International Monetary Fund

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

November 5, 2012

LETTER OF INTENT

Nouakchott, November 5, 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20433
USA

Dear Madam Managing Director:

1. The government has successfully addressed the challenges of consolidating macroeconomic stability and restoring growth in a difficult global context. By implementing appropriate economic policies consistent with the priorities set out in our Poverty Reduction Strategy Paper (PRSP), we have been able to restore macroeconomic resilience and maintain price stability, while putting in place a series of emergency programs to support our most vulnerable people. Nevertheless, in spite of our considerable efforts, the Mauritanian economy continues to face high unemployment and poverty rates while our development indicators are not closing in rapidly enough on the Millennium Development Goals that are our official development targets.

2. We have achieved the objectives laid out for the first half of 2012 under the program supported by the three-year arrangement under the Extended Credit Facility (ECF); consequently, we have met or exceeded all the quantitative performance criteria of end-June 2012 (see Table 1). Moreover, all structural benchmarks (see Table 2) have been met but one: the increase in electricity rates, initially scheduled for end-July, remains pending until the ongoing tariff study is completed (new structural benchmark for end-December 2012). As for the end-June indicative target on pro-poor spending, it could not be met because of the delay in adopting the "advance decree" amending this year's official budget law (*décret d'avance*). Nevertheless, the indicative target for the year is on track to be met.

3. This Letter of Intent (LOI) is based on the previous LOI approved by the Fund's Executive Board on July 2, 2012. Our economic policy program will continue to balance our efforts to consolidate economic stabilization with the need to strengthen efforts to fight unemployment and poverty.

I. Recent economic developments and the program for 2012

4. The strong recovery of agricultural production and buoyant construction activity have been the main drivers of the economic recovery in 2012. In real terms, GDP growth for 2012 will climb higher than 6 percent (and higher than 7 percent for nonextractive industries), despite the significant drop in mining output and the slowdown of demand from Europe, one of our main trading partners. Inflation will remain contained at 6 percent (year-on-year), partly thanks to administered prices and only modest increases in credit to the private sector. Unemployment and poverty rates remain high, however.

5. The deterioration of the current account deficit will be financed by significant external flows, largely from foreign direct investment. The current account deficit is expected to worsen from 7 percent of GDP in 2011 to 27.6 percent of GDP in 2012 owing to a combination of reduced iron ore exports, nonpayment of financial compensation under the EU fishing agreement, and the sharp rise in imports due to the EMEL 2012 emergency program and new investment projects. Still, the current account deficit would be only 4.6 percent of GDP if imports associated with foreign direct investment were excluded. Improved management of foreign exchange reserves, significant repatriation of mining revenue, and an increase in foreign support (including an additional grant under the Brussels Round Table commitments) will enable us to build up our stock of reserves, which is expected to reach yet another record level by the end of the year, at US$756 million, equivalent to 5.3 months of imports. This level already exceeds both the optimal level calculated for Mauritania and the level forecast for 2017 as necessary to absorb exogenous shocks.

6. In the area of government finance, budget execution in the first half of the year has seen a significant effort in tax collection (a 40 percent y-o-y increase in tax revenue), a noticeable increase in mining revenue, and an underexecution of some social expenditures, partly as a result of the delay in adopting the "advance decree". As a result, there has been a greater improvement than expected in the basic fiscal balance, which stood at 3.6 percent of non-oil GDP at end-June versus the forecast figure of 3 percent. The basic deficit for the remainder of the year is expected to deteriorate more than initially expected. Better than expected tax revenues (the year-end target for the Directorate General of Taxation (DGI) had already been met at end-August) could not offset the decline in nontax revenues (to be prudent, the financial contribution under the new fishing agreement with the European Union has not been taken into account in our projections, given the uncertainties surrounding it). However, the overall balance will be positive (+0.4 percent) for the first time in our recent history because of exceptional external support and in spite of the emergency program and a significant increase in domestically funded capital investment.

7. As of end-June 2012, the monetary base posted growth of 34 percent year-on-year. This was higher than forecast mainly because of a larger buildup of foreign assets, which we

have not fully sterilized as current inflationary pressures remain low. Consequently, banks' free reserves remained at high levels. But excess liquidity has to date not brought about excessive growth in lending to the private sector. This is why the Central Bank of Mauritania (CBM) has not yet considered it useful to make use of the new monetary policy instrument introduced in June (seven-day Treasury bills). Nevertheless, the CBM remains vigilant and is ready to respond if surges in credit will generate inflationary pressures in the economy, particularly in the context of accelerating investment spending and phasing-out of subsidies toward the end of 2012. The exchange rate has depreciated 4 percent against the dollar, but remains stable in nominal effective terms. On the parallel market, the premium against the dollar and the euro remains small, indicating that there is no fundamental imbalance in the official market.

II. The Program for 2013

8. The strong recovery, which began in 2012, is expected to continue in 2013 despite falling demand from Europe. Real GDP growth will be 6.3 percent, largely thanks to continued strong construction activity and a rebound in mining production. Inflation will remain under control at 6 percent (year-on-year) thanks to prudent monetary policy and the dampening effects of administered prices. The current account deficit will remain high at 25 percent of GDP, owing to a steep rise in imports linked to mining investments and infrastructure projects. These investments are largely financed by foreign direct investment, amounting to nearly 17 percent of GDP, as well as external credit lines. The ability of the Mauritanian economy to withstand exogenous shocks will continue to be strengthened thanks to the buildup of foreign exchange reserves (equivalent to 6.6 months' worth of imports at end-2013).

A. The macroeconomic program

Fiscal policy

9. In 2013, fiscal policy will for the first time be anchored in the performance of nonextractive industries to ensure that the fiscal position remains sustainable over the medium term, especially if mining revenues fall (due to either lower prices or shrinking output). Thus, the overall balance (excluding revenues from the extractive industries and externally funded investment) is forecast at 8 percent of GDP excluding nonextractive industries in 2013, corresponding to an adjustment of 7 percent of GDP excluding nonextractive industries. This in turn is equivalent to an improvement in the basic balance of approximately 2 percent of non-oil GDP. Financing needs will be covered primarily by nonbank financing and concessional budget support.

10. The revenue target is 30 percent of non-oil GDP. Although mining revenues are lower than in 2012 because of a decline in mining profits, they still account for a significant portion of revenue, with a dividend rate on SNIM's profit set at a minimum of 25 percent. As well as

improving the performance of nonmining tax revenues by strengthening tax and customs administration and receiving the higher license fee under the fishing agreement with the European Union (including the postponed 2012 payment and EUR 113 million for 2013 that includes private licenses), the 2013 budget aims to establish more progressive tax rates (especially on earned income), while being simpler and increasing collection from the mining sector and consumer tax:

- Taxes on earned income will be revised by altering tax brackets to keep pace with inflation and reflect the recent increase in the minimum wage. This change will make the wages and salaries tax (ITS) more progressive by raising tax thresholds for low income earners and raising the threshold for high income earners. This will translate into higher real wages for all wage earners while minimizing the projected impact on tax revenues to UM -2 billion.

- Excise taxes on tobacco will be raised from 10 percent to 30 percent, and those on beverages to 30 percent (for a total increase of 0.1 percent of non-oil GDP).
  Taxation and transparency will be further enhanced by means of technical assistance recommendations provided by the Fund, with the general tax on receipts being eliminated (a revenue loss of UM 400 million).

- Collection of mining revenue will be strengthened, and legislation will be introduced to charge fees for transfers of mining rights. We also expect in 2013 to eliminate the exemption on registration fees established in the mining code. The tax on real estate income (IRF) will be extended to cover capital gains on real estate, including for licenses linked to mining exploration.

- The new exemptions on excise taxes for agricultural machinery will have only a minimal impact on the budget. To maintain proper control, an inventory of all exemptions (tax expenditures) and their fiscal cost will be established. These figures will be presented in the 2013 budget and used to identify potential savings.

11. Fiscal policy in 2013 will aim at further increasing investment and social spending while eliminating nonessential emergency programs such as those linked to the 2011–12 drought. The programs of dedicated food shops used in the solidarity program will be partly replaced by a better-targeted social protection system such as cash transfers. Total budget expenditure will be UM 437 billion (33 percent of GDP), of which more than a fourth will be domestically financed investment (which will increase by almost 50 percent compared to 2012, making it the largest expenditure category). We believe that more public investments, particularly in the agricultural sector, are essential to ensure that growth becomes more inclusive. Our planned investments will remain commensurate with our absorption capacity

thanks to our new procurement code procedures and improved project identification and prioritization. We are committed to ensuring that these expenditures will be in line with the priorities established in the PRSP, subject to an assessment and feasibility study, and that they comply with the new procurement code.

12. Current expenditure will be reduced to 20.5 percent of non-oil GDP through the following measures: (i) stabilizing the wage bill at 8 percent of GDP in 2012, while increasing pay for those earning less than UM 100,000 by 7 (instead of 3) percent; (ii) eliminating emergency programs and fuel subsidies; (iii) raising electricity tariffs for industrial consumers following the tariff study to be completed by end-2012 (rate increases already took effect in January 2012); and (iv) reducing subsidies on butane gas. Better-targeted social safety nets will accompany these cuts in subsidies. In the event of a revenue shortfall, including a renewed delay in the EU fishing license, we are committed to reducing nonessential spending, including non-urgent investment projects.

Monetary, financial, and exchange rate policies

13. For 2013, the monetary policy stance will be prudent, with a target of 14 percent growth in broad money supply. The monetary authorities are ready to tighten monetary policy to restrain any tendency for inflationary pressures to re-emerge, using indirect monetary policy instruments. Increasing reserve requirements will be considered if excess liquidity turns out to have a destabilizing effect on the banking system.

14. We are committed to managing liquidity actively. In the immediate future, to prepare for the active use of the new liquidity management instrument (seven-day Treasury bills), we expect to start experimenting by issuing small amounts on the order of approximately UM 1 billion by November 2012, which will gradually increase to UM 3 billion by early January 2013. The size of the issuance will be adjusted as necessary according to the circumstances. Our liquidity forecasts, prepared at weekly meetings of the CBM-Treasury coordinating committee, will be supplemented with detailed information on SNIM's local spending and repatriation plans. We are working to establish mechanisms for the repayment of government claims on the CBM under an agreement to be submitted to the Council of Ministers by the end of the year (a structural benchmark for December 2012), which will help recapitalize the CBM.

15. The CBM will continue to reinforce the workings of the foreign exchange market. It will continue to regularly supply foreign exchange to the market by selling a portion of mining revenues (a minimum of US$40 million a month is planned). To further enhance the transparency of these operations, the CBM will publish in November the amount of all transfers of foreign exchange sold (both during market sessions and off-market) and will continue to ensure that off-market transfers are limited to exceptional transactions. The exchange rate will continue to be aligned with fundamentals dictated by supply and demand in the market. In November, an IMF technical assistance mission will provide recommendations to help the further development of the foreign exchange market.

16. Financial sector reform will be accelerated to deepen financial intermediation and remedy weaknesses identified by IMF technical assistance (including the ones on related-party lending). The financial sector strategy prepared in collaboration with the World Bank will be validated by the government in November and will be used to set the priorities and sequencing of reforms. Moreover, all commercial banks have already attained the minimum capital requirement of UM 6 billion, the end-year target. Our actions will continue to focus on the following:

- *Continuous monitoring of risks.* With the assistance of the World Bank, we have computerized the credit bureau and started setting up a database on customer defaults which will be finalized in 2013. The results of the international audit of commercial banks are already available for most banks and show that, by international standards, nonperforming loans, may be higher than forecast (44 percent of gross lending). We are committed to establishing performance contracts to ensure that banks have adequate capital and provisions. Together with the banks, we will study the possibility of setting up a private collection agency to recover loans that have been outstanding for a long time, which will allow banks to remove them from their balance sheets.
- *Strengthening of banking regulation and supervision.* In collaboration with AFRITAC West technical assistance, we are continuing to implement recently overhauled regulations, in particular the new rules on related-party lending, capital adequacy, concentration risk, and internal audit. We have stepped up our ex-post controls of banks' open foreign exchange positions. Following the adoption of new regulation in this area, we will apply appropriate penalties in case banks' transactions are found to be in breach of our regulation. The CBM is in the process of strengthening its financial and human resources devoted to bank supervision, and is recruiting new inspectors.
- *Introduction of IFRS accounting.* We have asked an audit firm to assist commercial banks in the transition to IFRS accounting. The final report has been submitted in end-September 2012. In regard to the quantification of differences between local CBM and IFRS accounting standards on the CBM's 2010 financial statements, a preliminary report has been prepared by an international audit firm and a final version will be

available by at end-November 2012. A timetable for transitioning to IFRS standards is currently being developed.

- *Enhancement of transparency.* The CBM's 2011 financial statements and the auditors' opinion have been posted on the CBM's website as planned. The CBM will continue to have its accounts, including its reserve position, audited by an international audit firm selected through a bidding process.

External debt and debt management

17. We are committed to safeguarding the sustainability of our external debt position. We are aware that the most recent DSA shows that the net present value of our debt stock exceeds 40 percent of GDP for four consecutive years, even after cancellation of the Kuwaiti debt. Reclassifying Mauritania's risk of debt distress from "moderate" to "high" would have adverse consequences, particularly because some lenders would be obliged to cease operations in Mauritania. Even though we are committed to mobilizing concessional financing, we are now looking at the possibility of financing a greater share of our public investments from domestic resources. Implementation of our new medium-term debt strategy, prepared by the National Debt Management Committee in line with international standards and Fund Staff recommendations, will enable us to better manage our debt. Its validation by the Full Council of Ministers is expected by end-November. Moreover, the work now under way by a dedicated unit to modernize our data management tools will improve programming and portfolio allocation.

18. We will actively continue to deploy our best efforts to complete debt relief agreements with bilateral creditors. In this regard, we will continue our discussions with the Kuwaiti authorities to agree on a treatment of the bilateral debt that is consistent with the terms of the HIPC Initiative, cancelling this passive debt. Meanwhile, the portion of the Kuwaiti debt owed by the CBM will be removed from its balance sheet in exchange for a reduction of the CBM's claim on the government.

B. Structural reforms

19. We attach great importance to structural reforms because of their positive effect on improving the business climate, promoting growth, creating jobs, and reducing poverty.

Strengthening the social protection system and gradually eliminating subsidies

20. Our policy of phasing out generalized and poorly targeted subsidies has continued. Applying a new fuel price structure has enabled us to bring domestic fuel prices to international levels in 2012, although regrettably we have been unable to maintain them consistently at this level because of the steep increase in international prices. To ensure that the pricing formula can continue to be applied automatically even in the face of a sharp

increase in international prices, a new instruction will establish a cap of 3 percent on any one adjustment in cases when the formula would dictate a bigger increase.

21. Accompanying our subsidy reform, several programs have been put in place to provide cash transfers (with World Food Program assistance). We have also increased the number of dedicated food shops used in the solidarity program to offset the impact of food price increases on the most vulnerable people. This component of the EMEL program and the new cash transfer programs will be evaluated by January 2013. We are aiming to reduce the number of dedicated food shops substantially and to instead introduce new, better-targeted social transfer programs (for a total cost of about 1.5 percent of GDP); this agenda will also benefit from the expansion of the vulnerability and poverty survey to provide nationwide coverage by March 2013 (domestically funded).

22. Implementing the social protection strategy developed with UNICEF will make it possible to further strengthen the coverage of the social protection system and better protect the poor and vulnerable in our society. Accordingly, we shall, with the assistance of our technical and financial partners (TFPs), strengthen programs such as free school cafeterias, food-for-work, and support for pregnant women. Moreover, recognizing the adverse effects of the drought on food security, we have started to implement a national food security strategy for the period 2015 to 2030 and an associated national investment program.

Reform of government finances

23. The strategy for reforming public finance and its medium-term operating plan were adopted in February 2012. The technical steering committee will be established in October, and will bring together all the organizational units in question in the Ministry of Finance.

Management of natural resources and mining taxation policy

24. The government has been discussing ways to further optimize the resources flowing from the mining sector, which remains undertaxed despite the recent legislation introducing progressive royalty rates. Hence, the government has decided to evaluate the prospects of renegotiating taxation systems in the mining sector with investors who so wish, while maintaining a stable business climate. For now, the priority is to set up an interministerial committee by December 2012 to improve coordination between the different government agencies involved in the mining sector, to ensure that tax and customs regimes negotiated with new foreign investors are consistent with the current mining code, and to fill any existing gaps in our tax code in order to tax capital gains resulting from transfers of ownership of assets in Mauritania. In addition, to prevent the accumulation of tax credits owed to mining companies, we plan to introduce a VAT self-assessment for foreign-owned service providers.

25. The government seeks to assure full transparency in the development and use of financial resources originating from the mining industry. That is why we are planning to establish a mining fund in 2013. The aim is to use mining resources to finance our large development needs in the event of exogenous shocks. A technical assistance mission by Fund staff will help us set up the institutional requirements. Moreover, the fact that Mauritania has joined the Extractive Industries Transparency Initiative (EITI) assures greater transparency of revenues from the extractive industries. Over the short term, we plan to publish tax and nontax revenue from the mining sector (SNIM, TASIAST, MCM) every month on the Ministry of Finance website, just as is now being done for the oil and gas sector.

Maintaining the upward trend in revenue collection

26. We are committed further improve our tax collection efforts. The DGI has made important progress in the following areas: (i) adopting the principle of a Large Taxpayer Unit (LTU) with national jurisdiction, and raising the threshold for application of the LTU to UM 300 million; (ii) significantly increasing tax audits; and (iii) extending the system of Tax Identification Numbers (TINs) to all identified taxpayers. We expect to increase the DGI's operating budget in 2013 and reinforce training of staff, which will modernize its operations. We are also planning to identify three or four performance indicators for each directorate based on their various functions (arrears, new taxpayers). At the same time, we will carry out a communication campaign to make our existing collection and appeal procedures, as well as the existence of the joint arbitration committees more widely known.

27. We will accelerate customs reform to strengthen its role in revenue collection, facilitate trade operations, and combat fraud. In this regard, the new scanner is operational and a system of selective inspection parameters has been established. Moreover, all the necessary provisions are in place to make both the valuation office and customs intelligence office operational by end-2012. To strengthen performance-based management, we intend in the next few months to introduce performance indicators for customs staff (new taxpayers, recovery of arrears, customs clearance times, and number of seizures). Synergies with the DGI have been developed through a memorandum of understanding signed by the Directorate General of Customs (DGD), the DGI, the Directorate General of the Budget (DGB), and the Directorate General of Public Works (DGTP) to formalize exchanges of information on taxpayers. Work on drafting the new customs code remains in the final stages. Strengthening human resources capacity in the DGD remains a priority.

Managing public expenditure

28. With regard to the budget preparation and execution, we are continuing to incorporate the functional government expenditure classification in the budget, including breaking down all subsidy expenditures entered under the heading "common expenditures" (*dépenses communes*). To enhance transparency, we submitted the end-June budget execution report to

the parliament. Following a new instruction by the Ministry of Finance, we intend to publish on our website every month documents pertaining to the government's financial situation (cash flow table (TOFE), cash position, and report on oil revenues). In addition, we took stock of all existing imprest accounts (*régies d'avance*) and we will continue to avoid using exceptional procedures (*procédures dérogatoires*) and budget advances (*procédures d'avance*) except in cases of extreme need. All budget advances under the 2012 year, including UM 9 billion not regularized by end-August 2012, will be included in the budget amendment. We intend to prepare a new organic law in 2014 for which we have requested technical assistance from the Fund.

29. To solidify the government's financial situation, we have produced, as planned, a report on the government's pending payment disputes as of end-March 2012. The claims recognized by the government total nearly UM 6 billion and have been publicly released. At the same time, joint government-supplier committees have been established and an office dedicated to dispute resolution has been established. We will make every effort to adhere scrupulously to the plan to settle the recognized arrears in the period 2012 to 2014. We have also established an inventory of government guarantees that have been called but not paid; these total approximately UM 6 billion; and a repayment timetable is under preparation. Repayment of VAT credits owed to mining companies will be made as planned.

30. The new public procurement code came into force in 2012. The relevant decrees have all been adopted and implemented in February 2012. From now on, the new code will be applied without exception to all contracts awarded by the public sector. Awarding contracts through private negotiation will remain exceptional and continue to be overseen by the monitoring committee set up under the new code. To encourage private-sector involvement in major projects, we intend to prepare draft legislation on public-private partnerships.

Containing the wage bill and improving the quality of public services

31. We have devoted considerable efforts to make up the delay in implementing civil service reform. We have reconciled the civil service database with the payroll file and have produced a unified payroll system using a single database. To carry this work further and assure tighter control on payments for salaries and family allowances, we are committed to undertaking a large-scale project to bring all files for civil servants and their families fully up to date. In the short term, we are working to put in place an effective and permanent mechanism to check whether civil servants and other government employees actually do report to work, including continuing on-site inspections and censuses of the largest ministries.

32. We continue to ban any recruitment that is not governed by the civil service regulations. To strengthen human resource management, we plan by December 2012, with technical assistance from the World Bank, to initiate an organizational audit of line

ministries, beginning with the Ministries of Education, Finance, and Health. With assistance from AFRITAC West, we plan to put in place a better means of tracking personnel expenditure and introducing forward-looking management of staffing levels. This will make it possible to replace departing personnel with an appropriate level of new recruits that reflects actual government needs.

Improving the performance of public enterprises

33. To strengthen and improve the management of public enterprises, we are committed to conducting, together with the World Bank, technical and financial audits of public enterprises. Unfortunately, it has not been possible to complete this step as planned under the program owing to delays in procurement procedures. To meet the fixed deadlines, some audit reports will be financed with domestic resources (SONIMEX, SOMAGAZ, and the SNDE), while the MAURIPOST audit is already under way. We are aware that rebalancing the financial situation of these enterprises is essential, and we want to ensure that they are more effectively managed, especially by means of signed performance contracts. We will pay special attention to the new public transport companies to make sure that any budget impact remains minimal. We also intend to monitor more closely the wage bill of the public enterprises and institutions by carrying out a personnel census and producing a centralized database of staff in the Directorate General of Government Assets.

Reforming the electricity sector

34. The electricity sector is one of the government's major concerns. After recapitalizing SOMELEC and adopting an arrears repayment plan, the government has regularly paid its SOMELEC bills, paid a substantial proportion of the company's operating subsidy, and is committed to ensuring that all government agencies' electricity bills will be paid regularly. We will support SOMELEC's efforts to recover unpaid debt from other public entities. Furthermore, electricity rates for the services sector have been aligned with the rates for medium-voltage electricity since the beginning of 2012. These measures, together with the new credit line from the Islamic Development Bank, have enabled the company to significantly limit its recourse to bank borrowing at high interest rates, which were a drain on its finances in the past.

35. Additional measures will improve SOMELEC's situation in 2012. A tariff study, conducted by an international firm, will be completed in November 2012 and will result in electricity rates being revised, particularly those paid by large consumers. The latter will be revised by December 2012 (new structural benchmark). In addition, we have called on a consulting firm to establish a performance contract between SOMELEC and the government.

Promoting the private sector and employment

36. We are determined to significantly improve the investment climate and to identify constraints that hinder private-sector development, helping us to master the challenge of creating employment. The new investment code adopted in June 2012 and the creation of a new directorate general within the Ministry of Economy to promote the private sector mark important steps in this direction. We are also intent on removing constraints regarding the business climate as identified in the World Bank's *Doing Business* survey, particularly regarding the possibility of streamlining tax procedures. A 2012–13 action plan has been drawn up with the assistance of the World Bank. We are committed to making the one-stop shop operational and providing it with the necessary structure and staff by end-2012, with a view to simplifying procedures and shortening administrative timeframes for new investors.

37. We will continue to rely on a multipronged strategy to promote employment. We plan to introduce a national strategy for developing skills tailored to the needs of the private sector, which will strengthen our vocational training programs and help unemployed young graduates join the labor market. New investment in agriculture will result from new rural development strategy (such as the development of new irrigation areas). A new strategic study of the telecommunications sector will help identify and create new jobs in this industry. To fully understand labor market conditions and trends, we will complete the nationwide study on employment and the informal sector in Mauritania in 2012, with the assistance of other technical and financial partners (ILO and UNDP).

Strengthening governance

38. Fighting corruption remains an absolute government priority. With the national anticorruption strategy (SNLCC) having been adopted in 2010, it will be made operational by implementing a plan to define the contours of the authorities' actions against corruption, reflected in draft legislation to be submitted to parliament by end-2012. Among other things, we also intend to establish a technical commission by end-2012 to make recommendations to the government on rationalizing oversight structures.

Improving economic statistics

39. We are mindful of the crucial role of reliable statistical information in the preparation, monitoring, and assessment of macroeconomic policies, PRSP implementation, and progress toward the MDGs. Accordingly, a number of surveys are under way or about to begin: a complete revision of the consumer price index (CPI), an update of the national directory of industrial firms, an employment survey, and the fourth general census of household living conditions. We have requested World Bank assistance to build the country's statistical capacity by pressing ahead with the organizational and institutional reform of the National

Bureau of Statistics (ONS). We also intend to embed statistical functions as part of the ministries' operations and set up ongoing training and development in this area.

C. Risks

40. In spite of the positive developments seen in 2012, various risks may jeopardize our attainment of program objectives: (i) a downturn in external demand and export prices (iron ore, copper, and gold) and the volatility of import prices for wheat, rice, and oil; (ii) low levels of concessional external financing; and (iii) cancellation of the fishing agreement recently concluded with the European Union. Nevertheless, the government stands ready to take appropriate measures to mitigate the effects of such risks, if they should materialize, in consultation with Fund staff.

III. Conclusion

41. As the principal objectives of the program set for June 2012 have been achieved (see Tables 1 and 2), the government requests the completion of the fifth review of the program supported by an arrangement under the ECF as well as the disbursement of SDR 11.04 million. To reflect the better-than-expected program performance in 2012 and the new external environment, the government also requests modification of the end-December 2012 performance criteria relating to net international reserves, net domestic assets, and the non-oil basic balance (see Table 1). The technical memorandum of understanding will also be amended to exclude costs associated with the issuance of the new seven-day Treasury bonds from the basic balance.

42. We believe that the policies set forth herein are adequate to achieve the program objectives, but stand ready to take any further measures that may become necessary to that end. We will consult with the Fund on the adoption of such measures and in advance of any revision of the macroeconomic policies contained herein. We will remain in close consultation with Fund staff and we are committed to providing the information necessary for regular monitoring of the program. New performance criteria have been proposed for end-December 2012, as well as structural benchmarks for end-December 2012 and end-

March 2013 (see Table 2). These quantitative criteria and benchmarks are described in the attached technical memorandum of understanding. The government also requests that the program be extended by about three and a half months, to June 30, 2013, to enable Fund staff to verify the end-December benchmarks and authorize the last disbursement planned under the ECF arrangement. The sixth review under the program is expected to be completed on or after May 31, 2013.

Very truly yours,

/s/
Sid' Ahmed Ould Raiss
Governor
Central Bank of Mauritania

/s/
Thiam Diombar
Minister of Finance

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

ATTACHMENT: 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 Letter of intention (LOI) 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 periods described in Table 1 and the end of the month indicated.

I. DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

3. **Net international reserves** (NIR) of the Central Bank of Mauritania (CBM) are defined as the difference between the reserve assets of the CBM (i.e., the external assets that are readily available to, and controlled by, the CBM, as per the 5th edition of the IMF *Balance of Payments Manual)* minus the foreign exchange liabilities of the CBM to residents and nonresidents. The gold holdings will be evaluated at the gold price in effect on November 30, 2009 ($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/$262.0), the SDR ($/SDR 1.61), the euro (Euro/$1.49), and other nondollar currencies as published in the IFS.

4. **Net domestic assets** (NDA) of the CBM are defined as reserve money minus net foreign assets (NFA) of the CBM. **Reserve money** comprises: (a) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (b) deposits of commercial banks at the CBM. NFA are defined as gross foreign assets of the CBM, including the external assets not included in the reserve assets, minus all foreign liabilities of the CBM (i.e., NDA = Reserve Money – NFA, based on the CBM 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 and seven-day Treasury Bills issued for liquidity management). 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 CBM, 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 CBM).

6. **The new medium- and long-term nonconcessional external debt contracted or guaranteed** by the government, the CBM, and State-Owned Enterprises (excluding SNIM) is defined as debt to nonresidents, with maturities of one year or longer, contracted or guaranteed by the government or the CBM 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 External Debt in Fund Arrangements, attached to IMF Executive Board Decision No. 6230-(79/140), adopted August 3, 1979, as amended, 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. **For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows**: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

8. **The short-term nonconcessional debt** is defined as the stock of debt with nonresidents, with original maturity of less than one year, contracted or guaranteed by the government or the CBM 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 External Debt in Fund Arrangements, attached to IMF Executive Board Decision No. 6230-(79/140), adopted August 3, 1979, as amended, but also to commitments

contracted or guaranteed for which value has not been received. This definition excludes foreign currency deposits with the CBM. It also excludes normal import-related credits.

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

10. **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.

11. **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

12. **Structural benchmarks for the 2011 tranche of the program were:**

- Complete by end-December 2011 the issuance of new taxpayer identification numbers. This benchmark aims at building a centralized taxpayers database and provide each taxpayer with a single identification number.

- Full implementation and use of ASYCUDA++ in major customs offices by end-December 2011.

- Introduction of a Treasury Single Account by end-December 2011.

- Design by end-December 2011 an overall external debt management strategy **(deferred to end-September 2012)**.

- Increase by end-December 2011 bank minimum capital to UM 5 billion ($18 million).

- Complete by end-December 2011 the study on the financial situation of major public enterprises. This will be based on the financial audit of the following companies: SOMELEC, SOMAGAZ, SNDE, MAURIPOST and SONIMEX **(deferred to end-December 2012)**.

- Complete by end-December 2011 a government arrears repayment plan for SOMELEC.

- Assess effectiveness of the dedicated shops used in the solidarity program by end-December 2011.

13. **Structural benchmarks for the 2012 tranche of the program are:**

- Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears by end-March 2012.

- Audit the CBM's NIR and NDA data as of end-December 2011, end-June 2012, and end-December 2012 by end-March 2012, end-September 2012, and end-March 2013, respectively.

- Complete by end-September 2012 (original test date was March 2012), the report quantifying the differences between the CBM's 2010 financial statements under national accounting principles with those under IFRS, prepared with the assistance of an international audit firm.

- Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties by end-March 2012.

- Sign by end-June 2012 a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.

- Conduct by end-April 2012, with assistance from the World Food Program, a poverty and vulnerability survey.

- Publish on the CBM's website the audited financial statements together with audit opinion for the year ended on December 31, 2011 by end-June 2012.

- Fix the modalities for the repayment of government claims to the CBM through a convention that will be presented for adoption to the Council of Ministers (**end-December 2012**).

- Update the payroll file with actual results from the census of employees by end-June 2012.

- Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study by end-July 2012 (**deferred to end-December 2012**).

II. Program Adjustors

14. **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 total amount of external cash debt service payments (including interest on foreign liabilities of the CBM).

15. 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 $35 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of $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.

16. **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.

III. Reporting Requirements

17. 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 (CBM)

- The monthly balance sheet of the CBM, and monthly data on (a) CBM'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 30 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 CBM, 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.

- Bimonthly 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**

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

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

IV. Central Government Operations Table

20. 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 CBM 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 CBM).

- **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 arrears and passive debts as defined in Paragraph 9; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

Table 1. Mauritania: Quantitative Benchmarks and Performance Criteria for 2010, 2011, and 2012

(Cumulative changes from end-December 2010 and 2011) 1/

	End-Dec. 2010			End-Dec. 2011			End-Mar. 2012			End-Jun. 2012			End-Sep. 2012			End-Dec. 2012	
	Performance criteria	Performance criteria adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Indicative target	Indicative target adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Indicative target	Indicative target adjusted	Actual	Performance criteria	Proposed performance criteria
Quantitative targets																	
Net international reserves of the BCM (floor); in million of U.S. dollars 2/	34.4	53.2	68.6	82.9	47.9	201.4	-6.9	22.9	-17.0	8.3	8.7	63.4	-4.0	25.1	122.8	-16.1	292.3
Net domestic assets of the BCM (ceiling); in billions of UM 3/	20.4	15.5	-11.4	-7.5	1.7	-1.9	-3.1	-10.9	-1.4	4.0	3.9	-6.6	13.5	5.8	-4.4	19.8	-62.4
Basic non-oil balance; in billions of UM	-28.5	-28.5	-23.0	-17.0	-17.0	-2.4	-1.7	-1.7	13.3	29.3	28.4	45.2	10.4	-40.3	17.4	-11.2	-23.3
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) 4/	0		0	105.0		0.0	0.0		105.0	0.0		105.0	0.0		105.0	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		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0
New external arrears on non reschedulable debt (continuous quantitative	0		0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0
Poverty-related expenditures; in billions of UM (indicative target)	106.7		89.9	106.5		107.9	24.3		24.9	68.2		64.5	107.3		104.0	133.8	135.6
Adjustors (in millions of U.S. dollars)																	
Net international assistance	35.4		34.0	32.8		-6.5	-8.0		23.4	2.1		24.1	34.7		218.8	8.1	202.4
Cumulative disbursements of official loans and grants in foreign	76.6		34.0	92.6		58.6	0.0		31.3	40.5		63.0	80.0		265.4	84.4	279.5
Impact of any additional debt relief	0		0	0.0		0.0	0.0			0.0		0.0	0.0		0.0	0.0	0.0
Cumulative amounts of external cash debt service payments	-41.2		0.0	-59.8		-65.1	-8.0		-7.9	-38.4		-38.9	-45.3		-46.5	-76.3	-77.1
FNRH contribution to the budget	47.2		110.8	34.8		34.7	0.0		29.8	29.4		29.8	29.4		58.6	56.8	64.4
Cumulative disbursements of official grants in foreign currency	46.9		34.0	24.6		3.6	0.0		0.0	9.6		12.9	21.8		215.3	26.3	219.9
Memorandum item:																	
UM/US$ exchange rate (program)				262.0			262.0			262.0			262.0			262.0	262.0

1/ For definitions, see Technical Memorandum of Understanding. Quantitative targets correspond to cumulative changes from the beginning of the relevant year.

2/ Adjusted upward by FNRH contribution to the budget and downward by net international assistance and FNRH contribution to the budget (see TMU).

3/ Adjusted upward by net international assistance and FNRH (see TMU) contribution to the budget.

4/ The higher ceiling for 2011 only accommodates the financing of a hybrid power plant. Due to the delayed parliamentary approval of this financing, this performance criterion was technically missed in 2012. However, there has been no nonconcessional borrowing in addition to the $105 million.

Table 2. Mauritania: Structural Benchmarks, 2012–13

Item	Measure	Date (end-of-period)	Outcome	Objective	Comment
Expenditure policy					
1	Update the payroll file with actual results from the census of employees.	June 2012	Met	Control public wage bill.	The payroll database is now consistent with the civil service database. In addition, a new survey of staffing levels in line ministries has started.
2	Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study.	December 2012		Phase out poorly targeted subsidies.	Rephased after not met in July 2012. The study started in April but has progressed more slowly than anticipated. Adjustments in tariffs will follow the completion of the study, now expected by end-November.
Public financial management					
3	Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears.	March 2012	Met		A report on domestic arrears—and the action plan to settle these arrears—has been prepared.
4	Design an overall external debt management strategy.	September 2012	Met	Safeguard fiscal and external sustainability.	Rephased after not met in December 2011. The technical committee in charge of public debt management has finalized and adopted an official medium-term debt management strategy, which fully incorporates World Bank and Fund staff's recommandations.
5	Complete a study on the financial situation of the main public enterprises, following financial audits of the following enterprises: SOMELEC, SOMAGAZ, SNDE, MAURIPOST, and SONIMEX.	December 2012		Ensure efficient use of public resources.	Rephased after not met in December 2011.
Central bank transparency					
6	Complete the report on the quantification of differences between the CBM's 2010 financial statements prepared under national accounting principles and under IFRS, prepared with the assistance of an international audit firm.	September 2012	Met, with delay	Enhance central bank transparency.	Rephased after not met in March 2012. The auditors have completed the quantification and submitted a preliminary report, together with detailed background information, to the authorities for comments. The final version of the report will be available in November.
7	Audit the CBM's NIR and NDA data as of: end-December 2011.	March 2012	Met		The audit has been completed, and the authorities have submitted the final auditor report to the Fund.
	end-June 2012.	September 2012	Met		The audit has been completed, and the authorities have submitted the final auditor report to the Fund.
	end-December 2012.	March 2013			
8	The CBM should publish on its website audited financial statements together with audit opinion for the year ended on December 31, 2011.	June 2012	Met	Enhance central bank transparency.	
9	Sign a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.	June 2012	Met	Improve monetary policy effectiveness.	The memorandum was signed in June, and the authorities plan to start issuing the new instrument in November.
10	Agree on the modalities of repayment of the loans to the government that the CBM carries on its balance sheet. The agreement will be presented for adoption to the Council of Ministers.	December 2012		Strengthen the financial health of the CBM to allow for a more active conduct of monetary policy.	
Financial sector					
11	Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties.	March 2012	Met		The regulation on connected lending has been approved in early March by the Monetary Policy Council and signed by the governor on March 26, 2012. An assessment of the impact of the new instruction has been prepared with help from Fund TA.
Social Policy					
12	Conduct with the support of the World Food Program a vulnerability and poverty survey.	April 2012	Met		As agreed at the time of the 3rd review, the poverty survey will be conducted in two phases. The Nouakchott phase was completed in April 2012, while the survey for the rest of the country has been deferred to early 2013.