the VAT system with that of neighboring countries, in particular those from the West African Economic and Monetary Union (WAEMU); and (c) replacing the tax services with a 14 percent tax on financial operations.

27. The current budget (excluding interest on foreign debt) will fall slightly to UM 183 billion (21 percent of non-oil GDP). Civil service reform (completion of the census of civil servants, reconciliation of the payroll file with the civil service roster to eliminate double pay and unjustified paid salaries, and the computerization and automation of the payroll) should help keep the level of the wage bill unchanged compared with 2009, at UM 76.6 billion (8.8 percent of non-oil GDP in 2010 against 10.1 percent of non-oil GDP in 2009). The 2010 consolidated domestically-financed capital expenditure amounts to UM 54.3 billion (6.3 percent of non-oil GDP). These resources will be allocated to priority actions supporting sustained economic growth, job creation, better access to essential services, and improved living conditions for the population, in particular for the most vulnerable groups. In this context, a relatively significant amount is allocated for restructuring the poor neighborhoods of large towns and cities, improving the living environment and access to drinking water, developing education and health, as well as supporting employment initiatives. Capacity constraints are a risk and efforts will be made to put together various programs aimed at strengthening capacity and modernizing the public sector. In view of the substantial needs of the country, we intend to step up our efforts to mobilize more grants in support of higher priority spending. Should that be the case, the basic non oil deficit would exceed the program target. We are committed to offset shortfall in revenue by cuts in spending with lower priority, so as to achieve the basic non-oil deficit (excluding grants) program target.

Monetary and exchange policies

28. The monetary authorities will continue to implement a sound monetary policy consistent with the inflation target and in the context of greater exchange rate flexibility. The 2010 monetary program targets a 13 percent monetary growth and an increase in credit to the private sector. However, the Central Bank stands ready to tighten its policy, specifically through its lead rates as much as necessary if inflationary pressures emerge. In support of a more active liquidity management, the fiscal and monetary coordination committee will be revived. The BCM will continue to use Treasury bills for open-market operations.

29. Regarding exchange rate policy, we restored normal operation of the foreign exchange market on December 14, 2009. All restrictions introduced since end-2008 on current account transactions payments were lifted. The intervention policy will be conducted in line with market rules and will essentially aim to smooth excessive daily fluctuations in the exchange rate. We are firmly of the opinion that this should restore confidence and lead to the expansion of the foreign exchange market and a rise in transactions. We would welcome technical assistance in this area to guide our efforts.

External sector and debt management

30. Mauritania's external outlook hinges upon development in prices of its principal export commodities. Current projections indicate that prices of Mauritania's main export commodities are on the rise again, which could lead to an increase in exports and an improvement in the external current account in 2010. The external current account deficit is expected to amount to approximately US$406 million (about 12 percent of GDP) and be financed mainly through a rise in foreign direct investment in the oil and mining sector and the mobilization of additional external funding. Excluding the financing mobilized by the National Industrial and Mining Company (Société Nationale Industrielle et Minière (SNIM)) to expand its productive capacity, medium- and long-term external borrowing is expected to reach approximately US$281 million in 2010.

31. Our external borrowing policy will be under intense monitoring to ensure debt sustainability. The government will work closely with its development partners to implement a debt management strategy that will ensure access to external financing while preserving external debt sustainability. In this context, we intend to request World Bank support to assess debt management capacity and needs in the context of the management performance assessment (MPA) and medium-term debt strategy (MTDS) TA programs. The recommendations will enable us to address the weaknesses of the current system and ensure more active and efficient debt management. We will be mobilizing mainly financing on concessional terms. However, some strategic projects could require financing that may not be secured on concessional terms. Such projects will be brought to the attention of the IMF and the World Bank for review. Finally, we will pursue our best efforts to reach an agreement on the arrears accumulated vis-à-vis Kuwait and Libya, on terms comparable with those granted by the Paris Club creditors.

B. Structural Reforms

Strengthening tax administration and improving fiscal management

32. The sound execution of the 2010 government budget and the preparation of the 2011 budget as a tool for macroeconomic management require measures to strengthen transparency, improve tax collection, and reinforce budget execution in line with the recommendations of recent technical assistance missions of the IMF, the World Bank, and the United Nations Development Programme (UNDP).

33. Eradicating corruption is an essential prerequisite for sound resource management and effectiveness of government policies in the service of its citizens. The government has now started a process with the support of its partners that will lead to the adoption of a national anti-corruption strategy (SNLCC). An initial revised report and three-year action plan have just been prepared and have been forwarded to our development partners. During 2010, this policy will be submitted to all stakeholders for validation and implementation. Our country's membership of the Extractive Industries Transparency Initiative (EITI) reflects similar consideration. Over the past few years, Mauritania has received considerable assistance to strengthen natural resource management both in the mining sector run by the National Industrial and Mining Company (SNIM) and the hydrocarbon sector. Regards the latter, the Mauritanian Hydrocarbon Company (Société Mauritanienne des Hydrocarbures (SMH)) manages the government's interests in hydrocarbons and the publication of the production-sharing contracts.

34. On revenues, we intend to strengthen the tax and customs administrations based on the recommendations of the most recent West Africa Regional Technical Assistance Center (West AFRITAC) technical assistance mission. The modernization of tax administration is the cornerstone of fiscal reform. In this connection, we will set up a steering committee to oversee tax reform. This committee will be tasked with: (a) developing and implementing the plan to computerize the operations of the General Directorate of Taxation; and (b) issuing, in parallel with the census operations, new identification numbers to taxpayers, starting with those for the Large Enterprise Directorate and the Medium-sized Enterprise Directorate.

35. We will also strengthen customs administration by simplifying and computerizing customs procedures. The third phase of customs computerization and, in particular, migration to the Automatic System for Customs Data Entry (ASYCUDA++) version is underway. This application will improve management of exemptions and help establish digital archiving. To minimize fraud, the customs administration intends to: (a) create a valuation office (*bureau de la valeur*); and (b) set up a customs valuation database. We will also continue reconciling data between customs and the service company (SGS).

36. Improvement in cash flow and active cash management are priorities for government action. In this context, we will prepare a government cash management plan. Weekly meetings of the fiscal and monetary policy coordination committee will be recorded in

minutes that will review the cash position and three-month rolling cash forecasts, as well as the budget execution recommendations, and the BCM's interventions on the money market.

Controlling the wage bill and improving quality of public service

37. Civil service reform with the support of the World Bank and government modernization will be continued. The comprehensive census of government employees carried out in 2007 will be validated and updated by end-June 2010 and we will reconcile the databases of the government payroll and the civil service roster. We will terminate, before June 30, 2010, all benefits in kind granted to government employees and replace them instead by cash allowances in order to enhance transparency in the remuneration policy.

Reorganizing and strengthening the financial sector

38. It is important to continue building on the achievements of the past few years by improving access to financial services in a competitive environment. The BCM is committed to pursue the implementation of measures recommended by safeguards assessment missions, including the January 2010 mission in order to strengthen the safeguards mechanism in place and address all the vulnerabilities identified. On accounting, BCM intends to convert its accounting system to International Financial Reporting Standards (IFRS) with a view to improving financial transparency. In order to fully implement this project, BCM requests the resumption of IMF technical assistance over the next few years, including in 2010. BCM's financial statements, including central bank reserves at end-December 2009, will be audited by an international audit firm hired through a competitive selection process. In addition, the commercial banks should increase their share capital to UM 4.5 billion by end-2010 about (US$17 million).

Reforming the electricity sector

39. The electricity production sector is in a very fragile state, due to insufficient production capacity as well as very significant operating losses of the government electricity company Société Mauritanienne d'électricité (SOMELEC). With support from our partners, we will finalize a master plan for the sector that will include medium- and long-term objectives. The plan will include a technical and financial restructuring program for SOMELEC, while clarifying the relationship between SOMELEC and the government, and defining the role of the private sector in the sector.

Improving the business climate and promoting the private sector

40. The obstacles hindering private sector development range from the high input costs of production factors and the rigidity of the overall business environment. They are also attributable to the availability and skills of the workforce and to weak infrastructure services, such as water, transport, telecommunications, and, above all, electricity. Measures under consideration in support of private sector development will aim at mitigating the impact of

those obstacles and gradually removing them. The Investment Code will be revised during 2010, drawing on the experience of other countries, so as to provide Mauritania with a consistent and comprehensive law that consolidates all the advantages, incentives, and safeguards granted to investors. Administrative formalities and procedures will be simplified and their processing will be shortened as we intend to reactivate and expand starting in 2010 the authority of the One-Stop Facility.

Strengthening the social welfare system and combating poverty

41. With the support of UNICEF and other specialized institutions of the United Nations, Mauritania has recently launched a study on social protection with a view to better understanding existing social welfare mechanisms and programs. This study will review the social safety nets currently in place, assess the priority needs, and issue recommendations to guide the action of the government and its partners in preparing a national social welfare strategy for Mauritania for the 2010–12 period.

Improving economic statistics

42. The compilation of reliable financial and economic statistics is essential for the design and monitoring of the PRSP and this program. Accordingly, the collection and processing of data on prices, national accounts, and balance of payments will be further improved. For this purpose, we are committed to strengthen the resources of the agencies tasked with producing these data, including the National Office of Statistics (ONS). We will also step up our efforts with the donors to mobilize the technical and financial resources needed for that purpose.

C. Risks

43. Various risks may hamper achievement of the program objectives. These include the following: (a) the vulnerability of the Mauritanian economy to exogenous shocks, such as price volatility of its principal export commodities; (b) low mobilization of official transfers; and (c) rainfall and locust infestation hazards on agriculture and livestock farming in an arid zone. The government is aware of these risks and stands ready to adjust its policies if the risks materialize. If need be, corrective measures will be taken in consultation with IMF staff.

V. Program Monitoring

44. The government will establish a technical monitoring committee (CTS) to ensure effective implementation of this program. This committee will also monitor the execution of an action plan to reform public financial management. It will include, in particular, representatives of the Ministry of Finance, the Ministry of Economic Affairs and Development, BCM, ONS, and representatives of other ministries and government agencies that can assist CTS, if need be. The technical committee’s operation will be guided by a ministerial committee that will also include the Governor of the Central Bank. The CTS will

have a permanent secretariat and will meet regularly to assess progress made and will ensure transmission of data required for monitoring program execution. The implementation of the program will be assessed every six months in consultation with IMF staff. The first review will be based on the quantitative performance criteria and indicators at end-June 2010 (MEFP Table 1) and on the structural benchmarks (MEFP Table 2). These quantitative criteria and benchmarks are set out in the Technical Memorandum of Understanding (TMU), along with adjusters in case of contingencies.

Table 1 . Mauritania: Quantitative Performance Criteria and Indicative Targets for the First Annual Program under the ECF Arrangement 1/

(Cumulative change from end-December 2009)

	End-Dec. 2009	End-Mar. 2010	End-Jun. 2010	End-Sep. 2010	End-Dec. 2010
	Initial level	Indicative Target	Performance criteria	Indicative Target	Indicative Target
Net international reserves of the BCM (floor); in million of US$ 2/	-47.8	6.9	24.1	37.1	31.4
Net domestic assets of the BCM (ceiling); in billions of ouguiyas 2/	125.1	10.5	10.3	11.3	17.3
Basic non-oil balance (floor) ; in billions of ouguiyas		-10.5	-19.2	-19.2	-32.6
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)		0	0	0	0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government , BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)		0	0	0	0
New external arrears on non reschedulable debt (continuous quantitative performance criterion)		0	0	0	0
Poverty-related expenditures, in billions of ouguiyas (indicative target)		21.9	53.3	87.8	110.1
Adjustors (in million of US$)					
Net international assistance	…	2.9	2.1	15.8	50.3
Cumulative disbursements of official loans and grants in foreign currency	…	8.1	19.2	38.2	87.0
Impact of any additional debt relief	…	0	0	0	0
Cumulative amounts of external cash debt service payments	…	-5.2	-17.2	-22.5	-36.7
FNRH contribution to the budget	65.1	19.8	42.4	42.5	48.2
Cumulative disbursements of official grants in foreign currency		8.1	19.2	38.2	65.0
Memorandum item:					
UM/$ exchange rate (program)	262				

1/ For definitions, see Technical Memorandum of Understanding.
2/ Adjusted upward (NIR) and downward (NDA) by net international assistance and FNRH contribution to the budget.

Table 2. Mauritania. Structural Benchmarks, 2010

Measure	Date	Rationality
Issue, while surveys are underway, new identification numbers to taxpayers.	End-December 2010	Strengthen tax administration and increase revenue.
Adopt the ministerial decision establishing the Technical Monitoring Committee.	End-March 2010	Efficient management of the program.
BCM should publish on its website audited financial statements together with audit opinion of the years ended.		Promote transparency and governance of the central bank.
December 31, 2007	End-March 2010	
December 31, 2008	End-March 2010	
December 31, 2009	End-June 2010	
Establish a rolling three-month cash management plan.	End-June 2010	Improve budget execution, liquidity management and interventions of the central bank in financial markets.
Conduct an audit of NIR and NDA data of the BCM as of June 30, 2010.	End-Septembre 2010	Improve BCM accountability and safeguard data reporting process.

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out the definitions of the quantitative targets for the period January 1, 2010–December 31, 2012, which are set forth in the Memorandum of Economic and Financial Policies (MEFP) and reported in Table 1. It also establishes the content and frequency of the data to be provided to IMF staff for monitoring the program. For the purpose of this memorandum, the government is defined to include only the central government.

2. The quantitative targets are defined as ceilings or floors for cumulative changes between the reference period described in Table 1 and the end of the month indicated.

VI. DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

3. **Net international reserves** (NIR) of the Central Bank of Mauritania (BCM) are defined as the difference between the reserve assets of the BCM (i.e., the external assets that are readily available to, and controlled by, the BCM, as per the 5th edition of the IMF *Balance of Payments Manual)* minus the foreign exchange liabilities of the BCM to residents and nonresidents. The gold holdings will be evaluated at the gold price in effect on November 30, 2009 (US$1,127 per oz.) and the U.S. dollar value of reserves assets (other than gold) and foreign exchange liabilities will be calculated using **program exchange rates, namely**, the November 30, 2009 exchange rates between the U.S. dollar and the ouguiya (UM/US$ 262.0), the SDR (US$/SDR 1.61), the Euro (Euro/US$ 1.49), and other non-dollar currencies as published in the IFS.

4. **Net domestic assets** (NDA) of the BCM are defined as reserve money minus net foreign assets (NFA) of the BCM. **Reserve money** comprises: (a) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (b) deposits of commercial banks at the BCM. NFA are defined as gross foreign assets of the BCM, including the external assets not included in the reserve assets, minus all foreign liabilities of the BCM (i.e., NDA = Reserve Money – NFA, based on the BCM balance sheet). NFA will be measured at the **program exchange rates** as described in Paragraph 3.

5. **Government balance** is defined for program monitoring purposes as non-oil central government basic balance excluding grants, which is equal to **non-oil government revenue** (excluding grants) minus **government expenditure** (excluding foreign-financed investment expenditure and interest due on external debt). The government balance will be measured based on Treasury data. Revenue are defined in accordance with the *Government Financial Statistics manual (GFSM 2001),* excluding the revenue related to oil- and other hydrocarbon-related activities and transfers from the National Hydrocarbon Revenue Fund (FNRH) to the

budget. They will be monitored on a cash basis (*revenue recorded by Treasury*). Expenditure will be monitored on the basis of payment orders, including the interest on domestic debt (paid by the Treasury or automatically debited from the treasury account at the BCM, including but not limited to discounts on treasury bills held by banks and nonbanks and interest charges on the consolidated debt of the government vis-à-vis the BCM).

6. **The new limit on medium- and long-term nonconcessional external debt contracting or guaranteeing** by the government, the BCM, and SOEs (excluding SNIM) is defined as the foreign currency debt, with maturities of one year or longer, contracted or guaranteed by the government or the BCM with a grant element (defined as 1 minus the NPV-to-face value ratio, and estimated on the basis of the currency and maturity specific discount rates reported by the OECD (commercial interest reference rates) of less than 35 percent. This definition applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (IMF Executive Board Decision No. 12274-(00/85) August 24, 2000; see Annex) but also to commitments contracted or guaranteed for which value has not been received. The national industrial and mining company (SNIM) is excluded from the ceiling on medium- and long-term nonconcessional external debt because the firm does not pose fiscal risks and can borrow without government guarantee.

7. **The short-term nonconcessional debt** is defined as the stock of foreign currency debt, with original maturity of less than one year, contracted or guaranteed by the government or the BCM. This definition applies to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000; see Annex). This definition excludes foreign currency deposits with the BCM. It also excludes normal import-related credits.

8. **External payments arrears** are defined as overdue payments (principal or interest) on the external debt contracted or guaranteed by the government or the BCM after the expiration of the applicable grace period.

9. **Treasury float (outstanding payments at the Treasury)** is defined as the outstanding stock of payment orders registered at the Treasury and not yet executed by the Treasury. Once the RACHAD payment module is implemented, the float will be defined as the payment orders validated by the RACHAD payment module and not yet executed by the Treasury.

10. **Poverty reduction expenditures** will be estimated on the basis of the public expenditure functional classification based on the recommendations of the January 2006 technical assistance mission report of the IMF Fiscal Affairs Department ("Les réformes en cours de la gestion budgétaire et financière," March 2006). This estimate will only take into account domestically-financed expenditures.

B. Structural Benchmarks

11. **Structural benchmarks for the 2010 tranche of the program are:**

- Issue by end-December 2010, while surveys are underway, new identification numbers to new taxpayers in Nouakchott and Nouadhibou. This benchmark aims at building a centralized taxpayers database and provide each taxpayer with a single identification number. Observance of this benchmark will require transmission to IMF staff by end-December 2010 the database including all taxpayers and their single identification number.

- Adopt by end-March 2010 the ministerial decision establishing the Technical Monitoring Committee (TMC) in charge of monitoring the program. A copy of this decision should be sent to the IMF by end-March 2010.

- Establish by end-December 2010 a rolling three-month cash management plan. Transmission to IMF staff of the cash management plan and the minutes of the meetings of the committee to coordinate budgetary and monetary policies.

- BCM should publish on its website audited financial statements together with audit opinions for the years ended

    - December 31, 2007 (by end-March 2010)

    - December 31, 2008 (by end-March 2010)

    - December 31, 2009 (by end-June 2010)

- Conduct annual financial audits of the BCM, and twice a year audits of its NIR and NDA data.

VII. Program Adjustors

12. **NIR and NDA targets** are derived based on the projected amounts of **the FNRH contribution to the** budget and of the net **international assistance.** The latter is defined as the difference between (a) the sum of cumulative disbursements of official loans and grants (budget support; excluding HIPC assistance and project-related loans and grants) in foreign currency and of the impact of any additional debt relief obtained after June 30, 2006; and (b) the toil amount of external cash debt service payments (including interest on foreign liabilities of the BCM).

13. In case **net international assistance** or **the contribution of the FNRH to the budget falls short** of the amounts projected in Table 1, the floor for NIR will be adjusted downward and the ceiling on NDA will be adjusted upward by an amount equivalent to the difference between the actual levels and the projected levels. In the case of the NDA ceiling, this amount will be converted into ouguiya at the program exchange rates. The cumulative downward adjustments to NIR will be limited to US$35 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of US$35 million at program exchange rates. In case the contribution of the FNRH to the budget exceeds the amounts projected in Table 1, the floor for NIR will be adjusted upward and the ceiling on NDA will be adjusted downward by an amount equivalent to the difference between the actual levels and the projected levels.

14. **The floor on the basic non-oil deficit** will be adjusted upward--that is, the maximum deficit will be increased for any higher than programmed disbursement of budgetary grants.

VIII. Reporting Requirements

15. To allow for the monitoring of economic developments and program performance, the Mauritanian authorities will provide the IMF with the following specific information.

Central Bank of Mauritania (BCM)

- The monthly balance sheet of the BCM, and monthly data on (a) BCM's gross foreign exchange reserves (at program exchange rates and at actual official exchange rates); and (b) the FNRH (National Hydrocarbon Revenue Fund) balances, as well as receipts and outlays (transfers to the Treasury account) and their timing, within two (2) weeks following the end of each month.

- The monthly monetary survey, the aggregated balance sheet of the commercial banks, and monthly data on foreign exchange positions of individual commercial banks by currency and on a consolidated basis at actual official exchange rates within three (3) weeks from the end of each month.

- Data on Treasury bills auctions and the new stock outstanding within a week following each auction.

- Monthly data on the level of liabilities of each public enterprise to the banking sector, within one month from the end of each month.

- Monthly external debt data within 39 days at the end of each month, following the monthly meeting of the technical debt committee, the minutes of which will be attached. This information shall include:

- The external debt data file: service of the external debt of the BCM, government, and SNIM, including changes in arrears and rescheduling operations, debt service due and paid in cash, HIPC relief granted by multilateral and bilateral creditors and the amount of HIPC relief provided to Mauritania in the form of grants.

- The monthly list of medium- and long-term public or publicly-guaranteed external loans contracted during each month, identifying for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, interest rate arrangements and commissions. The list must also include any loans currently being negotiated.

- Quarterly complete balance of payments and data on the outstanding stock of external debt (by creditor, by debtor and by currency) within 30 days following the end of each quarter.

- Bi-monthly table projecting foreign exchange flows and flows of monetary liquidity within one week.

Ministry of Finance

- The Treasury's monthly cash and liquidity management plan, updated by the fiscal and monetary policy coordination committee, will be reported on a monthly basis along with the minutes of the weekly meetings.

- Monthly Treasury data on budget operations, revenues (including transfers from the FNRH), expenditures, and financing items, data on operations of special accounts, data on the execution of the domestically-financed part of the investment budget (including the data on capital spending, spending on goods and services, and salaries included in the investment budget), and Customs and Tax Departments monthly revenue collection reports (*Rapports mensuels des recettes*) within two (2) weeks following the end of each month.

- Monthly data reconciled between the Treasury and the Budget Directorate on the execution of expenditure on wages, including the breakdown of civil service base pay and back pay, wages for which payment has been authorized or is pending authorization for diplomatic missions, the military, the police, the national guard, and public institutions.

- Monthly data on the execution of the foreign-financed part of the investment budget based on the summary presentation included in the Consolidated Investment Budget document (*Budget consolidé d'investissement*) and data on foreign grants and loans received by government, its agencies, and by public enterprises by donor or creditor and by currency of disbursement within two (2) weeks following the end of each month.

- Monthly reports on oil- and other hydrocarbon-related production and financial flows, including data on oil sales and repartition of oil revenue among all partners involved in oil production within one (1) month from the end of each month.

- Annual balance sheets audited or certified by a statutory auditor of the accounts of public enterprises and autonomous public institutions.

- Quarterly data on the operations of oil sector enterprises and on those in the mining sector.

National Statistical Office

- Monthly consumer price index within two (2) weeks following the end of each month.

- Quarterly industrial production index within one (1) month of the end of each quarter.

- Quarterly note on economic activity and international trade.

Technical Monitoring Committee

16. Monthly report on program execution three (3) weeks at the latest after the expiration of the month.

17. All data will be transmitted electronically. Any revisions to previously reported data accompanied by an explanatory note shall be promptly communicated to the staff.

IX. Central Government Operations Table

18. The Treasury will prepare a monthly budget execution report in the format of a Central Government Operations Table (TOFE). In preparing this table, the following definitions shall be used:

- **Grants** are defined as a sum of: foreign project grants (grants used in the execution of the foreign-financed investment projects included in the central government and the *EPA* parts of the consolidated investment budget and (*parties BE et BA*)); and foreign program grants for budget support including the multilateral HIPC debt relief on the government external debt budget and HIPC debt relief on the external debt of BCM and SNIM (including the part of the AFD/BFD debt relief on Cologne terms).

- **Domestic bank financing** of the government deficit is defined as a change in the net credit to the government from the banking system, defined as claims on the government minus deposits of the government with the banking system (including the HIPC account but excluding the deposits of public establishments and other administrative units (*EPA*) with the BCM).

- **Domestic nonbank financing** of the government deficit is defined as a net change in holdings of Treasury bills by nonbanks.

- **Domestic arrears** are defined as a net change in the Treasury float and in the stock of domestic claims (beyond a period of three months) on government acknowledged by the Ministry of Finance (including but not limited to accumulated payment arrears to public enterprises (utilities), international organizations, procurement contracts, and court orders).

- **External financing** is defined as the sum of: the net outflows from (i.e., the opposite of the change in the balance of the FNRH's offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of technical arrears and passive debts as defined in Paragraph 8; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

ANNEX: DEFINITION OF DEBT SET FORTH IN NO. 9 OF THE GUIDELINES

The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt reads as follows:

(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances on money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' creditors) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title top the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payments on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.