

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

Second Poverty Reduction Strategy Paper

Joint Staff Advisory Note

Prepared by the staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

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I. OVERVIEW

1. **The Government of the Islamic Republic of Mauritania prepared its second Poverty Reduction Strategy Paper (PRSP-2) covering a period of five years (2006–10).** The document builds on lessons learned during the implementation of the first Poverty Reduction Strategy Paper (PRSP-1, 2001–04) and takes into account the recent comprehensive revisions of most historic economic and financial data. It was prepared amidst two major developments: (a) the assumption of power in August 2005 of a new transition government that has successfully embarked on a path toward democratization, rule of law, and good governance; and (b) the start of oil production in February 2006. The PRSP-2 is a product of an updated consultative process¹ with the general public led by the transitional government,² including representatives of the central and local governments, political parties, civil society organizations, the private sector and development partners. The consultations took place through multi-stakeholder sectoral committees and thematic groups, and workshops at the regional and national levels. The authorities intend to continue this participatory process during the execution of the strategy, including for the elaboration of the progress report.

¹ The consultative process and the monitoring and evaluation framework of the first PRSP have been updated for better inclusion of sectoral and regional issues. The new process has several sectoral committees and proposes consultation in every region.

² After the August 2005 coup, a road map was agreed with representatives of political parties and civil society focusing on the following key issues: (a) the return to democracy within 19 months, including establishing milestones that have been respected to date; (b) the improvement of the judicial system; and (c) the undertaking of reforms in the governance and public finance sphere, including the transparent management of oil revenue.

2. **The PRSP-2 conveys an ambitious poverty reduction strategy based on a set of sound macroeconomic, structural and sectoral policies to be implemented by 2015.** The new PRSP proposes an action plan over the medium term (2010), which is organized around five strategic pillars: (a) accelerating economic growth and maintaining macroeconomic equilibrium; (b) anchoring growth in the economic sphere of the poor; (c) developing human resources and improving access to basic social services; (d) enhancing governance and reinforcing institutional capacities; and (e) improving planning, monitoring and evaluation systems. The achievement of the PRSP-2 objectives will be difficult and will require a better prioritization in the context of absorptive capacity constraints and increasing and highly volatile public resources, a better alignment between the budget and the strategy's priorities and a greater emphasis on the problems of economic diversification. Sound macroeconomic and financial policies based on accurate data, a wise use of oil revenue, and the implementation of cross-cutting reforms to stimulate private sector-led growth are key ingredients for success.

3. **The joint staff advisory note (JSAN) provides World Bank and IMF staffs' analysis and advices on key priorities to be strengthened during the implementation of the PRSP-2, including through the annual and mid-term reviews.** The JSAN discusses poverty diagnosis and the PRSP-2's alignment with the MDGs and the budget, reviews the critical areas for success and the risks to the strategy's implementation and assesses the monitoring and evaluation framework. The JSAN closes with a summary of the main conclusions and issues for discussion.

II. POVERTY DIAGNOSIS AND ALIGNMENT WITH MDGS AND BUDGET PRIORITIES

A. Poverty Diagnosis

4. **The poverty analysis, based on the 2004 household survey (EPCV),³ presents only a partial analysis of poverty in Mauritania.** Between 2000 and 2004, the incidence of poverty declined from 51 percent to 47 percent. Poverty continues to be mainly a rural phenomenon with 75 percent of the poor living in rural areas. The PRSP-2 fails to discuss the main factors behind: (a) the slowdown in poverty reduction at the national level during 2000–04, as compared to the period 1996–2000; (b) the large disparity in poverty levels among the regions (*wilaya*) and departments (*moughataa*), and among rural and urban precarious areas; and (c) the disparities among the different socioeconomic groups, between men and women. In order to present a comprehensive poverty assessment and provide pertinent analysis to policy makers, additional research is needed through a full exploitation

³ *Enquête Permanente sur les Conditions de Vie des Menages*, which has been conducted every four years since 1996.

of the EPCV data, including the reasons underling the high unemployment rate.⁴ The upcoming poverty map could reveal the degree of spatial heterogeneity of poverty incidence.

B. Prioritization, Alignment with MDGs, and Budget

5. **Most PRSP-2 objectives are closely aligned with the Millennium Development Goals (MDGs), but the strategy remains vague on the critical policies needed to achieve the ambitious goals.** While the achievement of most MDGs is on track, progress toward the health-related goals has been slow; in fact, the PRSP-2 candidly recognizes that the country is not on track in the areas of infant and maternal mortality, in spite of strong efforts. Also, the objective of more than halving the poverty rate by 2015 seems ambitious in view of the recent downward revisions in the medium-term oil revenue prospects. In the staffs' view, achieving the MDGs will be critically dependent on the efficient use of public resources, including oil revenues, a continued focus on reducing socioeconomic and regional disparities, and envisioning a special effort in the health sector.

6. **Given the ambitious targets of the PRSP-2 and the still large uncertainties related to government oil revenues, an appropriate prioritization framework and a close alignment of the budget with those priorities are needed.** The annual review of the Medium-Term Budget Framework (MTBF) will provide an effective alignment of the budget with a few key priority programs identified in the strategy.⁵ While acknowledging the difficulties in aligning the MTBF with the budget process—as the medium-term revenue projections are subject to frequent revisions—staffs believe that a solid MTBF (that includes revised projections and optimal use of oil revenues) could at least reflect the expenditure priorities which are set by the PRSP-2 and the longer-term objectives (i.e., MDGs) which should be protected from government revenue fluctuations. The strategy needs also to set realistic expectations by examining capacity constraints that prevent efficient spending on social sectors.

7. **Staffs believe that the absence of a comprehensive estimation of the cost of achieving the MDGs prevents an adequate prioritization of the PRSP-2 programs.** The completion of the ongoing MDG costing exercise is crucial to estimate the unit costs of every program contributing to reach the MDGs. Doing so would strengthen the collaboration between the line ministries and the budget preparation teams in the ministry of finance and ministry of economic affairs and development, build an in-house capacity in this area and provide impetus to the MTBF preparation processes.

⁴ The unemployment rate was more than 30 percent in 2004, mostly among women and the young.

⁵ While Mauritania has initiated an MTBF process during the PRSP-1, both at the global and sectoral levels, MTBFs have not been regularly updated and used in the budget elaboration process.

III. AREAS CRITICAL FOR SUCCESS

A. Macroeconomic Framework and Management of Oil

8. **The PRSP-2 is built on a comprehensive macroeconomic framework, which reflects the authorities' intention to consolidate further stabilization efforts.** The PRSP-2 presents a set of appropriate economic policies over the medium term which should contribute to poverty reduction and real improvement in living standards, and are focused on: (a) raising the impact of oil production on non-oil growth; (b) enhancing private sector activity; (c) maintaining fiscal discipline; (d) strengthening the external position; (e) implementing financial sector reforms; and (f) improving governance and transparency. However, the medium-term macroeconomic framework upon which the PRSP is based has been revised to reflect less favorable prospects of the oil industry that emerged recently,⁶ after the finalization of the strategy.⁷ Over 2006–10, the projected average real GDP growth of about 7 percent in the revised framework, is about 2½ percentage point lower than in the PRSP.

9. **Even if the GDP medium-term growth objective materializes, meeting the PRSP-2 poverty reduction goal is challenging and will depend on the development of labor-intensive industries.** There is a need to reflect on channels by which a substantially higher real GDP growth may affect poverty incidence,⁸ as the development of extractive industries (oil and mining projects) is likely to have a greater impact on government revenue than on domestic private income and employment. Accordingly, by building stronger analytical links between real growth and poverty reduction, one could more solidly assess whether the projected sectoral pattern of growth is consistent with the achievement of the poverty reduction goals. In this respect, staffs consider that more elaboration is needed on the sources and constraints of non-oil growth and job creation by examining economic diversification potentials, including fisheries, tourism and agriculture. In staffs' view an assessment of the informal sector⁹ contribution to growth and employment is also needed.

⁶ Due to technical difficulties encountered in Chinguetti, the first (offshore) field that went into production in early 2006, oil production has gradually declined from close to 75,000 barrels per day (bpd), the maximum installed capacity, in March to about 30,000 bpd over the third quarter and is expected to remain at that level for the rest of 2006. Over 2007–09, oil production is assumed to decline continuously in spite of projected additional investments in the field. The envisaged development of two neighboring fields could boost oil production from 2010.

⁷ The revised framework is presented in the IMF's staff report on Mauritania's request for financial support under the Poverty Reduction and Growth Facility.

⁸ The PRSP-2 estimates for the reduction in poverty indicators are based on an established link between total real GDP growth (including oil) and poverty incidence.

⁹ Although the informal sector represents the largest part of the private sector, it is not very well covered in the strategy.

10. **The envisaged fiscal policy, a key instrument for poverty reduction both in its revenue and spending arms, is consistent with the objective of further reducing public debt.**¹⁰ Improved revenue prospects over the medium term are driven by growth, the emergence of oil and other new extractive industries, fishing license proceeds and the needed modernization of tax administration. However, the PRSP-2 should emphasize that reforms of indirect taxation (including the extension of the VAT base) and simplification of the customs tariff are needed to provide a solid foundation for private sector growth. Staffs agree with the need to maintain, and if possible accumulate further, deposits in the oil fund (*FNRH–Fonds National des Revenus des Hydrocarbures*) in order to prepare for the depletion of oil wealth and avoid hard budgetary choices in case of a downturn in the world oil market. The authorities are also advised that the FNRH is a key instrument to control for excessive real exchange rate appreciation and for possible Dutch Disease. To sustain the government’s efforts to reduce public debt, external debt management strategies should be integrated more effectively in the strategy to prevent excessive debt accumulation in the post-MDRI era.

11. **On the spending side, the medium-term framework envisages increases in poverty reducing and capital spending, while rightfully stressing the need to enhance the efficiency of public spending particularly in the case of social expenditures.** The PRSP-2 could emphasize further the need to control the growth of current expenditures, while making sure that enough room is provided for recurrent spending to maintain a higher stock of public capital. In order to permit the government to plan and manage public resources more effectively, donors are encouraged to improve the predictability of aid around the PRSP-2 in line with the Paris declaration on aid effectiveness.

B. Private Sector Development

12. **The PRSP-2 emphasizes the need to establish a competitive environment for the development of a vibrant private sector.** The planned reforms include: (a) the modernization and simplification of tax administration and procedures; and (b) the strengthening of the legal and regulatory framework for businesses (including the development and implementation of sound competitive policies). The results of the ongoing Investment Climate Assessment (ICA) will help to inform further the debate and identify specific measures to gradually remove anticompetitive practices, which are prevalent in the Mauritanian economy. In addition, the assessments related to other “Doing Business” indicators,¹¹ as well as other aspects including the strengthening of corporate governance and small and medium enterprise development will be useful to update the private sector development reform agenda.

¹⁰ Public debt was reduced by about 35 percent of (non-oil) GDP following the MDRI relief from the IMF and the World Bank (in June 2006), and African Development Fund (in July 2006).

¹¹ Business starts up, labor market flexibility, property registration, business taxation, crossborder trade, licensing, access to credit, investors’ protection, contract enforcement, and liquidation.

13. **The PRSP-2 highlights that improved governance, transparency, and supervision in the financial sector are critical ingredients for private sector development and enhanced access to financial services.** Staffs concur with the authorities on the diagnostic of the existing weaknesses in the financial sector, including the control of the commercial banks by a few business groups. Staffs also support the reform measures identified in the PRSP-2, which could increase the impact of the sector on economic growth over the medium term.¹² In this regard, the authorities are encouraged to strengthen the legal framework for financial activities, increase central bank's autonomy and build capacity in banking supervision and improve the commercial banks' reporting system. The expected revision of the institutional framework for microfinance will provide a key opportunity to facilitate the access of the economically vulnerable population to financial services.

C. Promoting Good Governance and Capacity Building

14. **The PRSP-2 highlights the specific measures to be taken to improve good governance in the new oil sector.** On oil in particular, Mauritania's initiatives to implement the Extractive Industries Transparency Initiative principles, establish the FNRH and prepare, under an open debate, a law for the management of oil revenues, are welcomed. However, the authorities are advised to define carefully the mandate of the newly established national hydrocarbon company (*SMH–Société Mauritanienne des Hydrocarbures*) and enhance its public scrutiny to avoid conflict of interest and prevent it from becoming a “state within the state”, as in several other oil-producing countries. Furthermore, the authorities' oil management would be further enhanced by additional steps such as following through with the international audit of the FNRH and publishing all production sharing contracts.

15. **The PRSP-2 maintains that improving public finance management is critical for the strategy's success.** Despite the steps that the government has recently taken towards increased transparency and accountability in public expenditure management and the plan for further actions, improvements in the area of budget preparation, execution and control, as well as in procurement procedures are essential. The progressive deconcentration of budget execution and the imminent computerization of the expenditure chain are critical for improved budget implementation. Further rationalization of budget controls is also needed. In this context, staffs advise to accord a larger role to the State General Inspectorate which has embarked on effective ex post controls for all public expenditures.

16. **Since the implementation of public expenditure management reforms will speed up the execution of the budget, the authorities are advised to extend the computerized network for budget execution** to the Commissariat for Poverty Reduction (*CDHLCPI*¹³— *Commissariat aux Droits de l'Homme, à la Lutte Contre la Pauvreté et à l'Insertion*) and the

¹² The main axes of the financial sector reforms are closely in line with the recommendations of the joint Bank-Fund Financial Sector Assessment Program mission which was conducted in 2005–06.

¹³ The CDHLCPI was created for the PRSP-1 preparation.

Security Food Commissariat (*CSA—Commissariat à la Sécurité Alimentaire*).¹⁴ The PRSP-2 highlights the important role of the CDHLCPI in identifying and implementing integrated programs that target extreme poverty.¹⁵ In collaboration with line ministries, the CDHLCPI should be only in charge of the formulation of these important programs with a view to achieving better targeting of the needy. Each sectoral ministry and institution should remain in charge of the implementation of the actions related to its respective sector.

17. **The PRSP-2 acknowledges that progress on the fight against corruption is crucial for achieving the strategy's overall objectives.** Staffs welcome the government's strong commitment to implementing a number of anti-corruption measures and to developing a national strategy, through a broad consultative process. The strategy could provide guidance on how to improve transparency and reduce the scope of corrupt activities in the public sector, with particular emphasis on: (a) management and incentive structures of the public sector;¹⁶ (b) public financial management, including procurement practices; (c) the judicial sector; (d) issues affecting the business climate, including regulation, customs and taxation; and (e) specific challenges posed by the oil sector and other natural resource-based industries (iron ore and fisheries).

18. **The PRSP-2 considers that strengthening capacity in the public sector is a key factor in determining the success or failure of the strategy.** The adoption of the national capacity building strategy, if implemented effectively, could facilitate progress toward the ambitious goals of the PRSP-2. Areas to be targeted include public finance management, as well as planning, monitoring and evaluation at the central but also local levels. The reform of the civil service, which until recently, has suffered from stagnating salaries as well as nontransparent promotion practices leading to an erosion of performance incentives, is also important. In this respect, staffs believe that Mauritania could seek and make best use of technical assistance from donors, including from the IMF and the World Bank. Efforts are also needed to strengthen the legal and judicial system's capacities for improving the efficiency and functioning of justice in the country.

19. **The PRSP-2 makes decentralization one of its key cross-cutting themes.** It recognizes that the major obstacles to an increased devolution of power to regional and local administrations include the legal framework, the limited revenue and expenditure assignments, and the low level of capacity of these administrations to carry out decentralized functions. The strategy observes that past initiatives in this area have stalled and does not

¹⁴ Given the long delays in the budget circuit before the reform, the CSA and CDHLCPI have benefited from some autonomy in executing their budget outside the ordinary budget circuit.

¹⁵ Extreme poverty (defined as the percentage of the population living with less than \$270 a year) affects almost one third of the population.

¹⁶ The introduction of the planned ethics code for civil servants is a welcomed first step in building a culture of accountability.

take a firm position on the optimal degree of decentralization. Staffs recommend a gradual approach that addresses all the above-mentioned obstacles. Doing so could help local governments fulfill their role in reducing Mauritania's significant regional inequalities, and in strengthening government accountability through better community participation. In addition, the legal framework needs to be established in close coordination with local communities, providing clarity on the functions to be carried out by local governments and on the budget execution at the local level; and needs to be complemented by an appropriate supervision of the decentralization process.

D. Sectoral Policies

20. **Since poverty remains primarily a rural phenomenon, stimulating growth in rural areas remains a priority in the PRSP-2.** As part of the implementation of its PRSP-2, the authorities are encouraged to formulate a more comprehensive and integrated rural development strategy, focus on the potential of agriculture and livestock (and the various sub-sectors), review the profitability of irrigated agriculture in the Senegal River Valley, examine the access to credit and build on the ongoing successful implementation of the community driven development approach. In particular, a comprehensive analysis is needed to assess the agricultural sector's dependence on subsidies and tariff protection, and to identify viable alternatives. The PRSP-2 should dwell on the cost-effectiveness of providing rural infrastructures (i.e., electricity, irrigation, and roads), services (i.e., farmers' extension services, training programs), and more funds for agricultural research and capacity building to increase productivity, while taking into consideration land tenure issues. The authorities are encouraged to pay particular attention to the livestock sector, which contributes far more than agriculture to GDP.

21. **The PRSP-2 also presents an action plan for improving the living conditions of the poor in precarious urban neighborhoods.** The PRSP-2 recognizes the existence of disparities in access to potable water and the need to improve access to water for the whole population. Staffs believe that it is critical to review the ongoing urban development program with a view to reducing the price of water supply for vulnerable groups living in areas where tap water is not available. In staffs view it is also important to address the potential problem of rapid and uncontrolled urbanization due to domestic and international migration prompted by exaggerated prospects of oil wealth, and propose adequate solutions.

22. **Staffs broadly concur with the assessment of Mauritania's education system and encourage the authorities to further address efficiency, financing, and equity issues in the sector.** Despite improvements in global access and gender equality at the primary level, there is ample room for improvement. Particular attention should be paid to: (a) sustaining the achievements realized in expanding access at the primary level; (b) improving the sector's management system; (c) enhancing the quality of education; and (d) reducing the persistent disparities in education outcomes between rural and urban areas, among regions

and between poor and non poor households, through better targeting. At the higher end of the labor market, there is a shortage of technical and professional skills, an issue that deserves careful examination.

23. **The PRSP-2 candidly recognizes that improved efforts and efficiency in the use of public resources in the health sector are needed to reduce infant and maternal mortality rates to the targeted levels.**¹⁷ Child vaccination and access to health services have somewhat improved in recent years. However, access is still low for vulnerable groups and regions and the provision of health services remains weak. Reaching the PRSP-2 targets will require more attention to improving human resources, increasing drug availability, expanding geographic accessibility, strengthening disease control and quality of basic services, encouraging citizen participation and enhancing the overall institutional capacity of the health sector. The operation of the new health insurance system¹⁸ should be tested and improved during the PRSP-2 implementation period in terms of viability.

IV. MONITORING AND EVALUATION

24. **The PRSP-2 sets out a detailed monitoring and evaluation (M&E) system, attempting to link priority actions to intermediate outputs and final outcomes.** Staffs agree on concentrating the attention on a subset of key measurable indicators that are critical to the success of the strategy (*tableaux de bord de suivi*). A careful tracking of these indicators over time will need to be implemented through an appropriate reporting and monitoring system, which includes the preparation of annual progress reports. Monitoring needs to occur at all levels of the results chain (measuring efficiency of input/resource use and programs all the way up to evaluating the effectiveness of ultimate outcomes). The reporting will be facilitated by the tracking of poverty reducing spending through the recently introduced functional classification of the budget and the ongoing computerization of the expenditure chain. Further steps will be made possible, when the costing of the MDGs is available.

25. **The PRSP-2 highlights the issue of data availability and accuracy and points out that almost two thirds of proposed indicators do not have baseline data for 2004.** The strategy addresses this issue proactively since all indicators will be reviewed for importance and measurability, through a new national statistical master plan (*SNDS—Stratégie Nationale de Développement des Statistiques*). Improving adequate data supply for the monitoring of

¹⁷ At the current pace, and with current policies, the prospects to reach the MDGs related to HIV/AIDS control, child malnutrition, immunization and access to an improved water source are high. However, the country is not on track in the areas of infant mortality and maternal mortality rates.

¹⁸ The national health insurance system (*Caisse nationale d'assurance maladie*) was created in 2004 and has been operating on a pilot basis since 2005. It may ultimately cover the basic medical cost of Mauritians, although initially its focus will be on covering the basic medical costs of civil servants and their families.

the PRSP-2¹⁹ will require, in addition to continued technical assistance from staffs, increased government support, including through institutional reforms, appropriate budgeting, capacity building initiative and increased incentives to attract and retain experts in the national statistical office.

V. IMPLEMENTATION RISKS

26. **Mauritania's economy is subject to large risks, particularly from natural disasters and vulnerability to exogenous shocks.** Given the central role of oil revenues in the medium term, the economy is vulnerable to uncertainty about production levels and to price volatility. The PRSP-2 correctly identifies these risks and sketches possible responses to alleviate them. Further elaboration is, however, needed on conducting stress tests and sensitivity analysis and on mitigating strategies such as export diversification or the use of the FNRH to absorb oil shocks or to finance emergency assistance to populations affected by natural disasters.

27. **The PRSP-2 candidly identifies political instability²⁰ as a major risk for continuing the implementation of the strategy.** In addition to the consultative process, it is proposed to mitigate this risk by adopting the PRSP-2 by law. Staffs support the proposal and encourage the Government to ensure a regular public review during the strategy's implementation period. The planned timing of the annual review and the mid-review of the PRSP-2 offer the opportunity to integrate the views of the newly elected government, in accordance with Mauritania's commitment to achieving the MDGs by 2015. While the consultative process is likely to have broadened public support for the PRSP-2, the weak national ownership of the first PRSP calls for caution. In the implementation phase, the authorities are advised to strengthen the coordination between the core group of officials who prepared the report and line ministries and other stakeholders.

VI. CONCLUSIONS AND ISSUES FOR DISCUSSION

28. **Bank and Fund staffs believe that the PRSP-2 presents an ambitious development program to address poverty reduction in Mauritania.** The PRSP-2 draws useful lessons from the implementation of the first PRSP, identifies pertinent structural reforms, and pays due attention to the oil sector, which is likely to influence the country's political economy in the medium term. In addition, the PRSP-2 candidly acknowledges the low levels of human resource capacities and the need to step up efforts in the fight against corruption.

¹⁹ The main areas of improvement are: data quality, access and availability, and coordination among main institutions.

²⁰ After the coup in August 2005, the ingoing democratization process covers the municipal and legislative elections in November 2006 and presidential elections in March 2007.

29. **Given the country's capacity constraints, the staffs consider that the success of the PRSP-2 implementation** depends on: (a) the identification of the drivers of poverty and inequality at the national and local levels; (b) the appropriate prioritization of the strategy's numerous actions with realistic expectations and in line with the resources constraints; (c) an adequate decentralization process; and (d) the mitigation of the identified risks. Staffs are encouraged by the fact that Mauritania benefits from technical and financial assistance in these critical areas from bilateral and multilateral development partners.

30. **Looking forward, priority elements of the strategy need to be strengthened.** In particular, staffs advise the authorities to pay attention to the following issues:

- (i) promoting good governance and anti-corruption practices, especially through an improved budgetary and financial management system;
- (ii) identifying and removing the binding physical, structural and institutional constraints to economic diversification and higher private sector-led non-oil growth; and
- (iii) developing a realistic monitoring and evaluation system of progress toward the PRSP-2 objectives, integrating the results in the macrobudgetary framework, so that priorities, available resource (including oil) and results be better linked with the MTBF and annual budget process.

31. **In considering the PRSP-2 and this joint assessment, Executive Directors' views are sought** on whether they agree with the main areas identified by the staffs as priorities for strengthening the implementation of the PRSP-2.