

**FOR
AGENDA**

EBD/11/32

June 8, 2011

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Islamic Republic of Mauritania—Poverty Reduction Strategy Paper—
Joint Staff Advisory Note**

Attached for consideration by the Executive Directors is the advisory note, prepared jointly by the staffs of the Fund and the International Development Association, on the poverty reduction strategy paper prepared by the government of the Islamic Republic of Mauritania (EBD/11/31, 6/8/11). This paper and the poverty reduction strategy paper are tentatively scheduled for discussion on **Wednesday, June 22, 2011**. The authorities of the Islamic Republic of Mauritania have indicated that they consent to the Fund's publication of this paper. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Mati (ext. 37797) and Mr. Blotevogel (ext. 38446) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board, to the WTO Secretariat on Thursday, June 16, 2011; and to the African Development Bank, the Arab Monetary Fund, the Economic Community of West African States, the European Commission, the Food and Agriculture Organization, the Islamic Development Bank, and the United Nations Development Programme, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

ISLAMIC REPUBLIC OF MAURITANIA

Joint Staff Advisory Note on the Third Poverty Reduction Strategy Paper

Prepared by the Staffs of the International Monetary Fund
and the International Development Association

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June 7, 2011

I. OVERVIEW

1. **The Government of the Islamic Republic of Mauritania's third Poverty Reduction Strategy Paper (PRSP-3) provides a comprehensive framework for implementing an ambitious growth and poverty reduction agenda over the next five years.** It follows and builds on PRSP-1 (2001-04) and PRSP-2 (2006-10), which were not fully operationalized. PRSP-3 (2011-15) is consistent with the policy priorities set out in the current ECF-supported program and contains the same five principal objectives as its predecessor: (i) accelerating economic growth and maintaining macroeconomic stability; (ii) making growth more inclusive; (iii) improving the potential of the Mauritanian people and their access to basic social services; (iv) enhancing governance and institutional development; and (v) improving planning, monitoring and evaluating systems. Learning from the suboptimal implementation and weak monitoring framework of PRSP-1 and PRSP-2, the authorities reinforced the last objective of PRSP-3 to improve the coordination and monitoring systems used to regularly assess the progress of the strategy.

2. **The PRSP-3's updated development perspective and five principal objectives reflect the country's new economic and political realities.** The key events that provide the background to the drafting of PRSP-3 are the democratic elections of a new government in 2009, the global financial crisis, the downward revision of estimated oil resources, and rising commodity prices. The authorities were also determined to learn from past experiences and undertook a comprehensive review of achievements, shortcoming, and remaining obstacles identified during the weak implementation of earlier PRSPs. These lessons are reflected in PRSP-3 through more realistic overall growth objectives; actions to address inclusive growth, with a focus on agricultural development as a means to reduce poverty; a conscious effort to improve the alignment

between budget programming and execution, also through eventually adopting medium-term budget frameworks (MTBF); and a more robust monitoring and evaluation framework.

3. **The authorities consulted extensively with a wide range of stakeholders to ensure the widest possible buy-in for the PRSP process.** The central government consulted with line ministries, local governments, the private sector, and civil society to produce five sectoral strategies, one for each of the PRSP-3 principal objectives. These broad sectoral strategies were the basis of a preliminary draft, cleared by an inter-ministerial committee ahead of a stakeholders' conference organized in Nouakchott in February 2011. The government adopted the final document in April 2011, incorporating some of the comments and suggestions made by stakeholders at the conference. The authorities plan to follow a similar iterative and participative approach during PRSP-3 implementation, especially in the drafting of annual progress reports. This process should regularly involve stakeholders in all evaluation phases to ensure full ownership of the assessment, recommendations, and strategies.

4. **PRSP-3 will serve as a good base for donor coordination and resource mobilization.** The estimated financing costs of the planned initiatives under PRSP-3 amount to about \$9.2 billion, of which about a third has been identified.¹ The authorities expect PRSP-3 to remain the guiding anchor for donor intervention in Mauritania. During the preparation of the document, the authorities consulted with development partners, who also participated in the stakeholders' conference. The staffs agree that improved coordination and alignment of donors' financial and technical assistance would help reduce transaction costs and ensure more efficient strategy implementation. In this regard, the staffs support the government's plan to convene bi-annual donor coordination meetings and to pursue the implementation of the Paris Club Declaration. The staffs also encourage the authorities to develop contingency plans in annual progress reports in the event financial support turns out to be lower than planned.

II. POVERTY DIAGNOSIS AND THE MILLENNIUM DEVELOPMENT GOALS (MDGs)

5. **Mauritania's economy is two tiered, with a capital-intensive export sector vulnerable to external shocks and a low-productivity agricultural sector.** This structure has presented a formidable challenge to poverty reduction. The expansion of Mauritania's services industries (particularly transport and telecommunications) and the good performance of the mining sector (particularly iron ore, copper, and gold) drove overall growth during 2006-10. However, these activities had limited spillovers to agriculture, which remains the most important employment sector—60 percent of the population cited agriculture as their main source of income. As a result, agriculture was the smallest contributor to overall GDP growth during the last five years.

¹ The remainder is expected to come from additional donor support and new public-private partnership initiatives.

6. **PRSP-3 acknowledges the limited progress in reducing poverty, thus highlighting the country's inability to reach its poverty MDG by 2015.** Between 2004 and 2008, the incidence of poverty declined from 47 percent to 42 percent of the population. While this was less than in 2000 when 51 percent of the population was considered poor, continuing on this modest trajectory would make it very difficult to reduce poverty to 25 percent by 2015, the country's MDG goal. PRSP-3 points out that addressing poverty is intimately linked to strengthening the performance of the agricultural sector as almost 60 percent of the rural population was poor in 2008, compared to 21 percent in urban areas. Moreover, rural poverty worsened in the four years to 2008, while urban poverty fell, particularly in the country's capital.

7. **The staffs agree that the slow progress in poverty reduction is due to three main factors.** First, overall economic growth was weaker than expected at the inception of both PRSP-1 and PRSP-2. Second, growth was not sufficiently "pro-poor", which is intimately linked to the poor performance of the agricultural sector. Finally, the country has experienced relatively rapid population growth, leading to an increase in the absolute number of poor people in 2004-08, despite the decrease in relative poverty. These factors were made worse by a series of exogenous shocks, both external (food and fuel prices, global financial crisis) and domestic (political instability).

8. **PRSP-3 candidly recognizes the mixed results in achieving the remaining MDGs and highlights the need for renewed focus.** MDG 2 (universal primary education) and MDG 3 (gender equality in primary education) appear achievable because of the significant progress already realized in school enrollment. The prevalence of HIV/AIDS remains below one percent, which is already sufficient to meet the associated MDG. However, MDG 4 and MDG 5, related to child and maternal health, will not be within reach under current policies. In the staffs' view, achieving the MDGs will depend critically on making growth more inclusive through boosting productivity in the agricultural sector and using public resources more efficiently, particularly in the health sector. This would help reduce the large regional disparities for accessing basic health services and infrastructure.

III. STRATEGIC VISION, OBJECTIVES AND IMPLEMENTATION

A. Macroeconomic Framework

9. **PRSP-3 is built on a macroeconomic framework that aims to unlock Mauritania's growth potential, while safeguarding stability.** The macroeconomic objectives for the 2011-15 period set in PRSP-3 are broadly in line with the current ECF-supported program and aim at: (i) lifting average annual real GDP growth to 5.8 percent; (ii) containing annual inflation to below 5 percent; (iii) bringing down the budget deficit (including grants) to below 2.6 percent of non-oil GDP by 2015; and (iv) increasing international reserves to close to 4 months of imports by 2015. While some of these

objectives remain ambitious, attaining them in the medium-term is feasible provided the authorities continue to put in place prudent fiscal, monetary, and exchange rate policies, while pressing ahead with their structural reform agenda. This will sustain growth and help mitigate the impact of adverse external developments. Given the country's high vulnerability to external shocks, it would have been important to include in PRSP-3 a sensitivity analysis that highlights downside and upside risk scenarios, as recommended at the stakeholders' conference. The staffs therefore encourage the authorities to include such analyses in the annual progress reports.

10. Overall growth projections are mainly driven by rising activity in the service, construction, and mining sectors. This is consistent with staffs' projections. However, the role of the informal sector, which accounts for up to 30 percent of gross domestic product, could have been analyzed in more depth. Achieving the authorities' growth projections will require successfully boosting competitiveness in the private sector, particularly that of small- and medium-sized enterprises and of the service sector, where financial intermediation is supposed to play a leading role.

11. Planned monetary and exchange rate policies are in line with the listed macroeconomic objectives. The staffs consider that maintaining inflation below five percent in an environment of high food and energy prices will be challenging. However, the authorities' monetary policy is appropriate for maintaining inflation in single digits. The staffs also agree that the Central Bank of Mauritania (CBM) should only lower interest rates if the inflation outlook remains favorable and inflationary pressures in check. In view of the weak transmission mechanism, staffs agree with the CBM's stated option of using reserve requirements to affect credit conditions. Mauritania's Real Effective Exchange Rate remains broadly in line with fundamentals. The authorities' stated commitment to greater exchange rate flexibility is welcome as it will help act as a buffer against external shocks, boost international reserves, and protect international competitiveness.

12. The envisaged fiscal consolidation is key for maintaining macroeconomic stability and represents an important instrument for poverty reduction. Total revenue (without grants) is projected to increase 14 percent per year on average, reflecting efforts to broaden the tax base, improved revenue administration, and higher prices for key exports, such as iron ore, gold and fish. On the expenditure side, growth of subsidies to state-owned enterprises and public wages is contained at 3.1 percent per year over 2011-15, down from 9 percent before. Expenditure cuts in these two categories, which are generally associated with an inefficient use of scarce public resources, are appropriate, but policies underlying such cuts need to be identified. This will be particularly important at a time when the cost of generalized and insufficiently targeted subsidies is increasing as a result of rising international food and energy prices. The staffs strongly support the authorities' intentions to scale back generalized price subsidy schemes to improve the existing targeting mechanisms.

13. **A more positive effect of the recent surge in commodity prices is that revenue projections are now stronger than they were at the time of the finalization of PRSP-3.** This creates additional space for adhering to the envisaged fiscal consolidation path while increasing spending on much needed infrastructure and poverty reduction. However, the authorities should remain prudent by anchoring their fiscal policy stance on developments in the non-extractive industries, which would help avoid hard budgetary choices in case of a downturn in world commodity markets.

B. Making Growth More Inclusive

14. **The staffs concur with the authorities that the private sector needs to become the source of sustained and inclusive growth.** PRSP-3 identifies weak private sector activity as a major factor that prevented sustaining a robust economic growth momentum. The staffs agree that weak physical and institutional infrastructure, limited access to financial services, an inadequately trained work force, and a burdensome regulatory environment are the proximate causes of private sector underdevelopment.

15. **PRSP-3 seeks to limit corruption and anti-competitive behavior.** A main challenge is to improve the governance of private firms and the regulatory environment to limit inefficient rent-seeking and corruption. The recent adoption of the national anti-corruption strategy is a positive step forward, and the staffs recommend that this strategy be reinforced with strong political commitment. Oligopolistic structures in many key domestic markets interfere with an efficient allocation of resources, limiting productivity and employment growth. The staffs support the government's plan to adopt a strategy to fight against noncompetitive practices, including improving the legal and institutional framework on competition policy.

16. **A large number of policy measures aim to boost private-sector activity.** The staffs agree with the government's plans to adopt an investment code that is in line with most relevant international practices. Further simplification of tax and customs procedures and streamlining the structure of custom duties and tariffs will also help remove growth constraints. Other recommended reforms are: (i) conducting a census of all potential tax payers; (ii) applying the new and much simplified procurement code; and (iii) improving the functioning of the One-Stop Window and other regulations that affect private sector activities, including those regulations captured by the Doing Business Indicators (DBI). Mauritania ranks 165 out of 183 countries in the DBI ratings for 2011, with the DBI for starting a business at 152 and DBI for getting credit at 152. In the staffs' view, detailing and prioritizing the policy reforms suggested in PRSP-3 based on how constraining they are to private sector growth will help channel resources to reforms that yield greatest growth dividends.

17. **PRSP-3 acknowledges that growth is not driven by economic sectors that employ most of the poor.** The most labor-intensive sector, agriculture, is not projected to

be a major driving force, which raises questions about the extent to which economic growth, even if it materializes according to projections, will dent poverty. A discussion of the links between the projected sectoral growth pattern and poverty reduction would have helped assess whether the overall growth objective is compatible with the poverty goal. Also, the staffs believe that the analysis of the sectoral growth pattern would have benefitted from a greater focus on the role of the informal sector, which includes most of the SMEs active in the country. While the planned 1-2-3 survey of the informal sector is welcome, the staffs would have liked to see a strategic vision of how to improve the business environment and government services so that workers and SME are willing to formalize their economic activities.

18. Improving the productivity of the agricultural sector is key to poverty reduction. Acknowledging the challenge, the authorities' goals are committed to making the sector more modern and productive, while ensuring food security. The staffs support the authorities' emphasis on the importance of developing supportive infrastructure such as irrigation, improving distribution networks, and building capacity. The authorities' plan to establish a regulatory framework for public-private partnerships (PPPs) is welcome and a pre-requisite for any type of PPPs introduced to encourage private investments in irrigation projects.

19. Inclusive growth requires reinvigorating small- and medium-sized enterprises. PRSP-3 highlights progress made in improving the environment for SMEs, but notes that it remains constrained by an unfavorable tax regime and high external financing costs. The staffs agree that reforms in these areas should be a priority. The government's efforts to strengthen supervision of micro-finance institutions represent another promising track for supporting SMEs, particularly those that are particularly restricted in their access to finance such as female-operated companies and SMEs in rural areas.

20. PRSP-3 also underlines the need to enhance social protection. The staffs welcome the recently completed study on social protection and believe that the forthcoming social protection strategy should consider migrant workers and give prominence to developments in the informal sector. In the staffs' view, updating existing surveys on the most vulnerable population, such as the annual World Food Program survey and the more extensive 2008 household survey, is necessary to analyze the most recent poverty developments. The findings can then be used to introduce better targeted social safety nets and assess the effectiveness of any social protection reforms. In light of the recent food crises, the authorities plan to better protect the most vulnerable, including through re-evaluating the existing food subsidy scheme, which is neither well-targeted nor cost effective. The staffs support the authorities' efforts to replace the existing system by a better targeted social safety net in the near term.

21. **In view of rapid population growth and pervasive high unemployment, the staffs support the authorities' intention to improve labor market conditions.** Specific measures include a renewed focus on education and professional training programs to better target skills and knowledge needs of the private sector. The importance of skills development cannot be understated, particularly for the growth of modern agriculture or mining sector that currently recruits abroad to fill vacancies requiring technical skills. Other efforts will focus on fostering entrepreneurship and partnerships with the private sector, and other public policy avenues such as employment through public investment projects. The staffs concur with these objectives and the envisaged reforms to update the implementing regulations associated with the labor code, to revise the general convention on collective bargaining, and to strengthen the role of the inspectors and controllers of the labor administration.

C. Improving the Potential of the Mauritanian People and Access to Basic Social Services

22. **PRSP-3 continues to focus on health and education as key ingredients to sustainable development.** The staffs strongly support efforts aimed at closing educational disparities based on gender, socio-economic characteristics, and regions. The emphasis on improving the quality of education at all levels and gearing curricula towards meeting market demands for advanced and technical jobs is also critical. Skill development is crucial for job creation as Mauritania has about 350,000 unskilled youth that did not complete secondary education while 65,000 school dropouts enter the labor market annually. On gender, the staffs welcome the authorities' plan to adopt a national strategy for institutionalizing gender issues, followed by a law to implement it.

23. **The staffs also agree on the urgent need to improve access to and quality of health services.** To get within reach of the MDGs related to maternal and infant health, the staffs encourage the government to develop a policy that: (i) enhances training of midwives and nurses and better equipment for emergency care; (ii) improves the incentives of health workers; (iii) has a better balance between increased use of existing services and the construction of new health facilities; (iv) further develops rural outreach through mobile teams and community health workers; and (v) emphasizes demand-side incentives, such as vouchers for pre-natal care and institutional deliveries.

24. **The ongoing public expenditure review in the health sector should provide valuable insights into the quality and efficiency of sectoral expenditures,** thus helping the authorities improve their budget allocation and execution practices. A similar public expenditure review should be undertaken for the education sector.

D. Enhancing Governance and Institutional Development

25. **The government recognizes that governance needs to be strengthened along a number of dimensions:** (i) political and democratic, (ii) local and territorial;

(iii) economic; (iv) environmental; (v) citizens' control; and (vi) capacity building among public and private actors. In the economic sphere, the staffs welcome the country's expected graduation in 2011 from the Extractive Industries Transparency Initiative (EITI) "candidate country" to "compliant country" status. The staffs also support the government's adoption of a strategy against corruption. The staffs encourage the authorities to move ahead with the implementation of their public finance reform program, which will help strengthen accountability, including external and audit functions. Maintaining and publishing reliable and unified databases on public finances will help show how well public funds are spent, which strengthens transparency and, as a result, accountability. Finally, implementing the new procurement law will increase efficiency and transparency in transactions between the private and public sectors.

26. PRSP-3 recognizes that adequate policy making requires much improved statistical capacity. The 2007-2012 and 2012-2015 National Strategies for the Development of Statistics (SNDS) are geared towards strengthening capacity in the public sector to produce reliable statistics in a timely manner. To this end, the government is progressively moving towards international norms and plans to update existing statistical information through a series of surveys (e.g., a general population census, a census for the rural and agricultural sectors, and surveys on employment in the informal sector, poverty, and infant and maternal health).

E. Strengthening Planning, Monitoring and Evaluation Systems

27. PRSP-3 candidly notes that the two previous poverty reduction strategies were neither fully implemented nor satisfactorily monitored. Insufficient coordination between various expenditure plans and budget programming tools (PRSP, MTBF, consolidated investment budget and budget law) and inappropriate monitoring and evaluation systems help explain weaknesses observed over the last decade. The staffs therefore strongly encourage enhancing the coordination between budget planning and actual expenditure execution to ensure that budget programming mirrors the country's development goals. The authorities have chosen to streamline the indicators used for PRSP-3 and develop a clear working methodology to select them.² The staffs believe that the proposed indicators capture a wide variety of poverty-relevant developments and urge the authorities to collect the necessary data with the shortest time lags possible. Using a computerized system to capture the life cycle of investment projects will provide the authorities with key inputs for evaluations and assessments.

28. Regular reporting and close coordination between sectors will inform the annual progress reports. With the public investment budget representing a key

² 74 indicators were chosen, based mostly on annual surveys or statistical sources. Each indicator is meant to be specific, measurable, achievable, and time bound. The majority of the indicators capture the impact on MDGs, poverty, and macroeconomic stability, while the remaining focus on results at the sectoral levels, progress on large infrastructure projects, and resources spent for monitoring.

implementation tool for PRSP-3, budget reports will inform each annual progress report. Close coordination between sectors will guide budget implementation throughout the year and lay the basis for future budget discussions. The staffs urge the authorities to closely coordinate with all stakeholders to ensure their participation at all stages of the PRSP-3 evaluation phase.

V. CONCLUSION, RISKS AND ISSUES FOR DISCUSSION

29. **The staffs welcome the elaboration of PRSP-3, which will guide the country in its efforts to sustainably reduce poverty.** The strategy is both comprehensive and ambitious. It aims at: (i) accelerating economic growth; (ii) making growth more inclusive; (iii) realizing the potential of the Mauritanian people; and (iv) improving governance and infrastructure. The staffs welcome the authorities' willingness to learn from the implementation weaknesses of its previous anti-poverty strategies, which led to a renewed focus on monitoring and evaluation.

30. **Successful implementation of PRSP-3 hinges critically on the authorities' ownership and commitment.** Full political support is necessary to protect PRSP-3 from weaknesses that became apparent in implementing previous PRSPs. Risks remain plentiful, including terms of trade shocks, regional political turmoil, volatile donor financing, low implementation capacity, inadequate prioritization, and insufficient monitoring.

31. **PRSP-3 highlights exogenous shocks as serious implementation risks.** Mauritania is vulnerable to both external (terms of trade volatility and volatile donor financing) and domestic (natural disasters such as droughts and political instability) economic shocks. If demand for its main exports—iron ore, copper, and gold—were to fall, government revenue would take a significant hit and external imbalances would grow. Also, if international food and energy prices spike, the government will likely need additional resources to protect the vulnerable. Since there is little fiscal space in the event of stress to replace lost export revenue, public spending and investment plans may have to be revisited in response to any of the above shocks, which would likely jeopardize attaining the objectives outlined in PRSP-3. The staffs agree with the authorities that further efforts in diversifying the export base are necessary to address this vulnerability.

32. **The domestic political environment has stabilized following the democratic elections in 2009, but additional social unrest in the region could further increase risks of contagion into Mauritania.** This is especially relevant in view of Mauritania's high unemployment rate among the 15–24 year olds of about 51 percent. Measures in PRSP-3 aimed at alleviating poverty, reducing unemployment through skills developments, and improving access to social services will be essential for reducing political risks further.

33. **While political risks have fallen, PRSP-3 implementation will only succeed if the institutional framework remains stable, human capacity strengthens further, and the civil society is engaged on a permanent basis.** To strengthen ownership and improve the chances of success, the staffs support the plan to anchor PRSP-3 in domestic law. While this step in itself will not guarantee successful implementation, it will legally bind line ministries to pursue the PRSP-3 objectives. The ensuing cooperation between ministries will improve the budget process, which will continue to run in parallel to PRSP-3 implementation. It will be equally important to maintain a collaborative approach in the drafting of the annual progress report, with the core group of officials who prepare the progress report actively engaging both line ministries and stakeholders. Overcoming a legacy of intense internal rivalry between various smaller groups over the country's resources, with resulting political instability, will only be possible by building a broader social consensus and trust. Important segments of Mauritania's population—such as those engaged in agriculture or the unemployed—have not benefited from the natural resource wealth and recent growth, with resources being concentrated in oligopolistic industries and urban elites. Shifting this pattern, as PRSP-3 proposes to do, will require the building of coalitions that are broad enough to include those currently sidelined from the growth process. The formation of these coalitions, in turn, will be facilitated by greater civic engagement in policy dialogue, as well as greater transparency of information pertaining to government revenue and spending and welfare of citizens.

34. **Ensuring a broad social consensus for the envisaged poverty reduction strategy will also make it easier to mobilize donor resources, thus easing financing constraints.** Weak internal capacity represents an additional risk that could prevent an efficient implementation of poverty-related investments. The staffs are encouraged by the authorities' candid acknowledgment of the challenges in this area, and support the remedial measures set out in the context of the Fund's ECF-supported program.

35. **Enhancing productivity of the agricultural sector and better targeting of subsidy schemes represent key near-term priorities.** With agricultural activity concentrated in rural areas where poverty is most prominent, measures to improve irrigation systems and distribution networks for fertilizers could yield large pro-poor near-term dividends. Similarly, the staffs suggest that the ill-targeted subsidy schemes be replaced by better targeted social safety nets that can directly improve the lives of the most vulnerable. Progress in these areas could be included in the first annual progress report.

36. **In considering the authorities' PRSP-3 and its associated JSAN, Executive Directors' views are sought on whether they agree with the overall thrust of this JSAN, particularly:**

- Does PRSP-3 provide a comprehensive framework for implementing Mauritania's growth and poverty reduction agenda?

- Do exogenous shocks represent the key risks to successful implementation?
- Is the emphasis on reinvigorating private-sector activity appropriate for reducing poverty in a sustainable manner?
- Are the envisaged near-term priorities appropriate?