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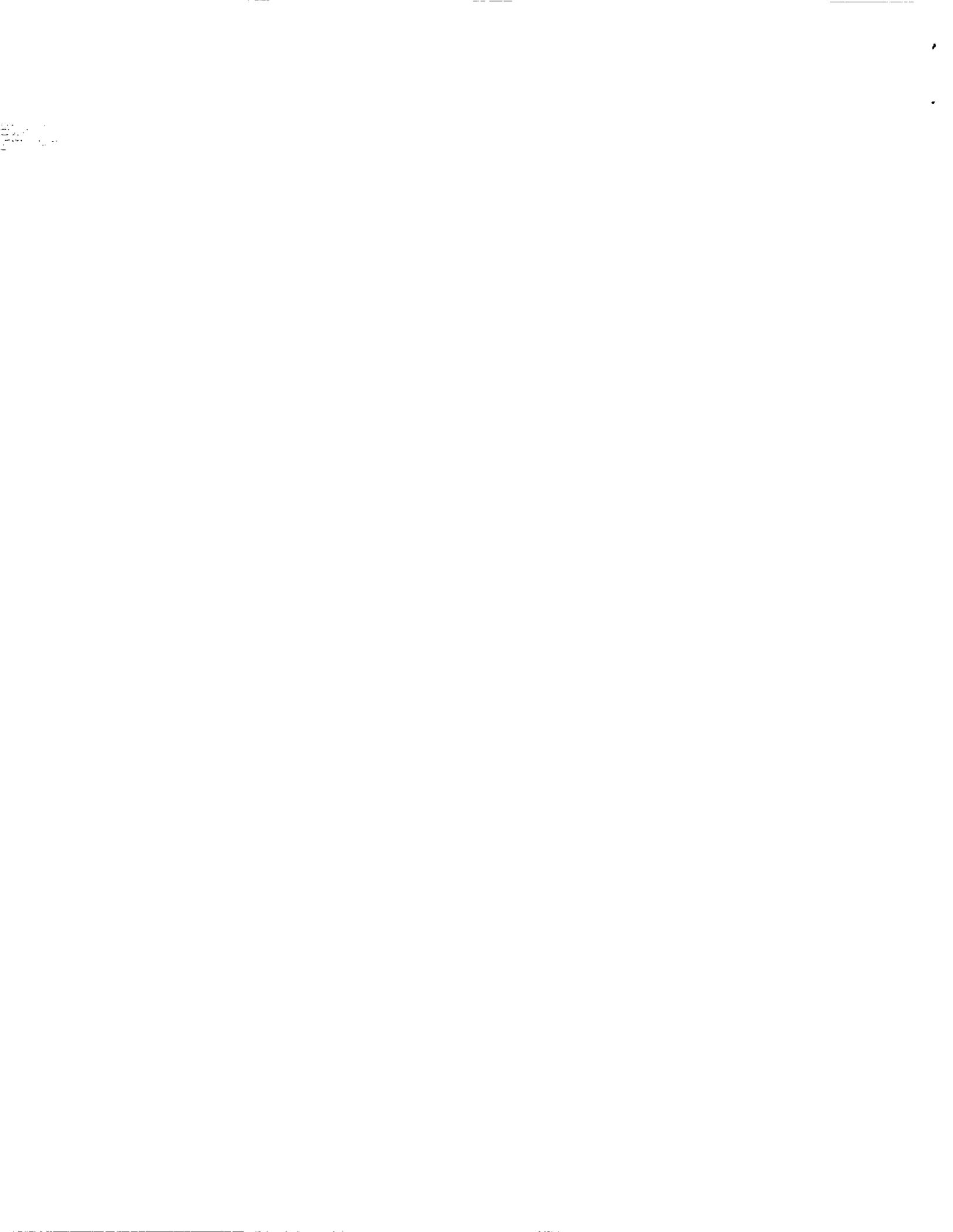
To: Members of the Executive Board
From: *The Secretary*
Subject: Mauritania - Policy Framework Paper for 1989-91

Attached for consideration by the Executive Directors is the policy framework paper under the enhanced structural adjustment facility for Mauritania. This subject, together with the staff report for the 1989 Article IV consultation with Mauritania and its request for arrangements under the enhanced structural adjustment facility (EBS/89/83, 4/24/89), will be brought to the agenda for discussion on a date to be announced.

Mr. Diogo (ext. 6521) or Mr. Briançon (ext. 8392) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

MAURITANIA

Enhanced Structural Adjustment Facility

Policy Framework Paper for 1989-91

Prepared by the Mauritanian authorities in collaboration
with the staffs of the Fund and the World Bank

April 17, 1989

I. Introduction

1. This document is the third rolling medium-term policy framework paper (PFP) that the Mauritanian Government has prepared with assistance from the staffs of the International Monetary Fund and the World Bank. It sets out the Government's targets and programs for the period 1989-91. It also reviews the progress made by the Government since 1986 in implementing a program of structural reforms with the support of three stand-by arrangements and two annual agreements under the structural adjustment facility (SAF) with the International Monetary Fund, and a structural adjustment credit and an institutional development credit from the World Bank. The adjustment program aimed at correcting the deep-seated economic and financial imbalances that had accumulated since the mid-1970s, re-establishing a viable external position over the medium term, and laying the basis for sustainable economic growth. The targets adopted by the Government in the first two policy framework papers were as follows: (i) to achieve a real GDP growth rate of about 4 percent annually during the period 1986-90; (ii) to reduce the rate of inflation to about 5 percent by 1990, compared with 7.9 percent in 1986; and (iii) to reduce the external current account deficit (excluding official transfers) from 21.9 percent of GDP in 1986 to 10 percent in 1990, so as to sharply reduce the need for exceptional financing. To achieve these objectives, the authorities relied on a strategy designed to encourage private initiative through the introduction of adequate price incentives and the liberalization of the legislative and regulatory framework; reorganize public enterprises and the banking system; ensure a more efficient utilization of resources and strengthen the productive base through reforms in key sectors. These reforms were supported by a cautious demand management policy and a flexible exchange rate policy (managed float); efforts have also been made to improve external debt management.

2. It was not possible to implement fully the economic adjustment and reform program during 1986/87 and 1987/88, the first two years covered by the policy framework papers. The introduction of some important structural reforms was delayed--sometimes for reasons beyond the control of Government. However, the measures that were implemented have contributed to a more efficient utilization of public sector resources, the establishment of a more competitive environment, and the increased participation of the private sector in the economy. Domestic and external imbalances have also been reduced compared with their 1985 levels. Nevertheless, delays in the payment of external debt

obligations have frequently resulted in accumulation of arrears, owing to the underlying weakness in the Government's overall financial position and poor administrative coordination of debt management and monitoring.

3. In this policy framework paper, the Government reaffirms its intention to achieve its growth and balance of payments objectives by continuing its strategy aimed at restoring a sustainable balance in government finances, namely through expanding the tax base and improving tax collection, upgrading expenditure management, and introducing a comprehensive reform of the productive system (agriculture, fisheries, energy, and public enterprise sectors) and the banking sector. The reform of the productive apparatus reflects the need to further develop the country's narrow economic base, and implies scaling down the size and the role of the public enterprise sector while introducing an incentive system to strengthen private sector involvement in all aspects of economic activity. In the context of this medium-term policy framework, the Government will also endeavor to consolidate its external debt policy by stabilizing the level of the external debt and substantially improving debt management so as to restore normal relations with its creditors in the medium term. It also aims to improve the quality and skills of Mauritania's human resources by reforming the educational system and adopting an appropriate population policy.

II. Achievements During the First Two Years Under the 1986-89 Economic Policy Framework

A. Reforms Introduced

4. As part of the rehabilitation of key public enterprises, the plan to restructure the iron mining company (SNIM) began with a 25 percent reduction in its staff and the introduction of an investment program intended to increase productivity. The restructuring of the water and electricity company (SONELEC) has reached its final phase: a new rate structure is in force, the size of the staff has been reduced, its management strengthened, and the two power plants at Nouakchott and Nouadhibou rehabilitated. The Petroleum Products Marketing Company (SMCPP) has lost its import monopoly and this area of activity has been opened up to the private sector. Pending the recommendations of a recent audit, provisional measures have been undertaken to strengthen the company's management. The Construction and Property Management Company (SOCOGIM) and the Public Transport Systems of Nouakchott (STPN) have been audited and rehabilitation plans prepared. Finally, the pharmaceutical products distribution office (Pharmarim) has been closed down and drugs are now marketed through the private sector. As regards restructuring of the banking system, substantial progress has been made in legal and administrative reforms including for example, the promulgation of a new banking law, and the drawing up, in consultation with the World Bank, of program contracts laying down a precise calendar

for full compliance by the banks; the introduction of a new uniform accounting system; the strengthening of the Central Bank's control over commercial banks and the definition of prudential ratios for banking operations. However, despite efforts to collect frozen loans (UM 235.0 million in 1985, UM 822.0 million in 1986, UM 902.00 million in 1987, and UM 616.0 million in 1988), the results obtained remain unsatisfactory, given the level of nonperforming loans outstanding and considering that the Government must issue treasury bills worth UM 3.5 billion in 1989 in order to reimburse the Central Bank for its refinancing and to participate in the recapitalization of some banks. In addition to the treasury bills, the Government also has used the counterpart of the World Bank structural adjustment loan (UM 1.8 billion in 1987-88 and UM 1 billion at the beginning of 1989) to clean up the banks' balance sheets and settle their external arrears. More vigorous action will be taken to speed up collections, particularly from the largest debtors. This would help lessen the burden of interest charges arising from the issue of UM 5.3 billion in treasury bills in 1988 and 1989 to reimburse the Central Bank's refinancing of some commercial bank loans that are frozen. Some objectives have been reached in the restructuring of the four ailing state banks: the National Development Fund (FND) and the Mauritanian Trade and Development Bank (BMCD) have been merged to create the Union of Development Banks (UBD), and the International Bank for Mauritania (BIMA) has been merged with the Mauritanian Banking Company (SMB) to create the National Bank of Mauritania (BNM). However, efforts to privatize this new bank have not been successful, for reasons beyond the control of the Government. Although negotiations were held with some foreign banks in the past year, with the support of the World Bank, the international banking community still does not appear to be attracted by the Mauritanian financial market.

5. As regards the implementation of the Economic and Financial Recovery Program (PREF) that the Government had set for the period 1985-1988, the public investment program has been streamlined and its size reduced from 23 percent of GDP in 1985 to 18 percent in 1987, a level more compatible with the absorptive and debt-servicing capacities of the country. The selection of projects has been improved, and projects will now be integrated in an annual consolidated budget prepared in conjunction with the World Bank. As a prelude to the tariff reform introduced through the 1989 budget, customs duties for a number of products were lowered in 1988 and duty exemptions on imported raw materials were reduced in order to promote the use of local resources. As for price policy, measures have been taken to liberalize the pricing system and marketing of local cereals, and retail prices for cereals have been adjusted to reflect increases in the producers' prices. The price control system has been made more flexible but, remaining controls include fixed markup for most imported industrial products, and homologation of the prices of 9 locally manufactured goods (compared with 11 in 1986); in addition, the prices of basic consumption items and services remains also subjected to official control. In the area of fisheries, the Government has implemented a new policy aimed at

protecting fishing resources, avoiding overfishing, and increasing domestic value added. A number of measures have also been introduced to foster development of small- and medium-sized firms. Since 1987, these firms have been able to obtain an import-export permit without having to go through all the lengthy administrative procedures normally required, and also to import, without a license, intermediate goods needed in the primary, manufacturing, and crafts sectors.

B. Impact of the Program

6. The introduction of these measures and the implementation of a flexible exchange rate policy have contributed to a substantial reduction in domestic and external imbalances while removing some of the obstacles to economic growth. Nevertheless, delays in preparation and implementation of supply-side reforms--such as the new investment code, the new customs tariff, the fishing policy, the cereals policy, and bank restructuring--have restricted growth, and may in part explain why the country's financial position did not improve to the extent originally anticipated. As regards the restructuring of the banking system in particular, the prolonged delay in negotiations to rehabilitate the ailing commercial banks, including the noncollection of nonperforming assets, has exacerbated the liquidity problems of the banks concerned and hampered the normal course of economic activity. This has adversely affected the liquidity difficulties experienced by the Treasury--owing in part to the difficulties encountered in cashing tax revenues paid by certified checks drawn on illiquid banks.

7. During the period 1985-87, real GDP grew by about 3.7 percent annually, compared with a decline of 0.2 percent on average during the period 1982-85. This is explained by two good crop seasons during which cereal production rose by 61 percent and livestock herds gradually recovered, combined with a satisfactory performance in the fishing, handicrafts, and small business sectors, as well as the impact of new private investment. The Government's financial position improved and the operations of the Treasury recorded a surplus of 2.9 percent of GDP in 1987, while the overall deficit in the consolidated operations (excluding grants) fell from 16.4 percent of GDP in 1985 to 6.1 percent. ^{1/} This improvement in the Government's financial position reduced the need for bank financing, thereby contributing to the slowdown in the growth of domestic credit and money supply. As a result, the current account deficit (including official transfers) was lowered to 11.8 percent of GDP in 1987, against 14.3 percent of GDP in

^{1/} All budget balances exclude exceptional operations connected with the restructuring of the public enterprises and the banking system. The consolidated budget includes, in addition to the operations of the Treasury, other government expenditures financed through foreign grants and foreign loans.

1985, despite a marked deterioration in the terms of trade. The rate of inflation was reduced from 13.6 percent in 1985 to 8.2 percent in 1987. 1/

8. Preliminary data available for 1988 indicate that GDP grew at a slower pace (2.5 percent in 1988) than in 1987. This reflects primarily the drop in primary sector output (mainly fishing), which was partly offset by a rise in secondary sector output, thanks to sustained SNIM activity. The consolidated financial operations of the Government (on a cash basis and excluding grants) showed a deficit equivalent to 6.4 percent of GDP, 2/ taking into account a net reduction in payments arrears estimated at UM 358 million. 3/ The treasury operations recorded an estimated surplus (on a cash basis and excluding grants) equivalent to 2.1 percent of GDP compared with 3.2 percent in 1987; this decline is explained in part by the fall in nontax revenue from the exceptional level reached in 1987 and by the net repayment of arrears. However, because of the issue of UM 1.8 billion in treasury bills to cover a portion of nonperforming loans resulting from previous rediscounts by the Central Bank, the Treasury's net bank financing requirement amounted to UM 883 million, despite a slight drop in advances to the Government and an increase in its deposits reflecting the balance (UM 860 million) of drawings on the World Bank's structural adjustment credit (SAC).

9. In 1988 domestic credit increased by about 18 percent in relation to broad money supply at the beginning of the period. However, broad money supply grew by only 3 percent as a result of the deterioration in net external assets (7 percent of broad money supply) of the banking system. The external position weakened further, and the overall balance of payments showed an estimated deficit of SDR 50 million, slightly more than in 1987. This largely reflects the fact that the SDR 23.9 million improvement in the current account balance was not enough to offset the large drop in the capital account balance (SDR 81.7 million) owing to a decline of SDR 32.7 million or 31.6 percent of disbursements of medium- and long-term external loans, while debt amortization repayments increased by SDR 10.8 million (or by SDR 53.9 million, including the counterentry to the debt cancellation granted by the Federal Republic of Germany. In addition to the reduction of SDR 14.8 million in the Central Bank's net foreign assets, the deficit was financed by debt rescheduling (SDR 29.3 million) obtained in 1987 for 1988 maturities,

1/ Problems have recently appeared in the reliability of the price data used in calculating the consumer price index; major changes to the calculation methodology are planned in 1989.

2/ The cost of public enterprise and bank restructuring was equivalent to 3.5 percent of GDP in 1988.

3/ The net amount is the difference between the payments of arrears on interest and principal accumulated in 1987 and the new accumulation of arrears on interest payments that would be eliminated through rescheduling in 1988. In 1988, accumulation of arrears on principal payments is shown as a financing item.

and by the accumulation of arrears (SDR 9.8 million) to Paris Club and other bilateral creditors, while commercial banks improved their own external positions by SDR 4.1 million through the reduction of external arrears.

III. Medium-Term Objectives and Policies

10. Faced with a difficult economic and financial situation, the Government has devised a new strategy to promote reforms aimed at achieving structural adjustment and sustainable growth in order to improve the welfare of the population. The Government's structural adjustment policy consists of a program of actions covering agriculture, public enterprises, promotion of private initiative, diversification of the export base, and improvement of the quality of human resources. The authorities recognize that achievement of these objectives can be hampered by the large debt-servicing obligations and, to some extent, by the high rate of population growth--two of the important areas where the Government is identifying solutions with donor assistance.

11. Against this background, the Government has updated its policy framework paper, which contains the following objectives for 1989-91: (a) an average annual real GDP growth rate of about 3.5 percent, which should result in a modest increase in per capita income; (b) a reduction in the annual rate of inflation measured by the GDP deflator, from 7 percent in 1987 to approximately 4.5 percent in 1991; 1/ (c) a reduction in the current account deficit from 11.8 percent of GDP in 1987 to around 3.6 percent in 1991. The current account deficit (excluding official transfers), is expected to fall from 21.6 percent of GDP in 1987 to some 9.8 percent in 1991. Achievement of this medium-term objective takes account of export prospects and, in particular, of the likelihood that fish and iron ore export prices will rise only slightly between 1990 and 1991, while export volumes will rise only moderately for iron ore (because of technical difficulties being experienced by the mining company) and fish. The Government will take all additional measures that may be necessary to achieve its growth and current account adjustment objectives.

A. Sources of Growth and Initiatives in the Area of Incentives

12. Mauritania's natural constraints, and desertification in particular, will continue to pose a challenge to the country in the years ahead. The primary sector (stockraising, agriculture, and fisheries) remains the predominant sector of the economy. Stockraising, which continues to be largely traditional, could make a greater contribution to growth if it were better integrated into agricultural and forestry activities.

1/ Measured by the implicit GDP deflator.

13. The development of irrigated land, in conjunction with a consistent investment program in the sector, can help significantly improve farm output and reduce cereal imports. This, and the implementation of the new cereals policy, could make it possible to cover a larger part of domestic demand for rice, and will be a decisive factor in economic growth. Furthermore, the implementation of an appropriate agricultural credit policy, the improvement of land policy, and the rationalization of the role and activities of the National Rural Development Agency (SONADER) are all factors that will encourage private initiative in this sector and thus help achieve the development objectives set for irrigated agriculture and the strengthening of food security. This policy will also bring about an increase in farm income and help stem rural migration.

14. The contribution of the fisheries sector to foreign exchange earnings, and to government revenue, remains substantial. However, its contribution toward domestic value added is still relatively limited. This is due to the dominant role played in the sector by self-sufficient foreign or charter fishing fleets manned largely with foreign crews.

15. Within the framework of its declaration on fisheries policy, the Government has promulgated a fishing code that aims at guaranteeing the rational exploitation of fish resources and increasing value added in the sector. Donors are currently financing specific actions targeted at strengthening the administrative agencies at Nouadhibou responsible for evaluating resources in the sector and at setting up a monitoring and control system (MCS) for the management of fishing resources within the Exclusive Economic Zone (EEZ). As regards value added, the Government still needs to take firmer measures to improve management of the licensing system and to promote the development of local infrastructures with a view to creating local jobs at sea and on land. Such measures are essential as they will determine the type of training to be provided under the existing program, as well as the planned construction of private boat repair yards. They will be accompanied by credit and tax policies designed to encourage small-scale fisheries, and to strengthen the country's private fishing fleet.

16. In the manufacturing sector, the Government's objectives are to promote a competitive environment and encourage increase in the production and productivity of small- and medium-sized enterprises in the fisheries, livestock, and industrial sectors. Toward those objectives, the Government has prepared measures to: (i) simplify the customs duty system in order to reduce the level of effective protection, and to abolish preferential regimes for imports of inputs and materials; (ii) eliminate all import quotas and monopolies; and (iii) increase investment incentives by liberalizing the trade and exchange system and by gradually eliminating price controls. By the end of 1991, the Government intends to end price controls and to eliminate the administrative offices responsible for price control. However, in the event of exceptional shortages of a limited number of basic commodities and services for which a list will be drawn up annually in

consultation with the staffs of the World Bank and the Fund, the Government will be able to intervene for a three-month period to reduce price variability. A service will be created to monitor prices and market competitiveness by means of a posteriori controls, to ensure that prices are not unduly increased and that the rules of fair competition are being observed. This surveillance service will be manned by a small staff. In order to improve the ability of the consumer price index to track trends in domestic prices, the Government has decided to significantly improve the collection and price data by implementing the recommendations of an IMF technical assistance mission; this should restore the reliability of the consumer price index, which in recent years has lost credibility as a realistic measure of inflation. Instruments, procedures, and mechanisms that contribute to implementing quantitative restrictions of imports will also be abolished. The Government will rely on an appropriate exchange rate policy and a new tariff system to improve Mauritania's external position. Combined with the restructuring of the banking sector, these reforms will help speed up the promotion of small- and medium-sized businesses in the export and import-substitution sectors, and strengthen the private sector's potential for creating and managing enterprises.

17. The growth in GDP envisaged above implies an appropriate level of investment in the priority sectors, particularly agriculture and fisheries. To improve the quality of financing of this investment, thereby reducing the impact on the debt, the Government will encourage inflows of foreign capital and mobilize domestic savings through a policy of positive real interest rates. However, the Government recognizes that the completion of the reform of the banking system and a larger private sector participation in investment are the essential factors that will make the greatest contribution toward mobilizing domestic and foreign capital.

18. In the mining sector, SNIM, the second largest employer after the Government and for a long time the main engine of economic growth, continues to experience financial and technical difficulties despite the implementation of a rehabilitation plan, which involved a sharp reduction in its staff. A new plan of action aimed at boosting productivity and reducing current expenditure has been prepared in an attempt to restore SNIM to its former role as an important source of growth. To improve the company's medium-term prospects and strengthen its contribution to growth, exports, and employment, the Government is negotiating an agreement with creditors with a view to reducing the company's sizable domestic and external debt-servicing obligations, by means of cancellation, capitalization and rescheduling of the debt. Additional financial assistance is also being requested, especially from creditors involved in the Guelbs project, whose delayed production start-up has been one of the main causes of SNIM's financial difficulties. This additional assistance will help rebuild the company's capital; furthermore, the company will be restructured as part

of a public enterprise sector structural adjustment program, which is currently under preparation, and will be supported by a loan from the World Bank.

B. Macroeconomic and Structural Policies

19. The Government's macroeconomic policy is based on supply-side measures, prudent management of aggregate demand, liberalization of the exchange and trade arrangements, and a flexible exchange rate policy. The specific measures to be implemented over the period 1989-91 are listed in an appendix to this document, which also gives a timetable for their implementation.

B1. External Sector

20. With a view to improving the medium-term external situation, the Government has prepared measures aimed at stimulating export activities and liberalizing external trade. A new customs tariff was introduced in January 1989, the aim of which is to simplify the tariff system, reduce the average rate of effective protection, promote greater competition and thus increase productivity in the manufacturing sector and improve resource allocation. The lowering of nominal rates is combined with a reduction in import duty exemptions so that the Government does not lose any revenue as a result of the new customs tariff. Furthermore, quantitative import restrictions will be progressively eliminated starting in 1989. In particular, the Government will eliminate in 1989 the import license and import authorization, and ease the requirements to obtain the importer/exporter card, which will be abolished in 1990. Throughout the period under consideration, the Government will implement a flexible exchange rate policy that, together with appropriate demand management policies, will help achieve the medium-term objectives for the balance of payments. The exchange rate policy will aim at stimulating both traditional and nontraditional exports and contribute to import substitution, by promoting the use of domestic resources and improving the international competitiveness of domestic products.

21. At the end of 1988 Mauritania's outstanding external debt reached a level equivalent to 187 percent of gross domestic product; this high level of indebtedness threatens the Government's growth objectives. Despite the measures adopted recently by the Government to contain any further debt accumulation, in particular through a reduction in the investment program, the cost of servicing the debt remains high because of inappropriate indebtedness and investment policies followed in the past. The support of the international community in the form of successive reschedulings has, in the short term, brought debt servicing down to a level more compatible with the resources of the country. Nonetheless, according to forecasts, debt service maturing in the period 1989-91 may total about SDR 145 million annually on average, an amount equivalent to 37 percent of exports of goods and services. The Government is concerned by this burden and considers it necessary, as a matter of urgency, to examine with creditors various ways of relieving

its debt, including refinancing, debt conversion, negotiations to obtain more flexible terms for the outstanding debt, and cancellation of debt arising from official development assistance.

22. To prevent debt service from becoming an excessive drain, the Government will not contract or guarantee any new nonconcessional borrowing in the 1 to 15-year maturity range except as part of rescheduling arrangements. Short-term trade credits are not included in this provision. In addition, the Government will ensure that commercial banks do not increase their short-term debt not related to external trade and that other private debt guaranteed by the Government is repaid on maturity. Furthermore, the Government will, in the medium term, endeavor to obtain external financing for its public investment in which the ratio of loans to grants and quasi-grants would be of the order of 1 to 3. The Government is also implementing administrative measures which, thanks to improved centralization and computerization, will strengthen debt planning, monitoring and management, and avoid any recurrence of external payments arrears accumulation.

B2. Management of Public Resources and Reform of public Enterprises

23. To strengthen its financial position in the medium term, the Government will continue to implement and strengthen a prudent expenditure policy, to improve allocations for current and capital expenditure, and to pursue tax reform. In the period 1989-91, these measures should produce a further increase in the surplus of the Treasury, which will cover the sizable amortization of the nonreschedulable external debt arriving at maturity. At the same time, the Treasury's operations surplus (excluding grants) should rise from 2.4 percent in 1988 to 4.8 percent in 1991; regarding the consolidated budget, this would imply a reduction in the overall deficit from 6 percent of GDP in 1988 to 2.1 percent in 1991.

24. The authorities will implement a far-reaching tax reform program in order to broaden the tax base in all sectors, including agriculture, to reduce exemptions, and to make the fiscal system more flexible and more equitable. These reforms, in addition to the new customs tariff that came into effect in January 1989, cover the tax on industrial and commercial profits (BIC), the expansion of the turnover tax (TCA), and the tax regime for the fishing and iron ore sectors. As regards the BIC and the TCA, the following reforms will be implemented in two stages over the period 1989-1990: (i) the deductibility of the minimum lump sum tax (IMF) from the BIC will be limited to 50 percent; (ii) the IMF will be set at a new rate and integrated into the TCA to become a wider-based tax on all sales transactions; (iii) the rates for domestic TCA and import TCA will be brought to the same level. To improve the tax base and collections, measures will be adopted to facilitate the taxation of income on a real rather than a presumptive basis. A list of the largest taxpayers having incurred arrears on direct and indirect taxes and customs duties payments will be drawn up. Treasury services

in charge of tax revenue collection will be strengthened as well as collection procedures, including the application of administrative constraint, so as to accelerate the collection of tax arrears during the period 1989-91.

25. The tax system for the fishing and iron ore sectors will be reviewed in the light of the recommendations of the studies to be undertaken in 1989 with the support of the World Bank. Pending these recommendations, the Government has decided to accelerate the negotiations with the Korean authorities in order to avoid double taxation of the income earned in Mauritania by Korean sailors. The conclusion of these negotiations will allow the Government to tax foreign sailors' incomes starting in 1990. In addition, tax-exempt imports of ship-chandlers will be reviewed in 1989 with a view to eliminating these by 1990. As for the iron ore sector, SNIM will pay all tax arrears due in connection with its withholdings of taxes from its employees' wages along lines to be decided with the Government, and in such a way as to preserve their fiscal nature; from 1989 onward the company will also pay to the Treasury the amounts it deducts from its workers' salaries on account of this tax.

26. A key element of the ongoing tax reform is the streamlining of the customs tariff and the elimination of import duty exemptions. The new tariff system will feature a more flexible structure, moderate uniform rates, and an average rate of effective protection that is compatible with the Government's development policy. From 1989 onward, the import of petroleum products for use in foreign-financed projects will be subject to customs duty. At the same time, a study, to be completed by end-1989, will be undertaken to explore how this measure can be extended to other products where fraud is likely. All submissions with regard to government invitations to bid will include adequate provisions on payment of all relevant taxes. These measures will strengthen the tax base by helping reduce tax evasion and fraud.

27. The Government will reduce the personnel component of current expenditure, and increase the funds allocated for materials and supplies, maintenance, and for essential investment. With World Bank assistance under an institutional development project, the Government is effecting administrative reform--concerning employment policy, size and age distribution, benefits (competitiveness, effects on motivation and productivity), and career streams and training. A study will be undertaken in 1989 to define the required measures and to outline a program for implementation of reforms. The rationalization of education expenditure, including remuneration and the various financial benefits enjoyed by education personnel, will be pursued with assistance from the World Bank. In this context, concrete measures will be taken to reduce the average cost of education, which is currently higher than elsewhere in the West African subregion. The Government will give priority to primary education, and to gearing the training of skilled workers to the needs of the economy. To this end, annual growth in recurrent expenditure between 1989 and 1993 in the higher education sector will be

limited, while scholarships at the secondary level, teacher training expenditure, and higher education expenditure will be maintained at the 1987 levels, as agreed under the education project financed by the World Bank and the African Development Bank.

28. In 1985, the Government began to review its public investment policy with assistance from the World Bank and the Fund. The new policy stresses the selection of financially viable projects that generate foreign currency. The public investment program (PIP) for the period 1989-1991 is based on a careful selection of projects in consultation with the World Bank. The total amount of the investment program is estimated at UM 45 billion (SDR 407 million or 16 percent of GDP), compared with UM 47.5 billion for the 1985-1988 program. Spearheading the new program are projects essential to the maintenance of existing infrastructure and to strengthening production capacity.

29. The PIP will be financed mainly by grants and concessional loans, which together will account for at least 60 percent of the program. New investment will account for 60 percent of the total. In line with government policy as set forth in earlier policy framework papers, agriculture remains the priority sector and will account for 34 percent of the PIP; it is followed by infrastructure (25 percent), public health (5 percent), and national education (5 percent). Agricultural investment is focused mainly on land improvement in the Senegal River area where dams have been built. In carrying out the investment program, the authorities will give priority to improving the appraisal of new projects and monitoring the program so as to avoid the delays that occurred during implementation of the 1985-1988 investment program. The Government and the World Bank have agreed on a schedule for regular monitoring of the implementation of this investment program.

30. The authorities have begun to restructure the public enterprise sector owing to its economic importance (25 percent of both GDP and employment in the formal sector), and the size of its investment program. This involves rehabilitating the main enterprises, privatizing nonstrategic units, and effecting some liquidations, in addition to the settlement of cross-debts both between the Government and the public enterprises, and between the public enterprises themselves. In addition, an important new development in government policy has been to allow private investors access to areas of activity previously reserved for state enterprises, so as to encourage competition and to put an end to monopolies. In a similar vein, it has been decided to encourage the private sector to participate in the capital of the new bank (BNM) resulting from the merger between the state-owned banks BIMA and SMB.

31. The public enterprise rehabilitation program currently being carried out with World Bank assistance is mainly focused on the reform, financial rehabilitation, and management of three major enterprises. The SONELEC restructuring plan, which has greatly improved the company's financial position, will continue with special emphasis on a further revision of the tariff schedule, further improvement in the management

of customer accounts, continuation of personnel reorganization, conversion of the Nouadhibou power plant to fuel oil, and construction of a new power plant in Nouakchott. The authorities will also undertake, with World Bank and donor country assistance, an in-depth reorganization of the management practices, accounting system, financial control, and technical facilities of the Postal and Telecommunications Office (OPT) and the Nouakchott Port Authority (friendship port, PANPA-ex EMN).

32. The Government recognizes that the marketing and pricing system of products subject to the national import monopoly SONIMEX has resulted in import levels that are incompatible with the Government's reserve objectives and inconsistent with estimated domestic consumption requirements. Consequently, the price of certain SONIMEX products will be raised in 1989 to bring them more in line with market conditions. In addition, consumption taxes will be increased on a product-by-product basis, to ensure that the monopoly rent accrues to the Central Government.

33. Restructuring of the banking system is an essential element of the structural adjustment program. The keystone of the reform will be the rehabilitation of the National Bank of Mauritania (BNM), whose accounts have now been audited. The Government has decided to strengthen the bank's operations and management; to this end the Government will sell approximately 30 percent of its capital to private Mauritanian partners and secure a foreign technical partner to take over its management. If a technical partner cannot be found, the Government will resort to requesting technical assistance or recruiting qualified foreign-managers to ensure competent management of the bank. The aim of the rehabilitation is to allow private sector (both local and foreign) to become majority shareholders. The Government has ensured that the new development bank (UBD) will be efficiently managed by concluding an agreement with a well-established foreign bank whereby the latter will provide UBD with four expatriate executive managers and all the necessary assistance to strengthen its organization and train its staff. The Government will also study the proposal of converting the UBD into a credit union or savings and loan association, which would be decentralized and would involve private capital participation, and which would act as a magnet for local savings and provide small loans to promote development. The central bank will conclude a management contract with each of the banks, outlining their capital requirements, management reorganization, and main financial and operational targets. Combined with enhanced central bank control, this should preclude the re-emergence of the difficulties experienced by the banking system. The new issues of treasury bills amounting to UM 3.5 billion, planned for 1989 as part of the restructuring of the banking system, may result in a significant increase in government outlays in the next few years. In view of the Treasury's limited resources, firmer measures will be taken from 1989 onward to speed up collection of most of the nonperforming loans and thus reduce government expenditure.

34. The reforms of the banking system will be supported by a prudent credit policy designed to keep the growth rate of the money supply compatible with the balance of payments and inflation targets. As in recent years, the Government will continue to refrain from seeking net financing from the banking system. Interest rate structures will continue to encourage an adequate mobilization of savings, and sufficient credit will be available to the private sector to support economic activity. The planned improvement in the price index to better reflect inflation will make it possible to introduce realistic interest rate policies, leading in particular to positive real rates on deposits. Finally, the Government intends to review banking policy with a view to improving financial intermediation. In addition to the level and structure of interest rates, the review will touch upon bank margins, the rediscount policy, the possibility of establishing a money market, and the provision of further incentives to increasing domestic savings and development financing.

B4. Development of Human Resources

35. The Mauritanian people have only limited access to basic social services such as primary education and protective health care. The Government is currently examining its strategy for human resource development, an area it believes should be given priority in the next development plan (1989-91). The trend of the major social indicators, such as literacy, infant mortality, and nutritional balance should be improved through better use of public resources and increased participation of the community in the development effort, particularly through improved application of Food for Work programs and the promotion of private services. The lack of budgetary appropriations remains a major constraint. As part of the reorganization of government finance, the relative share of current expenditure (excluding interest payment) allocated for health services should increase from 7.6 percent to 10 percent by 1991 in order to increase purchases of medicine and other products without which existing staff and equipment will remain underutilized. More fundamentally, the delivery system for health services should be reorganized in order to strengthen basic health care services (such as maternal and child health protection, immunization, and nutrition). To assist the authorities in preparing a consistent strategy for the public health sector, the World Bank and the African Development Bank have begun discussions with the responsible officials to define an initial public health project as quickly as possible.

36. The Government has introduced an education policy designed to strengthen primary education and improve the quality and relevance of technical training. It should also be possible to increase the budget appropriations earmarked for primary education by 9 percent per year in order to raise enrollment at the primary level while keeping overall costs under control, in part by freezing scholarships at their 1987 level. Measures designed to improve expenditure allocation include the

reassignment of some teaching staff, stabilization of scholarship outlays for secondary and higher education, school construction self-financed by local governments, and measures promoting the development of private education. Moreover, technical and vocational training will be improved and diversified to provide the qualifications required in expanding sectors of the economy. To assist the authorities in preparing and realizing this policy, the World Bank and the African Development Bank have prepared a project for restructuring education, the implementation of which should start in 1989.

IV. Social Aspect of the Program

37. The adjustment program requires sacrifices from the Mauritanian people. In particular, higher prices and tariffs for currently subsidized public services, will have an impact on the purchasing power of the population, while budget austerity and public sector reforms are adversely affecting employment in this sector. These negative aspects of the adjustment process are nevertheless cushioned, for example, by measures designed to further a more equitable distribution of income, and by new employment opportunities now being promoted by the adjustment programs in the agriculture, fishing and small business sectors. The first measures intended to improve the distribution of income were substantial increases in agricultural producer prices. They are to be followed by a tax reform that will strengthen income taxes at the expense of indirect taxes and duties. Steps to promote employment include measures aimed at facilitating the transfer of displaced public sector workers in the agriculture sector, where an untapped development potential exists. Moreover, new credit facilities will be introduced to encourage the establishment of small businesses by young tradesmen and former public employees, particularly under the FIRVA, an employment and re-employment fund, which is now financing projects under its second program supported by the World Bank. The development of small-scale fishing operations will also create employment opportunities. Food aid policy will remain one of the main safeguards for the most vulnerable segments of the Mauritanian population; the Food for Work programs will enable more of the disadvantaged to participate in the development process. In allocating public resources, the authorities will give priority to providing basic social services to a larger proportion of the population and to making the investments in human resources that are essential for sustainable growth.

38. Concern with alleviating the social cost of the adjustment program for the disadvantaged social strata and with eliminating pockets of extreme poverty and structural inadequacies in the coverage of basic needs, has prompted the Government to introduce an action program designed in particular to: (i) enhance data collection and analysis using the ongoing household survey, which began in December 1987; (ii) improve evaluation of the country's social situation (an initial report is scheduled for June 1989); and (iii) select priority projects. The program concerning the social aspect of adjustment will provide

assistance for a four-year period. The Government has prepared a priority action program that centers on the expansion of the informal sector (reform of FIRVA activities) and strengthening of the economic role to be played by the recently elected municipal governments, as well as on urgent measures in the health sector.

V. Questions Pertaining to the Environment and Regional Cooperation

39. Aware of the environmental problems often accompanying the economic development process, especially in a country like Mauritania where growth is strongly dependent on natural resources, the Government is preparing a coherent program spanning a range of issues such as the management of renewable and nonrenewable resources, population growth, public health, desertification, and deforestation. Moreover, the Government has allocated 3.2 percent of GDP to strengthen action to cope with these problems over the 1989-91 period.

40. In addition, with the assistance of the World Bank, United Nations agencies and other donors, the Government is preparing and implementing policies to address agricultural problems through appropriate measures of cost recovery, land reform, and provision of technical assistance to farmers to improve the distribution of fertilizers. Furthermore, to prevent deforestation, the population is being encouraged to replace wood by kerosene or gas as energy sources. In the fisheries sector, preventive measures are being taken against overfishing and destruction of major hatchery areas.

41. The Government is aware that the achievement of these objectives hinges on cooperation and coordination with the countries of the region. In this connection, the Government is working closely with Senegal and Mali through the Organization for the Development of the Senegal River (OMVS) to develop the right bank of the Senegal River and is carrying out a fisheries management project with Guinea-Bissau, Cape Verde, The Gambia and Senegal. Mauritania has recently signed a framework agreement with Algeria, Morocco, Tunisia, and Libya to establish the Arab Maghreb Union, which will strengthen cooperation and integration of these countries.

VI. External Financing Needs

42. Implementing structural policies and carrying out the above-mentioned financial policies should help strengthen Mauritania's external payments position in the medium term. The reform of the incentive system and of the institutional framework should promote the gradual growth of nontraditional exports from Mauritania in the medium term. Maintaining a flexible exchange rate policy should continue to stimulate adequately exports and effective import substitution. It therefore seems possible to reach the medium-term target set forth in the preceding policy framework paper, that is near equilibrium of the

current account balance of payments (3.4 percent of GDP) by 1991. Excluding official transfers, the deficit would decline from 21.6 percent of GDP in 1987 to about 9.8 percent in 1991.

43. The Government confirms that external assistance in the amount of about US\$352 million (approximately SDR 262 million) has already been secured for the public investment program. A consultative group scheduled to meet in 1989 will examine the investment program, the financing of which will require additional external assistance estimated by the Government at US\$204 million (about SDR 150 million). Taking into account previously approved operations and potential new commitments, World Bank disbursements during the period 1989-1991 could amount to SDR 15.2 million for project lending and to SDR 61.5 million for adjustment lending. It is estimated, however, that SDR 322 million will be necessary to meet amortization payments falling due (including repurchases from the Fund). The need to increase gross international reserve levels to two months of imports continues to be an important target. As a result, despite the anticipated improvement in the current account, financing gaps will still remain and they should be reduced from SDR 33 million in 1990 to SDR 23 million in 1992. These financing gaps could be partly covered by possible additional disbursements under the Special Assistance Program (including structural adjustment credits from the World Bank) and the structural adjustment program of the African Development Bank. The Government also expects that, as one of the least developed countries, Mauritania will receive exceptional assistance, including debt forgiveness of official development assistance, to meet its need for residual financing.

44. Under present conditions, a rescheduling of external debt service though 1991 will probably be necessary. In the context of these reschedulings the Government will ensure that the various creditors are treated without discrimination. Given the size of the external current account deficits and the charges for previous reschedulings, Mauritania may need to resort to exceptional financial assistance until 1991. However, Mauritania is not planning to request new rescheduling operations after 1991 as it expects to be able to count on assistance from its official bilateral, and multilateral creditors, particularly in the form of concessional program loans, to ensure and maintain a viable external position.

Table 1. Mauritania: Key Economic and Financial Indicators, 1985-91

	1985	1986	1987	1988	1989	1990	1991	1989-91
	Projections							
	(Annual percentage change, unless otherwise indicated)							
GDP at constant prices	2.9	5.4	2.8	2.5	3.2	3.6	3.7	3.5
Private consumption per capita	1.2	-0.8	3.0	2.0	-0.4	0.4	0.5	0.2
Exports of goods and non factor services	21.6	12.5	-0.7	9.9	7.3	5.1	6.1	6.2
Imports of goods and non factor services	-0.1	6.0	0.3	4.8	1.6	4.2	3.9	3.3
Debt service (millions of US\$)	114.4	186.6	199.9	268.8	207.3	185.9	203.1	198.7
Current account (millions of US\$)	-102.4	-114.5	-110.2	-6.7	-44.2	-47.2	-41.5	-44.3
Current account (excluding official transfers) (millions of US\$)	-187.4	-189.9	-202.1	-177.9	-142.8	-133.1	-114.7	-130.2
GDP deflator	15.4	7.9	7.3	6.6	6.8	5.6	4.4	5.6
Consumer price index <u>1/</u>	13.6	7.9	8.2	6.3	7.2	5.5	4.0	5.6
	(As a percentage of GDP)							
Gross domestic investment	24.0	22.5	21.3	17.7	15.6	16.1	15.8	15.8
Domestic savings	8.4	11.7	11.1	10.0	10.9	12.1	13.2	12.1
National savings	-2.2	—	-0.3	—	2.0	4.0	6.0	4.1
Public investments	22.7	18.9	18.2	13.9	11.2	12.3	11.6	11.7
Public savings	8.1	9.5	10.8	10.2	9.5	10.0	10.7	10.1
Private investment	1.2	3.7	3.2	3.9	4.3	3.7	4.2	3.6
Private savings	0.3	2.2	0.2	-0.2	1.4	2.0	2.5	2.0
Ratio of public to private investment <u>2/</u>	18.2	5.2	5.7	3.6	2.6	3.3	2.7	3.3
Total revenue and grants	29.6	29.2	31.9	35.7	31.9	30.5	29.1	30.4
Of which: budgetary revenue	22.3	21.8	22.8	22.1	23.9	23.5	23.6	23.6
Total expenditure and net lending	34.0	31.7	33.8	33.3	36.9	30.5	27.6	31.4
Of which: current expenditure	22.4	23.4	22.5	22.0	21.5	20.2	19.3	20.2
Overall deficit (-) or surplus (+) of consolidated budget	-4.5	-2.5	-1.8	2.3	-5.1	—	1.5	-1.0
Exports of goods and non factor services	58.1	55.4	49.5	50.8	51.9	52.1	52.2	52.1
Imports of goods and non factor services	73.6	66.2	59.8	58.6	56.6	56.4	55.3	56.1
Current account (excluding official transfers)	-26.2	-22.5	-21.6	-17.8	-13.6	-12.1	-9.8	-11.8
Debt service	16.0	22.1	21.4	26.8	19.7	16.9	17.4	17.9
Debt service ratio <u>2/</u>	27.6	40.0	43.1	52.8	37.9	32.4	33.3	34.4
Real effective exchange rate (1980 = 100) <u>3/</u>	109.6	99.7	94.6	86.6

1/ Based in part on Fund staff estimates.

2/ Expressed as a multiple of private investment.

3/ In percent of export of goods and nonfactor services.

4/ Nominal effective exchange rate calculated by Fund staff and adjusted by the official price index.

Table 2. Mauritania: External Financing Requirements, 1/ 1984-93

(In millions of SDRs)

	1984	1985	1986	<u>1987</u> Est.	<u>1988</u> Est.	1989	1990	1991	1992	1993
								Projections		
Requirements	331.9	408.8	296.3	298.7	297.6	245.9	216.5	215.0	204.7	203.7
Current account deficit (excluding transfers)	248.7	184.7	161.8	156.3	132.4	105.2	97.2	83.8	74.9	70.3
Debt service due (principal)	69.4	62.0	100.4	95.9	149.8 <u>1/</u>	103.6	88.8	101.2	98.2	93.5
Increase in gross official reserves	—	—	0.4	10.9	—	0.8	10.0	12.0	16.0	16.0
IMF repurchases	9.0	12.3	12.3	4.9	3.5	7.4	11.2	9.6	5.9	5.9
Arrears repayments	—	100.2	—	—	—	18.7	—	—	—	—
Other capital outflows	4.8	49.6	21.4	30.7	11.9	10.3	9.4	8.4	9.7	17.9
Resources	331.9	408.7	296.3	298.7	297.6	159.3	127.4	85.0	54.7	34.9
Committed official grants	97.5	83.7	64.3	71.1	127.4 <u>1/</u>	72.6	40.6	21.7	12.4	5.9
Committed medium-, long-term loans	108.7	115.8	95.7	103.8	71.1	74.6	62.9	43.3	24.2	10.9
Direct investment	5.2	4.3	1.8	2.0	1.4	1.5	1.7	1.8	2.0	2.3
Decrease in gross official reserves	32.2	24.4	—	—	9.6	—	—	—	—	—
Use of Fund resources	—	9.6	18.5	18.9	4.0	—	—	—	—	—
Exceptional assistance	29.3	159.0	73.6	60.2	29.3	—	—	—	—	—
Arrears	41.7	—	—	8.8	9.8	—	—	—	—	—
Other capital inflows	17.2	11.8	42.5	33.9	44.9	10.5	22.3	18.1	16.0	15.8
Financing gap	—	-0.1	—	—	—	-86.6	-89.1	-130.0	-150.0	-168.8
Expected additional grants	—	—	—	—	—	—	22.2	31.7	43.1	53.5
Expected additional loans	—	—	—	—	—	—	34.4	63.1	83.8	99.3
Residual financing gap	—	-0.1	—	—	—	-86.6	-32.5	-35.2	-23.1	-16.0

Sources: Based on data provided by the Mauritanian authorities; and estimates of Bank/Fund staffs.

1/ Taking into account the debt cancellation by the Government of the Federal Republic of Germany.

Mauritania: Policy Matrix and Calendar of Implementation of Measures Under the Government Program

Policy Area and Related Objectives	Actions already taken	Date	Actions to be taken	Dates
1. Agricultural Policy				
a. Pricing and marketing				
Stimulation of efficient production of local cereals. Larger role of the private sector in the marketing of cereals.	Study of pricing and marketing systems *	1987	Further pricing and marketing reforms in the 1988/89, 1989/90 and 1990/91 crop seasons. * <u>1/</u>	1988-91
	Reforms of pricing mechanisms. *	October 1988		
	Reforms of marketing with larger role for the private sector *	October 1988		
b. Management of Food Aid Agency (CSA)				
Confine the agency in its original function of last resort food distributor in period of national calamities; and to help farmers in isolated areas to sell their production.	Improve management, programming and budget capacity. *	1987	Further improvements in management, programming and budgeting capability. <u>1/</u>	1989-91
	Sale of the rice mills, the truck fleet, and the vehicle repair facilities.	March 1989		
c. Use of Food Aid				
	Establishment of a Common Fund to coordinate food aid sales. *	1986	Further strengthening of food for work program. <u>1/</u>	1989-90
	Limit on free food distribution and increase food aid used for food-for-work program:	1987-88		
d. Agricultural credit				
Tailor the credit and monetary policy to growing demands of the agricultural sector.			Establishment of an agricultural credit system following the banking sector reform. *	1989-90
e. Irrigation				
Extension of arable and irrigated lands.	Preparation of a development plan for the Senegal Valley (1st phase). *	April 1988	Preparation of a master plan. Donors' sectoral meeting.	1988/89
2. Other sectoral policies				
a. Industry				
To encourage private (domestic and foreign) investment in industry, especially import-substitution activities.	Enactment of a new investment code, new procedures for investment approval. *	October 1988	Strengthening of investment committee. Implementation of new code. *	1989
b. Fisheries				
Restructuration of industrial on shore based activity and development of artisanal fishing activity. Increased value added of the sector as well as government revenues. Strengthen surveillance and training.	Definition of an action program using studies financed by Kuwait Fund.	April 1988	Chartering of surveillance equipment to prevent overfishing. * Donors sectoral meeting.	Agreed action plan to be implemented with World Bank assistance over the period 1988-91. 1989
	Strengthening of land-based surveillance. *	June 1988		
	Investment and training programs for the sector. *	June 1988		
c. Energy				
To promote efficient use of energy and encourage private investment.	Enact a new system of electricity and water tariffs. *	June 1988	Introduction of new tariff system. * Establishment of a new energy savings power plant for electricity production in Nouadhibou.	1989-91 New plant in operation in 1988-91.

(*) Measures addressed under Bank Operations, including SALs, SECALs and projects.
1/ To be made more specific in consultation with IERD.

Mauritania: Policy Matrix and Calendar of Implementation of Measures Under the Government Program (continued)

Policy Area and Related Objectives	Actions already taken	Date	Actions to be taken	Dates
3. Public enterprises				
Rationalize government's portfolio. Increase efficiency of public enterprise sector. Improve macroeconomic environment affecting public enterprises. Redefinition of legal institution framework. [Improve degree of market and business concertation of public enterprises]. Monitor public enterprise sector performance through selected indicators. Analysis of patterns of issues affecting public enterprises.	Restructuration of SONELEC *.	1987-88	Conclude contract-program with SONELEC and SMCP. *	1989-90
	Audits of the urban transportation and construction companies. *		Ongoing rehabilitation of the Postal service and Port Authority to be completed in 1989.	1989-91
	Liquidation of the drug distribution company. *	1987-88	Definition of additional public enterprises to be rehabilitated, in particular the SMCP.	1989-91
	Reinforcement of the financial and management capabilities of postal, mining and harbor companies.	1987-88	Implementation of rehabilitations, privatization and liquidation measures for several public enterprises.	1989-90
	Liberalization of the petroleum sector, drugs distribution and urban transportation sectors. *	1987-88	Implementation of recommendations concerning budgets, salaries, training and Management Information System. Periodic reports on public enterprises issues. Proposals to Government for improving economic environment.	
		Amendments of decree governing Public Enterprise Sector as appropriate.	June 1989	
		Settlement of cross-debts.	December 1989	
4. Banking system restructuring				
a. Improvement in management				
To ensure a sound financial and banking sector.	Merger of two government banks BIMA, SMB (new BNM). *	1989	Selection of foreign private partners for BNM.	March 1989
	Strengthening of management of UED the government bank resulting from merger of a multipurpose/development bank (BNDE) and a development institution (FND). *	1989	Consolidation of financial structure of SMCJ and BALM.	May 1989
	Enactment of new banking law and prudential banking ratios. *	July 1988	Implementation of recommendations made by BDET for UED (concerning reduction of staff).	June 1989
	Strengthening of the central bank supervision role and enactment of a new accounting plan. *	1988	Completion of BDET and Price Waterhouse audits.	May 1989
	Implementation of contract-plans in the primary banks.	April 1989	Establishment of twinning arrangements with a well established foreign bank or technical assistance or recruitment of foreign experts for BNM.	June 1989
	Opening of 30 percent of BNM's capital to private mauritanian shareholders.	April 1989	Study of privatization of UED.	
b. Nonperforming credits				
Measures and procedures to accelerate collection of credits in arrears.	Establishment of agreements and schedule arrangements with each bank.	1986-88	Measures to improve collection of credit in arrears according with quarterly schedule.	1989-90
5. Pricing policies				
Establish a more flexible pricing system to ensure a more efficient allocation of resources.	- Elimination of the system of fixed margin for locally manufactured goods.	1987	Further reduction in the number of items subject to price homologation from 9 to 3.	1989
	- Reduction of the number of items subject to price controls from 11 to 9.	1988	Reduction by 2/3 of the number of industrial and commercial imported items subject to the fixed margin system.	1989
			Preparation of a list of items subject to price control and of a liberalization schedule for 1990-91.	June 1989
			Abolishment of the fixed margin system.	1990
			Adaptation of SONTIMEX prices to market conditions	1989-91
		Implementation of recommendations for improving CPI.	September 1989	

Mauritania: Policy Matrix and Calendar of Implementation of Measures Under the Government Program (continued)

Policy Area and Related Objectives	Actions already taken	Date	Actions to be taken	Dates
6. <u>Public sector management</u>				
a. <u>Public investment program.</u>				
Improve the planning, programming, budgeting and monitoring of public investment to ensure that resources are allocated efficiently.	Preparation and monitoring of investment and consolidated budget. Setting of annual target for increase in expenditures in the Health and Road sectors.	November 1987	Preparation of a three-year "rolling investment program" for 1988-91 taking into account available resources, external financing and fiscal policies objectives. *	1989-91
Strengthening of appraisal capacity.	Production of a 3-year investment plan for 1989-91 taking into account budgetary and BOP objectives.	February 1989.	Preparation of guidelines and parameters to be used in project appraisal. *	December 1989
Strengthening of planning system.			Reinforce sectoral units and redefine their relationship with planning directorate (Ministry of Finance). *	June 1989
b. <u>Civil service reform</u>				
To improve efficiency of the civil service and to tighten control over personnel expenditure.	Improve civil service management.* Restructuring of Ministry of Finance and Economy. *	July 1988 August 1988	Further improvements in personnel management and reduce share of wage bill in total current expenditure.	1989 (Study)
	Establishment of a consultative committee for public administrative reform. *	September 1987	Review of size of civil service, civil servant compensation, career training policies. Audit of payroll.	1990-91 (Implementation of reforms) December 1989
7. <u>Fiscal policy</u>				
a. <u>Expenditure control</u>				
Rise in wage bill limited to expected rate of inflation. Freeze of new recruitment.	Strengthening of expenditure controls.	November 1987	Stabilization of wages and personnel recruitment taking into account civil service vacancies due to retirement or resignations.	1989
Stabilization of transfers and subsidies	Limit investment expenditures to commitments of grants, and concessional loans and to available fiscal revenues.	November 1987	Cost containment measures in education in collaboration with World Bank.	1989-91
			Strengthening overall expenditure monitoring procedures.	1989-91
			Rationalization of expenditures and revenues of local authorities and of autonomous agencies.	1988-90
			Focus on road and other essential infrastructure maintenance. *	1988-90

Mauritania: Policy Matrix and Calendar of Implementation of Measures Under the Government Program (continued)

Policy Area and Related Objectives	Actions already taken	Date	Actions to be taken	Dates
b. Revenue Increase budgetary revenue and diversify tax base. New customs tariff.	Reduction of tariff exemptions on inputs for domestic industry.	1987-88	Tariff exemptions according with the Investment Code and reduction of exemption for foreign-financed projects.	1989
	Study on tariff structure.	August 1988	Reform of current system of turnover tax and tax on business profits. Improvements in tax administration and collection.	December 1989
	Introduction of new customs tariff with the 1989 Finance Law.	1989	Study on fishing and mining taxation.	1989
			Implementation of Taxation study recommendation.	1990
			Speed up recovery of fiscal arrears.	1989-91
			Establishment of a list of taxpayers in arrears.	1989
			Strengthening of the Revenue Office (Treasury).	1989-91
			Budgetization of PSD.	1989
			50 percent of IMF can be deducted from BIC, instead of 100 percent	1989
			Transformation of IMF/TCA into general turnover tax.	(Study) 1989
			Reform Implementation.	1990
			Improvement in the auditing of the accounts of enterprises to broaden BIC tax base.	1989-91
			Payments to Government of ITS by SNIM's employees.	1989
			Taxation of shipchandlers. Taxation of salaries of foreign sailors.	1990
	c. Consolidated Government budget	Containment of the deficit on a commitment basis, to be financed only by resources on very concessional terms.	Improved preparation and monitoring of annual consolidated budget. *	Annual targets for 1989-91 to be agreed with the World Bank and the IMF.
Local authority financing.			Study on local authority financing.	1988
8. <u>Monetary and credit policy</u>	Definition of credit policies to support productive sectors. Monetary policies will aim to contain inflation. Savings mobilization and maintenance of positive real interest rates.	Study on new interest rate structure	Implementation of new interest rate structure.	April 89
			Liberalization of interest rates. Continue prudent policies and maintain flexible interest rate policy.	January 1990
			Measures to mobilize savings. Setting of annual targets for money and credit. Further measures to mobilize savings of workers' abroad will be adopted. Launching of study on money market.	1989-91
				1987-91
				1989-91
				September 1989

Mauritania: Policy Matrix and Calendar of Implementation of Measures Under the Government Program (continued)

Policy Area and Related Objectives	Actions already taken	Date	Actions to be taken	Dates
9. External policies				
a. Balance of payments adjustment				
Viability of the balance of payments by 1992 without recourse to debt reschedulings.				
Reduction of the current account deficit including official transfers to below 4 percent of GDP by 1991. Gradual increase of external reserves.	Annual targets.	1986-88	Annual targets.	1989-91
b. Exchange rate				
To promote efficient resource allocation and to maintain adequate competitiveness of the exports and imports-substitution sectors.	Flexible exchange rate and containment of domestic demand.		Implementation of a flexible exchange rate policy that will contribute toward achieving the Government balance of payments targets.	1989-91
c. External borrowing				
Reduce debt service burden and improve profile of external public debt.	No recourse to nonconcessional borrowing. Limit in the use of concessional borrowing.	1986-88	No recourse to nonconcessional borrowing.	1989-91
d. External debt management				
Improve external debt management to avoid delays in external debt payment.	Creation of a directorate at the Ministry of Finances in charge of external debt management. *	August 1988	Establish a comprehensive data base on external debt. *	December 1989
	Establishment of a debt monitoring committee.	Dec. 1988	Training on External Debt Management to MEF and BCI staff with technical assistance provided by ADTEF.	Jan-June 1989
			Implementation of a External Debt Management System with technical assistance provided by ADTEF.	1989
e. Trade liberalization				
Elimination of import/export card and elimination of import licencing.	Gradual reduction of licencing requirements.	1987-88	Complete elimination of import licences and easing of the requirements for obtaining importer/exporter card.	1989
			Abolish importer/exporter card.	1990
f. Foreign exchange liberalization				
Facilitate operations of the export sector.	Exporters allowed to keep 15 percent of their foreign exchange earnings.	1986-88	Exporters of local manufactures allowed to keep 25 percent of their foreign exchange earnings according with the investment code regulation.	1989
10. Human resources				
a. Population policy				
Integrating population issues in macro and sectoral strategies, and definition of a national family planning program.	Organization of national seminars on population and development.	1988	Support to CEDES.	1989-91
	National population census.	May 1988	Strengthening of the Human Resources unit in the MEF.	1989
	Organization of national seminars on family planning.	1987	Analysis of census results. Support for family planning activities.	1989-91

Mauritania: Policy Matrix and Calendar of Implementation of Measures Under the Government Program (concluded)

Policy Area and Related Objectives	Actions already taken	Date	Actions to be taken	Dates
11. Health				
Strengthening planning and organization of health services.			Technical assistance to the Ministry of Health. *	1989
Community participation in financing health services.			Strengthening of Regional Health offices. *	1989-91
			Development of cost recovery measures. *	1989-91
c. Education				
Community participation in financing education. Education reform.	Starting of education reform. *	August 1988	- 9 percent increase in budgetary allocation to primary cycle. *	1989-91
			- Cap on scholarships for secondary and higher education. *	
			- No increase in enrollment from its 1987 level for first grade of secondary education. *	
			- Harmonization of wages and fringe benefits for the staff of the Education sector within the framework of the administrative reform (see 6(b)).	1989-91
			- Rolling Funds for promoting books. *	
			- Decentralization of construction and maintenance to municipalities.	
			- Strengthening of the fisheries training center. *	
			- Creation of two new technical schools. *	
d. Social programs.				
Improve the assessment of the social consequences of adjustment measures.	Permanent National Household survey.	1987	Continue the permanent household survey.	1989
Priority actions to alleviate poverty.	National seminar on Women in Development.	1986	Design of programs in health, small enterprises, labor intensive works.	1989-91
Increase women's participation in development programs.	Establishment of the "FIRVA" program.	1986	Implement recommendations of national seminar.	1989-91
Promote employment opportunities and provide a more equitable distribution.	Follow up "FIRVA" operations.	1986-88	Further strengthening of the FIRVA program.	1989-91

