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International Science and Technology Institute, Inc.

ISLAMIC REPUBLIC OF MAURITANIA

INVESTMENT CLIMATE ASSESSMENT  
AND  
PRIVATE SECTOR SURVEY

VOLUME ONE - INVESTMENT CLIMATE ASSESSMENT AND  
RECOMMENDED PRIVATE SECTOR STRATEGY

TECHNICAL SERVICES IN SUPPORT OF PRIVATE ENTERPRISE  
AND INVESTMENT PROMOTION IN AFRICA

Prepared for:

USAID/Mauritania

and

Office of Private Enterprise (AFR/PRE)  
Bureau for Africa

Contract AFR-0438-C-00-5037

United States Agency for International Development

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NOTE:

Volume II of this report, which is bound separately, contains the following:

- I. Private and Public Sector Overview
- II. Banking and Private Sector Finance
- III. Agriculture and Agri-Business
- IV. Mining
- V. Fisheries

## PREFACE

This report is submitted in fulfillment of obligations under the terms of a contract between USAID AFR/PRE and International Science and Technology Institute, Inc. (ISTI). The contents of this report cover the following tasks outlined in the Statement of Work for the Mauritania Private Sector And Investment Climate Assessment:

- Investment Climate Assessment
- Private Sector Development Program Recommendations
- Descriptive Profiles of The Productive Sector
- Sectoral Assessments of Agriculture-Agri-Businesses, Fisheries, Mining and Banking

Additional reports on Follow-up and Seminar Development, which are individually programmed and budgeted in the basic contract document, will be separately authorized at the discretion of USAID Mauritania.

The work was carried out in Washington and Mauritania over the period April 28-June 13, 1986. The team leader, Mr. Arnold F. Lessard, a senior international business consultant, lead a five man team of U.S. and Mauritanian consultants combining long experience in agriculture, commercial banking, and private sector development. All were broadly experienced in both public and private sector international development, and all had substantial previous experience in Africa.

The findings and conclusions contained in this report are based on a thorough review of recently published reports on Mauritania, including those from USAID the Department of State, IMF, World Bank and agencies of the U.S. and Mauritanian Governments. Interviews were held in Washington and Mauritania with a broad spectrum of leading public and private sector executives in government, multilateral agencies, and the private sector. Field trips, plant visits and interviews were carried out in Nouakchott, Nouadhibou, the mining complex of Zouerate and in several cities and agricultural stations along the Senegal River.

The report has been prepared in two volumes. Volume One, Investment Climate Assessment and Recommended Private Sector Strategy, reviews the regulatory and political risk environment, and the basic economic and resource availability factors impacting upon the willingness of the private sector to make investments. The concluding sector of Volume I provides recommendations for the development of a USAID private sector strategy for Mauritania. Volume Two, Private and Public Sector Overview, reviews the growth and development of Mauritania's private sector and describes four segments of the economy in greater detail: Banking, Agriculture and Agri-Business, Mining and Fisheries.

## EXECUTIVE SUMMARY

The stated objectives of this survey, Mauritania Private Sector and Investment Climate Assessment, are to assist the AID Mission Nouakchott and AFR/PRE to:

- Formulate programs which will help Mauritania improve the business climate and promote local and foreign investment
- Identify the capabilities of the Mauritanian private sector so that private enterprises may be effectively utilized.

The findings, conclusions and recommendations have been organized to address the four major tasks established in the Statement of Work:

- Investment Climate Assessment
- Mauritanian Private Sector Development Program Recommendations
- Descriptive Profile of the Productive Sector
- Assessment of the Agriculture-Agri-Business, Fishing, Mining and Banking Sectors

Each of these four tasks has been addressed in stand-alone - although tightly interlinked - sections of this report.

The report is based on an examination of Mauritania's political/regulatory and economic/business environments, a close look at the principal productive sectors, a review of the strengths and weaknesses of the banking and investment community, and detailed analysis of the composition and growth of private sector companies. A number of conclusions emerge from these investigations:

### 1. The Private Sector Already Dominates The Farming, Commercial And Business Life Of The Nation

The private enterprise sector is estimated to produce 63% of Mauritania's value added and generate 71% of total employment. An active privately-financed and -managed Employers Organization in Nouakchott has permanent offices and staff, and a membership of nearly 200 members. There is also an active and well-organized private fisheries federation at Nouadhibou. In addition, the informal private sector includes a broad range of handicrafts, repair shops, small flour mills, bakeries, wood and metal working and related micro businesses. There are approximately 12,000 such small enterprises in Nouakchott with an estimated 30,000 jobs.

### 2. The Number Of Mauritanian Public And State Controlled Parastatals Began To Decline In 1983

A total number of 46 such organizations were identified in 1983 - a rise from 14 in 1972. The number declined to 39 in 1985 and is scheduled to reach 36 in 1986.

3. The Mauritanian Government Is In The Middle Of A Major Liberalization And Restructuring Program In Response To A National Financial Crisis

Major financial problems and the near collapse of the banking system have forced a complete reappraisal of the Government macro-economic policies and plans over the last two years. A key element in the Government's new strategy is the encouragement of private sector initiatives in banking, commerce, agriculture and industry.

4. Mauritania Faces A Long Period Of Major Readjustment And Low Growth In Both Internal And Export Markets

There are virtually no "quick fix" solutions to the problem of achieving real growth in consumer purchasing power - short of climatic changes and increases in world market prices of iron ore. The fisheries industry is the one expanding sector in terms of providing food for local consumption, earning important amounts of foreign exchange, and providing employment opportunities. The rest of the economy faces a period of slow growth, at best, over the immediately foreseeable future.

5. An Energetic And Risk-Taking Private Sector Faces An Improving Regulatory Climate But Essentially Stagnant Economic Growth

Mauritanian entrepreneurs have shown themselves to be remarkably responsive to whatever opportunities there are for establishing new local businesses. However, very few opportunities exist for foreign investment, and a fundamentally poor economic and market environment faces the domestic private sector, due to:

- Small, fragmented and difficult-to-access markets
- A limited cash economy
- Tight liquidity
- Lack of basic infrastructure
- Unrelenting drought
- Inability of the Government to deliver services
- Lack of local material inputs
- High cost of imported inputs due to high cost-low efficiency port and transport facilities

6. USAID Can Have A Limited But Tangible Impact On Private Sector Development Particularly In The Fisheries And Agricultural Input Sectors

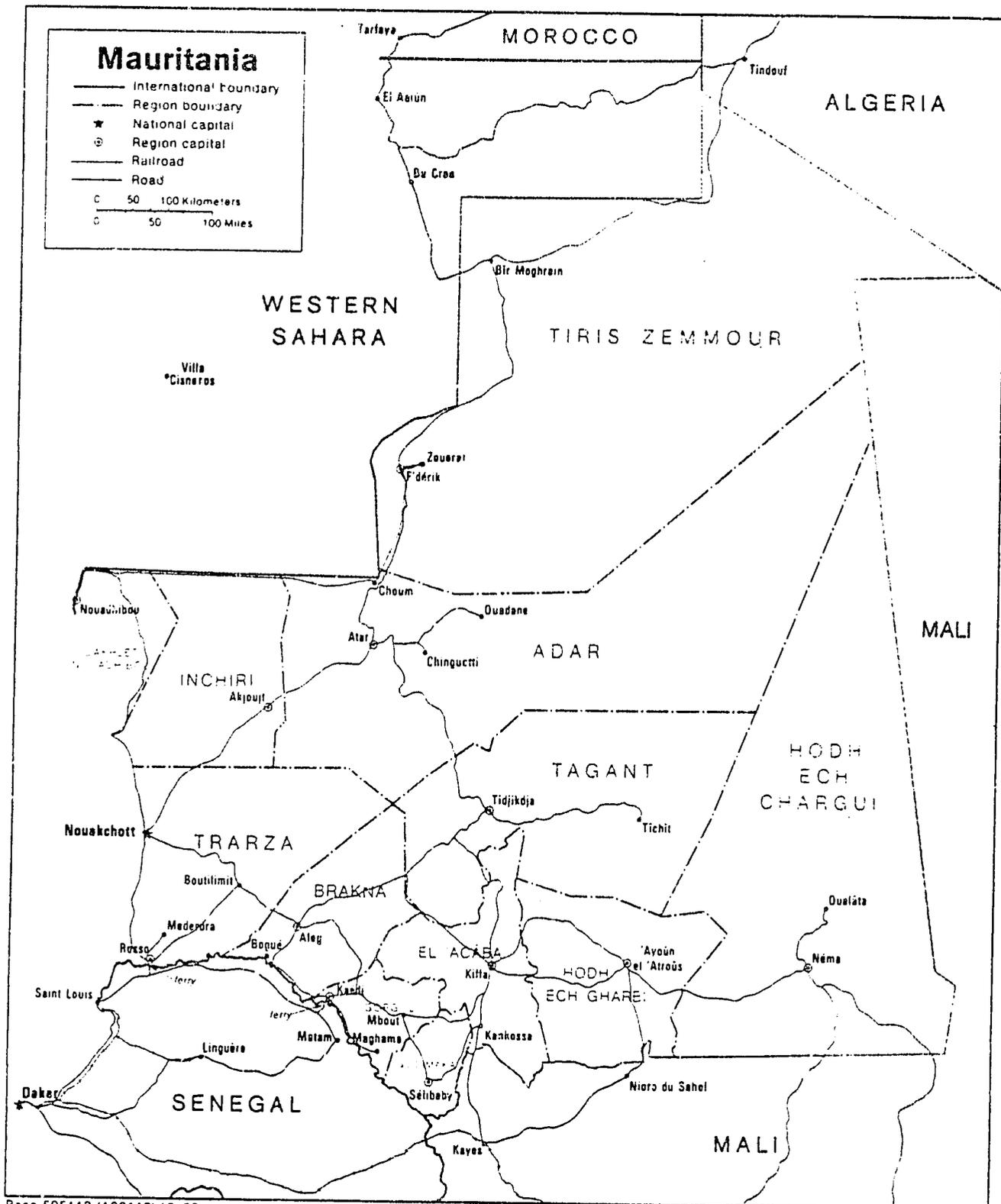
Private sector strategies and policy guidelines are proposed for assisting the development of the Mauritanian private sector. Specific program proposals are also recommended. The key elements in the proposed strategy are summarized below.

- Concentrate on a few priority programs primarily in the agriculture and fisheries sectors
- Focus on human resources development in trade skills
- Work with and through private sector mechanisms
- Make judicious use of pooled donor resources on specific cooperative projects

- Recognize the extremely limited nature of AID's staff resources
- Utilize funds available from existing human resources program budgets and PL 480 counterpart funds

USAID Mauritania Can Move Directly Into Program Design For One Or More  
Of The Suggested Programs Once Agreement Is Reached On Strategy  
Definition

The specific private sector programs recommended can be brought quickly to action following review, discussion and adoption of a private sector strategy such as proposed in this report. Program design could begin as early as July 1, 1986.



VOLUME ONE - INVESTMENT CLIMATE ASSESSMENT AND RECOMMENDED  
PRIVATE SECTOR STRATEGY

The first two sections of Volume One of this report examine the political and regulatory environment and the basic economic resource factors which impact upon private sector development in Mauritania. The primary focus and point of view reflected in these assessments is that of the Mauritanian private sector businessman. It is his perception of the investment climate that is reflected in the two sections which follow. The Volume concludes with the team's recommendations for an appropriate private sector strategy for USAID Mauritania.

I. GOVERNMENT POLICIES, REGULATIONS AND PROCEDURES

1. Political Stability and Risk

The Islamic Republic of Mauritania is a young nation. During the country's first decade of independence (1960-1970) close political, economic and financial ties were maintained with France, and public administration reflected essentially French traditions, laws and practices. It was only in the 1970's that a more separate national identity began to emerge. This spirit of independence was reflected in a number of important actions:

- Withdrawal from the West African monetary union
- Creation of a national currency and central bank
- Nationalization of the banks, the mining sector and key public services
- Mauritanianization of public sector organizations
- Military intervention in the Western Sahara disputes

Up until 1978, the Government followed a policy of state-led growth with virtually exclusive emphasis on public enterprises. Since 1978 there has been a fundamental shift in economic development policies and strategies which places primary emphasis on private sector delivery mechanisms, and a parallel gradual withdrawal of the Government from many sectors of the economy.

The country's first and only elected President, Mokhtar Ould Dadda, who led the country into independence, was overthrown in a bloodless military coup in 1978. Since that time there have been a number of "palace" coups within the military, the most recent being in 1984 when Chief of Staff of the Armed Forces, Maaouya Ould Sid'Ahmed TAYA - a former Prime Minister - led a bloodless coup. There were relatively few changes in key positions and little noticeable change in domestic policies at that time.

Mauritania views itself as a bridge between the Arab-Berber peoples and countries of North Africa and Sub-Saharan black Africa. The ruling elite of Mauritania is drawn heavily from peoples of ancient Arab-Berber nomadic stock, and there have been continuing efforts to improve relations with neighboring North African states of the Maghreb. The withdrawal of Mauritania from the Western Sahara-Polisario conflict in 1979 essentially signaled the end of a difficult period in Mauritania's relationship with its northern neighbors. Relationships between Mauritania and the bordering countries of Western Sahara, Algeria, Mali and Senegal are now good, and Mauritania actively participates in a number of regional cooperative projects.

Mauritania is characterized as a "...one party, non repressive state" with firm control over unions, the media and essential public services. There seems to be little or no active internal opposition to the present Government, and no clear alternatives to continuation of the present low-key military rule.

Local businessmen express general confidence in Government policies toward the private sector, and believe that the government is inherently stable. They do not identify any major internal or foreign threats to political stability. The private sector considers political stability and risk as a moderately favorable factor in encouraging private sector development.

## 2. National Development Policies and Plans

The Mauritanian economy is in deep crisis. National development policies and plans reflect the urgent need to deal with this crisis. The background to the current problems reflects a set of past government policies and developmental plans which were based on large inflows of highly concessional loan and grant funds accorded by foreign governments and multilateral agencies - averaging as high as \$170 per capita over one five year period. These "easy-come" resources were used to finance high levels of consumption and government direct investment in several uneconomic "white elephant" projects - a sugar mill, an oil refinery and a steel mill, none of which is currently operative or offers any hope of recovering its investment. The current crisis also reflects adverse external developments such as the drought, the weakening of iron ore prices, and high international interest rates.

Debt service obligations are now beyond the Government's capacity to pay - \$117 million in 1985 and an average of \$164 million a year during the period from 1986-1990 - and represent a debt service ratio of 35%. At the end of 1984, the Government's official reserves were a negative \$73 million.

The International Monetary Fund and the IBRD are providing technical and financial support in the implementation of a 1985-1988 medium term Economic and Financial Recovery Plan. Debt rescheduling and balance of payment support has been forthcoming from Mauritania's bilateral donors, in the context of two successive standby arrangements with the IMF, the last of which was approved in February, 1986. The Government has embarked on a "...painful and wrenching" program of economic stabilization, reform and liberalization, involving:

- A reduction in Government employment
- A 19% devaluation of the currency
- New tax measures to increase revenues
- Comprehensive reform of the banking system, including encouragement of private commercial banking
- Public sector rehabilitation and major cost reduction measures
- Privatization and withdrawal of state monopoly status from certain state companies
- Gradual withdrawal of the Government from managing the direct inputs into the agricultural sector and pricing policies which reflect world market norms
- Increased channeling of funds to the private sector - both term lending and trade finance
- Major technical and financial support of the private sector in the fisheries and agriculture segments.

The private sector has responded positively to the Government's liberalization policies. New private sector formations have risen dramatically and there is a limited but noticeable downturn in parastatal activities (See Volume Two of this report).

The Mauritanian private sector is painfully aware of the problems facing the Government in stabilizing the economy. While cautious, they are optimistic and they are investing in new business formation. The private sector considers that the new Economic and Financial Plan is definitely on the right track, and that it is providing a new opportunity for private sector investments. Their positive investment actions are a vote of confidence.

### 3. Business Formation and Investment Incentives

Mauritania's Investment Code was promulgated on March 16, 1979 (Ordinance No 79-046). It provides, on the whole, a conventional set of provisions and permits a large measure of negotiating freedom on large projects of national interest.

Investment priorities are placed on agro-industries, fisheries, non-luxury consumer goods manufacturing, mining and energy, public housing, water treatment and tourism. The approval criteria are job creation, local value added, profitability, and contribution to national development programs.

Schedule "A" of the Investment Code applies to enterprises in the investment range of up to 20 million UM. Key provisions include:

- Three year exoneration of customs duties and import taxes on equipment.
- Seven year exoneration in Nouakchott and Nouadhibou (N/N) - and twelve years in other locations - from duties and taxes on imported raw materials, consumables and replacement parts.
- Three years exemption in N/N - and five years in other areas - on all reinvested profits, and export duties.
- Free land outside N/N, and import licenses for all materials.

Schedule "B" applies to qualifying investments over 200 million UM. In addition to all Schedule "A" exemptions, a number of other advantages may be secured for periods of up to 20 years:

- Right of transfer of all convertible currency investments
- Negotiated long-term taxation
- Repatriation of dividends and liquidation receipts
- Indemnity for nationalization
- International arbitration of disputes

Private sector businessmen agree that the Investment Code does provide meaningful benefits. They are almost unanimous, however, in their criticisms:

- Long delays are experienced in obtaining Investment Code approval.
- Exonerated periods under the Code are not long enough taking into account the long start-up periods required in the difficult Mauritanian environment.
- Provisions of the Investment Code are not competitive with other West African States.

The most important criticism of private businessmen, however, is more qualitative. Many have had direct experience in not being able to obtain contracted benefits guaranteed by the existing Code. In a number of instances the privileges provided for in the Code were denied. The feeling was that the administration of the present Code has been arbitrary, overcautious and conducted by officials with little understanding of private sector needs and requirements.

There is agreement, however, by both government officials and private sector businessmen, that a major revision of the Code is overdue. The World Bank is funding a major survey by international consultants to make recommendations for a new code. The private sector rates the Investment Code as a minor but positive incentive to new business formation.

#### 4. International Remittance

Mauritania's exchange control regime officially provides for automatic approval of remittances for all import payments provided that the import itself has been properly approved in advance. The regulations also provide for routine service payments up to certain maxima for such expenditures as business travel, allowances for which range from 50,000 UM per person for trips within Africa to 120,000 UM for travel to more distant destinations.

Authority to execute these transactions is delegated by the Central Bank to authorized foreign exchange dealers, normally commercial banks. Outward capital transfers require specific Central Bank approval. Companies operating under provisions of the Investment Code are entitled to transfer profits and dividends accruing from authorized investments. All transactions with South Africa and Israel are prohibited. The country's largest enterprise, the public sector iron ore mining company, SNIM, has no problem in obtaining foreign exchange since it is permitted to retain 30% of its earnings abroad.

Shortages of foreign exchange and bureaucratic difficulties have, in the past, made it problematical for Mauritanian private sector enterprises to obtain foreign exchange in a timely manner for legitimate payments. Prior to the initiation of the first standby arrangement with the IMF in early 1985, long delays were the exception rather than the rule, due to the acute overall scarcity of foreign exchange. Arrears on external payments at the end of 1984 totalled SDR 108 million, mostly on public and publically-guaranteed debt service obligations, but also including SDR 3 million arrears on guaranteed commercial credits. The arrearages were rapidly paid off as the IMF program, which included a sharp devaluation of the ouguiya, dramatically improved the balance of payments during 1985. The country's gross foreign exchange reserves stood at a level equal to 1 1/2 months of imports by year-end 1985, which should have permitted all foreign exchange demands to be met without delay.

Most of the businessmen interviewed in May 1986 reported that obtaining approval for normal foreign exchange payments was no longer a significant problem. But, a number of them commented that to understand the problems of foreign exchange availability meant understanding the "...Mauritanian way of doing things." ("It depends on who you know.")

The survey team however, received the very definite impression from private sector businessmen interviewed that the role of influence and graft was a minor problem in Mauritania when compared with many other foreign-exchange-starved African countries. In no case were situations identified in which lack of foreign exchange was severely threatening production schedules or replacement, maintenance and repair of equipment.

Provided that Mauritania continues to adhere to the IMF-sponsored financial recovery program during 1986, its balance of payments and reserves positions should not cause delays or difficulties in effecting legitimate foreign payments.

#### 5. International Trade Restrictions

Imports of all commodities require prior approval from the Central Bank of Mauritania. They may be effected by all holders of importer-exporter licenses. There is no formalized import priority control program, and approval is made at the discretion of the Central Bank. In the past this often led to difficulties and lengthy delays, since the decision to approve involved considerations such as foreign exchange availability and protection offered to indigenous producers.

The survey team received the impression from private sector businessmen that the implementation of import approval processes has become more liberal during the past year, reflecting again the improved foreign exchange situation and the devaluation of the ouguiya which has put a brake on import demand. The Government, in addition, is committed under the IMF program to further liberalization of the import licensing system, in particular for consumer durables.

Many local manufacturers complained strenuously about the presence of large amounts of contraband imports on the local market, which they claim robs them of protection they have been promised and prevents them from making any useful product-demand forecasts on which to base production scheduling. Officials of the Government customs office are aware of these problems, but appear unable to address the situation in any effective manner. They are also concerned about the problem of uncollected revenues on the large volume of contraband imports which they estimate may be as high as 50% of total actual imports.

The customs office, however, claims that some private sector businessmen take advantage of the Investment Code import benefits by including extraneous items in their equipment and materials list which serve no direct project purpose, but are imported and resold. Cases are reported of approved Investment Code projects which have never become operational and all imports for the project have been sold without payment of duty. The question of protection for Mauritania's emerging private sector industries was identified by both Government and private businessmen as a major problem. This question is now under review.

The export of Mauritanian products to other CEAO common market countries - Benin, Mali, Ivory Coast, Senegal, Burkina Faso, and Niger, - at the reduced internal tariff rates provided for under the conventions requires special industry-by-industry approval by the CEAO Council of Ministers. Mauritania, as an industrial latecomer, has not as yet secured many approvals for its infant industries. The following figures were submitted by a leading Mauritanian businessman and Employers Federation member on the number of industries approved on a country-by-country basis for privileges under the common market protocols: Ivory Coast 120,

Senegal 60, Burkina 21, Mali 14, Mauritania 3. The feeling frequently expressed is that other members of the regional common market benefit more from access to Mauritanian markets than Mauritania gains from access to their markets. A more active government policy and closer Government-private sector cooperation and coordination in this area could provide economy-of-scale expansion opportunities for some Mauritanian industries.

While the private sector appears to be managing its import problems, they consider that problems in the export area are not receiving attention and are an unfavorable element in new business development.

## 6. International Agreements

Mauritania maintains close links with important regional, Islamic, European and international organizations.

Mauritania's membership in the Communauté Economique de l'Afrique de l'Ouest (CEAO) - a 7-member customs union of francophone West African States - has been referred to above. This is a functioning organization with permanent headquarters at Ouagadougou, and Mauritania needs to take more effective advantage of the possibilities it offers for expanding markets for Mauritanian exports in neighboring countries.

Mauritania is also a member of the 16-country Economic Community of West African States (ECOWAS), established to develop a wider regional trading community with unified economic and customs zones, common import duties and tariffs, freedom of movement of raw materials and finished products, exoneration of taxes on raw materials and certain semi-finished and manufactured products, and preferential duties on others. To qualify for the benefits of this regional common market 60% of the final value added must originate from a member state. Very little progress has been made in the development of the common regulations and schedules which were originally targeted for completion in 1985. No private sector businessmen interviewed was benefiting from ECOWAS provisions, although a number said that they knew their products were in fact distributed in neighboring countries.

The United States and the Government of Mauritania signed agreements in 1964 with amendments in 1973 covering guarantees of private U.S. investments and repatriation of assets and funds. These agreements also specify procedures for resolution of disagreements by means of arbitration methods to be determined by the President of the International Court of Justice.

Mauritania is a member of the African Intellectual Property organization (AOP) formed in 1977. The members of AOP agree to support provisions of a number of international conventions including the Paris Convention For Protection of Industrial Property, Berne Convention for Protection of Literary and Artistic Works, Hague Convention for Registration of Designs and Industrial Models, Lisbon Convention for Protection and International Registration of Original Trade Names, The World Intellectual Property Organization, Washington Treaty on Patents and Vienna Treaty on the Registration of Trade Names.

Mauritania is a signatory of Lomé III Convention which provides advantages and preferential treatment of developing countries exporting to and importing from EEC countries. The country also benefits from the provisions of the U.S. Generalized System of Preferences (GSP) under GATT guidelines which provides preferential tariff treatment for certain products entering the U.S.

Mauritania is also a member of the following international agencies:

- United Nations
- International Monetary Fund
- World Bank
- Arab League
- Organization of African Unity
- Islamic Conference Organization
- Interstate Committee to Combat Sahel Drought
- African Development Bank
- Agency for The Security of African Air Navigation
- INTELSAT

The private sector views Mauritania's international agreements as having potential benefit to them over the long term. They view obtaining the advantages of ECOWAS/CEAO membership as the most pressing problem to be addressed.

## 7. Taxes

Mauritania applies normal taxes on imports, exports and industrial, commercial and agricultural profits. Up to 1983 tax and royalty receipts as a percentage of GDP had stagnated at 20% despite rapid expansion of the modern sector. Tax revenues rose to 23.6% of GDP in 1985. The current national recovery program has three basic taxation objectives: raise tax rates, broaden the tax base and tighten tax collection and penalties.

Import taxes are complex and include a number of individual taxes and duties as summarized below:

- Customs Duty: Imports from CEAO regional common market countries are subject to a special tax rate which is determined on a case-by-case basis. Minimum rates in the range of 0-25% but normally in the 5-10% range - are applied to countries such as USA, USSR, Brazil, U.K., which have trade conventions with France. Other countries such as Argentina, Mexico, Bolivia, and Japan pay three times the minimum. Certain equipment and widely consumed commodities mostly imported by government monopolies fuel, tea, sugar, pharmaceutical products and cereals - are exempt.
- Fiscal Duty: Rates of from 0% to 30% are applied on a C.I.F. basis.
- Additional Import Tax: Extremely variable tax ranging from 5% to 45% levied on C.I.F. value including all taxes.
- Statistical Tax: A tax of .5%.
- Turnover Tax on Imports: Some goods are exempt. Normal rate is 12%. Certain commodities are charged rates which vary from 10 to 25%.
- Special Surcharge: Exemptions follow customs duties guidelines. Rates range from 10 to 50%.

Note that the National Import-Export Corporation, CONIMEX, has a monopoly over imports over imports of sugar, rice and green tea.

Local businessmen complain also about the requirement that all imports be insured with the State Insurance Corporation, which they view as akin to taxation of imports since premiums are high but claims are seldom paid out.

Export taxes are levied on all exports which require export authorization and endorsement by the Central Bank. Parastatal corporations have the export monopoly on gum arabic, iron ore, copper concentrates and gypsum. Reexported commodities are exempt and no duties are charged on manufactured products. The Investment Code grants exemptions from export taxes. Normal export tax rates are:

- General Export Rate: ranges from 0% to 15%
- Lobsters: 20%
- Meat: 7%

Apart from import and export taxes, there is a taxation code governing profits, income and turnover.

- Industrial, Commercial and Agricultural Profits: Tax rate of 40%
- Non Commercial and Professional Profit: Tax rate of 35%
- Salaries, Pensions and Annuities: Tax rates range from 0% for salaries under 4000 UM per month up to 39% for monthly salaries over 100,000 UM.
- General Income Tax: Tax rates for a single taxpayer with no children range up to 60% in the annual income range over 1,100,000 UM. Tax rebates are allowed according to family size.
- Minimum Tax on Profits (TMP): A non-refundable advance on profit taxes. This tax was increased in 1986 from 1% of turnover to 4% for all business activities except the fisheries sector which was raised to 2%. This dramatic increase was legislated to increase revenue and to provide a solution to the difficulties of assessing and collecting taxes on profits. The new tax will have serious negative consequences for new businesses which have yet to reach a profitable level of operations.
- Taxes on Services (TPS): The tax rate is 16% of turnover for all type of service revenues such as interest on loans, hotel and restaurant income, etc.
- Miscellaneous Taxes: There are a range of other taxes on property, petroleum products, alcohol and tobacco.

The level of taxes in Mauritania is high but tax collection is extremely difficult and enforcement is generally uneven. The World Bank is providing financial support for studying the taxation system as applied to the mining and fishing sectors. Assistance has also been requested from the IMF in the conduct of a comprehensive review of the country's fiscal system.

The business community considers taxation an unfavorable element in the encouragement of private sector development.

## 8. Labor Laws

Employer-employee relations are governed by a formal Employment Code and by a Collective Convention signed by the Workers Union (UTM), the Employers Federation (CGEM) and the Government. The latest convention was signed in 1974 and is still in effect.

A minimum wage statute exists, but the level is much lower than informal minimums currently being paid by most businesses.

Employers inform the Labor Directorate of their needs two weeks before hiring. Candidates may be presented by the Directorate. If candidates are unacceptable or no candidates are presented, the employer may hire directly.

Employees may be discharged for cause or due to business conditions. Employees must be informed fifteen days to three months prior to termination and must be paid termination allowances related to seniority.

Employers are obligated to provide medical services to employees and their families. Social security contributions of 16% of salary are made by the employer.

Expatriate employment requires specific approval by the Labor Directorate. Work permits must be renewed every two years.

The Workers Union (UTM) represents workers interests and engages in collective bargaining on social issues with both employees and the Government.

Labor laws are not strictly enforced due to the very high levels of unemployment. Even when enforced, they do not present a major problem. Solutions to employer-employee relations problems are generally non-confrontational and usually harmonious.

The private sector rates labor laws and labor relations as a positive factor in business development.

## 9. Government Control and Interference

Among Mauritania's long range liberalization objectives under its program of action for national recovery, those of greatest interest to the private sector include reforms to simplify, liberalize and codify laws and regulations and improve their administration; to provide more appropriate incentives under the Investment Code which would recognize the severe new business start-up problems and the difficult environment of Mauritania encountered by a private sector still feeling its way; to remove the Government from direct management of commercial and industrial enterprises; and to open up opportunities for - and support in meaningful ways of - private sector exploitation of these opportunities. The number of public sector enterprises has, in fact, already started to decline, while new business starts in industry and fisheries have grown remarkably over the past few years, as shown in Volume Two of this report. Mauritania's private sector has responded aggressively in risking substantial amounts of its own capital in creating industrial entities which have never existed before in the country. But the private sector is inexperienced and it is operating in one of the most difficult environments imaginable. Many new businesses have yet to see a profit.

The degree of success of the national recovery program will have significant potential impact - for better or for worse - on an embryonic and on the whole very weak private sector. The economic reform measures already taken - such as the parastatal divestment or cancellation of parastatal monopolies and the Government's encouragement of private sector investments in irrigated agriculture, import substitution manufacturing and fisheries - have shown tangible results. Private sector businessmen, however, are becoming increasingly concerned at the slow pace of parastatal and monopoly divestments and the lack of government follow-through on Investment Code promises and revisions.

There were almost no examples cited by private sector managers of direct government interference in the management and operations of their companies. There was, however, almost universal condemnation of severe bureaucratic delays, incompetent officials, frequent policy changes, unclear regulations, and an almost total lack of a sense of urgency on the part of government employees responsible for providing vital services or approvals.

Most businessmen state that they have long since decided that they can expect little or nothing from the Government. Several stated that they found it difficult - sometimes impossible - to ever obtain benefits provided for in their Investment Code agreements. "What we have learned," said one leading businessman, "is that starting an industrial business activity in Mauritania is the same as starting it in the middle of the Sahara. It's all up to us."

The vigor, resilience, intelligence and risk-taking nature of the Mauritanian private sector businessmen contacted during the survey is indeed striking. They have learned in one way or another how to "deal" with the Government regulations and the slow pace of bureaucratic processes. Their hope is that proposed reforms under the national recovery program will result in action and deeds in assisting private sector development. They realize that the process will be slow and over the short term they must deal as best they can with the many problems of new business creation. The overall lack of responsiveness to private sector needs by the government is viewed as unfavorable to private sector development.

#### 10. Availability of Government Advisory and Promotional Services

Private sector businessmen as well as Government and banking officials agree that there does not now exist any effective state-supported mechanism for delivering investment promotion and business advisory services. Businessmen rely on local or foreign specialists to assist them with market and feasibility studies, investment proposals, applications for Investment Code approval, specification and procurement of equipment, design of accounting and operating systems, and plant commissioning and start-up.

The need for such services has long been recognized by leaders in both Government and private sector. Unsuccessful attempts were made with assistance from several donors to establish a business advisory unit within the Ministry of Commerce and Industry. Specific proposals and budgets were developed in 1983 for the creation of an autonomous industrial study and promotion unit called SEPIM (Societe d'etudes et de Promotion Industrielle de Mauritanie) with active private sector involvement. Nothing of substance has come of these proposals.

Private sector businessmen are in agreement that the lack of government sponsored advisory and business promotion services is unfavorable for private sector development.

11. Summary

The Mauritanian private sector expresses few qualms about the stability of the Government. They do not consider that the issue of political risk is a factor in their business decisions to invest or not to invest. They view the country's regional and international relations favorably and the extensive networks of bilateral and multinational agreements as contributing positively to the country's development. They view in similarly positive terms the fundamental economic objectives and directions established by the Government over the last two or three years.

The private sector's major concerns relate to the Government's management of the economic development plans and programs. While the Government is perceived as being supportive of private sector development in principle, there are major concerns that the administrative agencies of the State concerned with development either do not understand the basic survival problems and needs of a private sector operating in the extremely difficult environment of Mauritania, or if they do understand they appear unable or unwilling to address these needs in a concrete manner. While businessmen are unanimous that the Investment Code needs liberalization and major overhaul, they are as much concerned about their inability to obtain promised benefits under the existing Code.

There is also a growing concern that the pace of privatization of parastatals and liberalization of Government monopolies is slowing down.

Exhibit I-1 which follows this page indicates an overall favorable assessment of current Government policies and regulations on private sector development.

EXHIBIT I-1

RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES TO GOVERNMENT  
POLICIES, REGULATIONS AND PROCEDURES IN ENCOURAGING  
PRIVATE SECTOR DEVELOPMENT IN MAURITANIA

FACTOR	CONSIDERED FAVORABLE			CONSIDERED UNFAVORABLE		
	MAJOR	MODERATE	MINOR	MAJOR	MODERATE	MINOR
1. POLITICAL STABILITY AND RISK			X			
2. NATIONAL DEVELOPMENT PLANS		X				
3. BUSINESS FORMATION AND INVESTMENT INCENTIVES			X			
4. INTERNATIONAL REMITTANCES		X				
5. INTERNATIONAL TRADE RESTRICTIONS			X			
6. INTERNATIONAL AGREEMENTS		X				
7. TAXES					X	
8. LABOR LAWS			X			
9. GOVERNMENT CONTROLS AND INTERFERENCES					X	
10. AVAILABILITY OF ADVISORY SERVICES					X	

## II. BASIC ECONOMIC AND RESOURCE FACTORS

### 1. Economic and Market Stability and Growth Prospects

Mauritania experienced rapid economic growth during the first ten years following independence in 1960. The country was sustained in the early and mid 1970's by large amounts of Arab aid given to support Mauritanian economic development and assist in the Western Sahara war efforts. By the time the war ended in 1979, such aid had dropped dramatically. By 1981 Arab aid equalled only 25% of the 1976 total. Mauritania was also hard hit in the mid-1970's by the severe Sahelian drought, a drop in the world market iron ore prices, and a drought-related rundown of livestock. The Mauritanian Government compounded these severe and uncontrollable climatic and economic changes by a program of nationalization and expansion of public sector enterprises, and major investments in state-owned steel, sugar and oil refinery projects, all of which proved economically unviable.

By 1977 the country was in a major financial crisis. The new Government which came to power in 1978 was forced to embark on a major program of economic stabilization. External debt was rescheduled and government expenditures were cut. The Fourth Development Plan - 1981-1985 - stressed diversification of the economy, development of Senegal River Valley irrigated agriculture and the country's major fisheries resources, and large investments to sustain the nationalized iron ore export industry. This development program coupled with substantial foreign aid launched the country on a new period of stability and moderate growth.

However, 1983-1984 witnessed the onset of another major drought and a serious decline in iron ore production as the ore deposits then in production approached depletion. By 1984, additional foreign assistance became essential to cover the budgetary and balance of payments deficits - an aid figure equal to US \$ 170 per capita.

Accumulated medium and long term debt rose to US \$ 1.8 billion - equal to 250% of GDP or five times the average of developing countries similar to Mauritania. Debt payment obligations by the end of 1984 were forecast to take 35-40% of export earnings through 1988 - a sum clearly beyond Mauritania's ability to pay.

It had become apparent by early 1985 that the level of Mauritania's reliance on foreign assistance, the growing balance of payment difficulties, and the very limited possibilities for economic growth over the short and medium term would require new and stronger policy reform medicine. Fundamental issues such as pricing policies, exchange and interest rates, poor capital investment planning, an inefficient parastatal sector, lack of education and man-power training and development, and the virtual bankruptcy of the state banking system would need to be addressed.

All of these problems must be viewed against Mauritania's extremely poor agricultural base which contributes a mere 5% of the economy's output. Efforts to improve agricultural production have had some success - particularly paddy rice - but total cereals production which stood at 54,800 tons in 1973-1974, had dropped to 35,800 tons annually by 1984-1985. Food import requirements run at about 200,000 tons annually - covered almost equally by commercial imports and food aid donations. In 1984-1985 food aid met over half of Mauritania's demand for cereals.

Starting from early 1985, the present government embarked upon a new and more determined effort to address the country's many economic problems. A short-term financial program drawn up with the aid of the International Monetary Fund included a sharp devaluation of the currency, increased prices for agricultural products, steps to cut the government's budget deficit, strict credit limitations, and a wide range of other stabilization measures. This program was supported by a one-year standby arrangement from the IMF, which was successfully implemented; a second one-year standby was approved in February 1986. These measures allowed Mauritania to go to the Paris Club for further a rescheduling of the bulk of its external government debt obligations falling due in 1985 and 1986. At the same time, in collaboration with the World Bank, Mauritania drew up a medium-term Economic and Financial Recovery Plan covering the year 1985-1988, whose centerpiece was a reduced but greatly more rigorous investment plan designed to launch the economy on a new and more rational growth-path. At a Consultative Group meeting organized by the World Bank in November 1985, this Plan was favorably received by the donor community. These recent steps taken by the Mauritanian government, under international tutelage, have done much to transform the economic prospects and lay a basis for more orderly and realistic management of the economy during the coming years.

Local resources of investment capital remain limited, although investment by the private sector has increased relative to the public sector in recent years. Foreign exchange for the private sector is now available - although limited - for approved projects. There is no way to measure capital flight, although active Mauritanian private sector trading companies operate in nearby countries such as Mali and Senegal and many of these companies are self-financing their operations.

Foreign private investment appears almost nonexistent. Major rehabilitation and new investments in the mining sector have come from SNIM's foreign borrowings or Arab capital.

Efforts have been made to bring inflation under control, with some success: prices increased in 1981, 1982 and 1983 percentage rates of 11.5, 8.4 and 4.9 respectively, and have subsequently remained at moderate levels.

The consensus among business, banking and international financial institutions on the short- to medium-term economic prospect is a scenario of gradual stabilization, limited-to-modest growth, and success in reaching at least minimum objectives established for the 1985-1988 financial recovery plan. Features include:

- Major constraints will continue to be low iron ore prices, a continuation of drought conditions, a large debt burden overhang, and a continuing drain on resources from inefficient parastatals.
- The banking system will undergo continuing reforms. Banks already privatized will begin to enter the loan market more aggressively. Development banking will be consolidated under the National Development Bank (FND), while commercial banking will undergo some major consolidation and/or privatization.
- Iron ore exports will continue at 1986 levels, while fish exports are expected to rise moderately.

- Imports will continue to be restricted to priority needs with some liberalization in the import of consumer durables.
- Local private sector investment will continue at moderate levels primarily in fisheries, irrigated agriculture, agricultural inputs and services, and small import-substitution manufacturing enterprises.
- There will be minimum net inflows of foreign private capital, although specialized niche opportunities in grain milling, agriculture and fisheries may attract limited foreign investor attention.
- Foreign exchange will remain tight but will be available for projects approved under the Investment Code and for imports considered essential.
- Inflation will continue at present levels.
- Gross disposable income per capita and consumption per capita will not exceed 1984 levels.
- Highly concessional foreign lending at levels above 1984-1985 will be required. Debt service ratios will decline assuming success in current reforms and tight Government adherence to agreed economic stabilization plans.

The private sector is expected and is being encouraged to play an even more important role than it now has in the country's economy. All agree, however, that Mauritania faces an uphill struggle in achieving the goals of the economic recovery program - any number of major problems being beyond the control of either the Government or the private sector.

While little can be expected from the foreign private sector investment community, the Mauritanian private sector has shown itself to be resourceful, risk-taking and progressive. It continues to be interested in expanding its influence in the fisheries sector, is willing to move in to provide a private sector base for delivering agricultural inputs, continues to seek niche markets for replacing imports, awaits further actions which will remove Government monopolies engaged in the import, distribution and sales of basic products, and is beginning to show interest in linking agricultural outputs from the Senegal River Valley to food processing plants for domestic consumption.

Even with this spirit of enterprise, however, the Mauritanian private sector is apprehensive and considers that economic and market stability and growth prospects are essentially unfavorable to investments and profitability and expansion of current private sector businesses.

## 2. Population

The population of Mauritania in the census of 1977 was 1,407,000, and is estimated at 1,656,000 in 1985. The average annual growth rate increased from 1.6% in 1950-55 to an estimated rate as high as 2.3% in 1980-85. Life expectancy at birth is estimated at 32-34 years, with infant deaths per 1000 live births estimated in the range of 162-193 in the period 1964-65. Adult literacy in the French or Arabic languages is estimated at 25%.

In the 1977 census, 22% of the population lived in urban areas. This figure has risen sharply since then due to the increasing influx of nomadic peoples to city centers to escape the drought; the World Bank estimates that in 1985 at least 30% of the population resided quasi-permanently in urban areas, with more than 20% in Nouakchott.

A recent estimate of the composition of the labor force is shown in the following table:

COMPOSITION OF THE LABOR FORCE BY SEGMENT

SEGMENT	1960		1980	
	NUMBER (000s)	%	NUMBER (000s)	%
AGRICULTURE	272	91	304	69
INDUSTRY	9	3	35	8
SERVICES	18	6	101	23
TOTAL	299	100%	440	100%

The socio-ethnic composition of the population is an essential element in any understanding of the dynamics of the Mauritanian society - and can provide important insights into the private sector. Moors, who are a heterogenous grouping of Arab-Berber stocks speaking a Hassanya dialect, with strong historical links and ties to the Mahgreb - Morocco, Algeria, Libya - make up 75% of the population. This group is divided more on the basis of descent and social status rather than color into "White Moor" and "Black Moor" groups. It is the White Moor group which dominates the modern private sector. All the Moors trace their roots back to ancient nomadic peoples.

The country's black African population - made up of three principal tribal groups - has sedentary origins and is concentrated in a narrow southern zone along the Senegal River.

The population has been in flux since the onset of the drought. Large numbers of former nomads and oasis dwellers have sought refuge from the uninhabitable desert areas in towns such as Nouakchott, Kaedi and Rosso. Large shanty town developments have by now assumed an almost permanent status. Many observers believe that this drought-driven "denomadization" process is causing and will continue to cause a fundamental change in the future social, political and economic life of Mauritania.

These population concentrations and their distinctive trading patterns will have an increasingly important impact on private sector businesses producing goods and services requiring some form of "mass market" demand.

- ° The northern cities of Zouerate and Nouadhibou - Mauritania's most important industrial center for export fishing and iron ore - are essentially isolated enclaves. There are literally no roads connecting this industrial center to Nouakchott and to the population centers along the Senegal River. Access is only by limited air services and infrequent coastal shipping. Both Zouerate and Nouadhibou have much closer economic and trading links - and are dependent for most goods and services - on the Canary Island and continental Europe. Nouakchott private sector manufacturers, as a result, have almost no access to this important modern sector region characterized by a strong cash economy and relatively high per capita incomes.
- ° Nouakchott, with a population of over 375,000 or over 20% of the population, is Mauritania's largest concentrated market. Created within the last 25 years out of the desert, the city had no natural endowments or resources. Its port facilities - an old pier and an about-to-be commissioned modern Chinese-built port - are essentially wharf-type facilities built on open Atlantic beaches. The city has grown enormously as a refuge center under the stimulus of an effective free food distribution program and the usually unfulfilled search for jobs.
- ° The northern bank of the Senegal River is the third major population center. Rosso, Boghe and Kaedi have been the centers for the development of Government and donor-funded irrigated agriculture projects. This region has long traditional ties with the across-the-river peoples and economy of Senegal. While there are no reliable statistics on trade flows, all observers report high volumes of legal and contraband trade across the international border. High cost road transport between Nouakchott and the river valley towns exists but roads are in very poor condition.

The effect of the above is to complicate the fundamental problem of a very small internal market by difficulty of communication between what are essentially three separate trading areas. Where access is possible it is high cost and faces severe price competition from nearby foreign or contraband sources of supplies.

All private sector businessmen know that market size and accessibility will remain a fundamental problem for private sector development. They rate this factor as a major unfavorable element in developing and expanding business enterprises.

### 3. Business Base

The mining and fisheries sectors dominate the economy. Variable world market prices for iron ore, copper and phosphates - Mauritania's principal mineral resources - are a major source of vulnerability. The wealth of the offshore fishing grounds, new Government policies, and strong world demand make the fisheries industry a prime target for development and expansion.

Iron ore mining is the most important production segment of the economy, making up 16% of the GDP. The industry is expected to hold this percentage level - or decline only moderately - through 1993. It is, however, a highly enclaved industry with few spin-off effects on the rest of the economy. Fisheries were estimated to comprise almost 8% of GDP in 1984, and, under the influence of major policy reforms and substantial Government, donor and private sector investment, are expected to rise to 10% by 1993. Consult Volume Two of this report for a more detailed treatment of these critical sectors.

The trade and transportation services area is important and makes up 26% of GDP. Only minor expansion of this sector is envisaged, with the main possibilities of growth coming from the Government's exit from importing, distribution and sales of basic mass consumption food and other products.

Livestock has historically been a major element in the traditional nomadic economy of Mauritania. This important milk and meat producing sector has been hard hit by drought, resulting in stock decimation and removal of herds to grazing areas in Mali and Senegal. Estimates place this sector as contributing 20% to GDP in 1984, and forecast a level of 18% by 1993.

The agricultural sector has been a major target in the drive for food self-sufficiency. Neither climatic conditions nor agricultural services and know-how have been adequate, however, to increase in meaningful ways the low level of production, estimated as comprising 3% of GDP in 1984 and projected to rise to 5% by 1993. This is an ambitious target under current conditions found along the Senegal River farming areas. Refer to Volume Two for a detailed discussion of the agricultural sector.

Construction and public works contributed 7% to GDP in 1984 and are expected to show a slight decline by 1993. Non-mining industry, including fish processing, is estimated to have contributed 5% to GDP and can be expected to expand to 6.5% by 1993. The non-mining industrial sector is primarily in the hands of the private sector. The government-owned steel mill, sugar refinery and oil refinery are not operating. The rate of new private sector investment in industry has been high over the past several years, but this sector remains small. One estimate places modern sector industrial employment at around 2000. Job creation costs have been high - probably too high to be sustained. Major problems are obvious: a small and difficult-to-access market, high transport costs and lack of transport infrastructure, lack of reasonably-priced basic utilities, and a labor force with few skills and no tradition in disciplined factory-type environments. For a review of the composition and characteristics of the companies engaged in industrial undertakings, consult Volume Two, Private and Public Sector Overview. Major problems constraining the development of Mauritania's business base are discussed in the sections which follow.

Business, banking and international lending agencies do not anticipate major growth in Mauritania's business base over the medium term. The survey team learned that many of the plants visited are already operating at depressed capacity levels. In almost all cases, capacity was constrained not by productive facilities, manpower or access to raw material inputs and spare parts, but rather by limited markets and the problems of product introduction and distribution. Almost all manufacturers recognized contraband imports - or legal imports under regional common market agreements - as highly damaging to their businesses.

#### 4. Market Potential

The private sector recognizes that the size of the potential internal market and the difficulties of accessing that small total market, combined with the major difficulties of developing export markets - even in nearby neighboring countries - will remain a critical and essentially unsolvable problem over the medium term. Not only is the local population too small to sustain many plants of economically viable size, but much of that population is essentially outside the cash economy. A largely subsistence farming segment has relatively little purchasing power. The "denomadized" population which has sought refuge around large cities - and which exists on a combination of free food aid, low level artisanal and handicraft occupations, and small street merchant activities - has almost no basis for contributing to increases in real per capita purchasing power.

The private sector manufacturers and traders do not expect any appreciable increase in market demand over the medium term, apart from the growing export-oriented fisheries industry. Competition from nearby "early-starter" countries is severe and increasing. Government attempts to provide infant-industry protection have so far been largely ineffective because of inability to administer the system. Market potential, in summary, will continue to be a major unfavorable element in private sector business expansion.

#### 5. Basic Materials and Parts

Discussions with private sector businessmen and visits to their plants did not reveal many problems associated with unavailability of raw materials and parts, although there were many complaints about slow foreign deliveries, which necessitated the maintenance of large inventories. While foreign exchange availability has posed problems in the past, most entrepreneurs with approved Investment Code projects are currently able to secure foreign exchange for purchase of plant, equipment, spare parts and raw materials, without undue difficulty. Only one plant visited was closed down awaiting delivery of raw materials. The problem in this case was due to not securing timely approval of foreign exchange for a large bulk shipment, coupled with the long lead time for delivery by foreign suppliers, and off-loading limitations at the old dock facilities at Nouakchott.

The major industrialized segment of the economy in the Zouerat - Nouadhibou region is directly supplied and serviced from Canary Island and European sources. Service and parts for heavy mining equipment is furnished directly by European-based suppliers who are responsive to needs. Virtually all major ship repair and maintenance is handled by Dakar and Las Palmas repair facilities.

A number of privately-owned modern contract maintenance and repair shops are emerging around Nouakchott with capabilities for handling emergency repairs and fabrications of parts not available in stock. SNIM, the national mining company, has extensive and modern work shops staffed with competent technicians, able to handle all its own overhaul and maintenance needs internally.

The general conclusion of the private sector interviews was that the financing and supply of basic materials and parts was not currently a major constraint to business development and operations. The opening of the new deep-water port at Nouakchott, expected in 1987, should do much to remedy existing supply difficulties.

## 6. Infrastructure

Government corporations provide most of the basic services.

- SONELEC: Electricity and water generation and distribution
- OPT: Post and Telecommunications
- EMM: Nouakchott port management
- PAN: Nouadhibou port management
- Air Mauritania: Commercial air services
- SMAR: Insurance

Most of these enterprises have been losing money since the late 1970's and have been unable to make satisfactory delivery of their services. All of these companies have large accumulations of unpaid tax obligations, and in several cases the Government has been forced to take over their foreign debt service obligations. Starting in late 1983, the Government initiated a major effort to improve the management and operational efficiency of the key service-producing parastatals. This effort is being supported by a World Bank Para-public Sector Rehabilitation Project which concentrates initially on three of the most critical operations - SONELEC, OPT and EMM.

Almost all recent private sector start-ups have encountered major problems with supplies of utilities. SONELEC is a major target for strong criticism by the private sector. One businessman in Nouakchott showed water bills he was forced to pay when water had yet to be delivered to his plant. Virtually all private sector operators in Nouadhibou - particularly fish freezing and storage companies - were critical of what they considered extremely high electricity charges, which are, in fact, among the highest in the region.

The national insurance company (SMAR) was also singled out for serious criticism. The private sector is forced to pay for insurance, has no alternative to SMAR, pays extremely high and non competitive rates, and faces enormous obstacles - or non action - on claims under its policies.

The inadequacies in the country's road system, however, may prove to be the most difficult problem to solve. The macadam-surfaced road in good conditions between Nouakchott and Boutilimit, for example, was virtually impassable by except by small 4-wheel drive vehicles in mid-May 198 as a result of sand encroachment, with dunes across the road in some places reaching twenty feet in height. Trucks were stranded for days until heavy equipment, which is very limited in quantity, could reach them. Road maintenance and repair along the Senegal River is also a major problem. There is essentially no useable road link between Nouakchott and the industrial areas to the north; the most practical route is to drive along the beach at low tide.

Energy sources are neither cheap nor certain. SMCPP, the petroleum product marketing company, has suffered losses since its creation, and is universally criticized for its heavy over-burden of employees relative to its sales.

Finally, there are no operative industrial parks where industries might be grouped together for better supply of utilities and services. The existing plants in Nouakchott are spread all around the outskirts of the city.

Next to the limitations of the market and market demand, private sector businessmen considered the availability and quality of infrastructure as the most important constraint on the successful launch of new enterprises.

### 7. Local Credit and Capital

The formal banking system is not at present providing at all adequately for the credit needs of the private sector. This is the result of several factors:

- In the late 70's and early 80's, the five largely state-owned deposit-money banks lent heavily and unwisely, mainly to wealthy and influential Mauritanian citizens or public enterprises, and now find themselves with more than half of their assets tied up in non-performing, overdue loans.
- The liquidity squeeze created by the above is augmented by the traditional reluctance of Mauritians to place their wealth in financial assets. Their mistrust of bank deposits is not entirely misplaced - at present several banks have great difficulty in meeting large withdrawals, and can do so only by recourse to the Central Bank.
- The five banks mentioned above are all relatively young (all were established since 1972), and lack adequate management and control. A sixth bank which commenced business in early 1986 is operated according to Islamic principles, and consequently is constrained in its provision of conventional credit. The existing banks are also overstaffed, inefficient, and generally unprofitable.
- Banking facilities outside Nouakchott are minimal. There is only one bank branch in the agricultural Senegal River basin at Kaedi, and only two elsewhere in the country (at Nouadhibou and Zonertake).
- Total credit expansion is currently strictly limited under the IMF Stand-by program. In 1986, this allows for a 5.5% increase in total credit, all to the non-government sector; however, as this sector is defined to include public enterprises, the net credit availability to the purely private sector is unlikely to expand at all.

Given these constraints, all except the largest and most "bankable" of private enterprises report extreme difficulty in obtaining new commercial bank credits at the present time. At the end of June 1985, the distribution of total credit by sectors - 88% of which was short-term - was as follows:

Commerce	- 40%
Fishing	- 17%
Industry	- 15%
Construction	- 8%
Agriculture and Livestock	- less than 1%

It seems likely that, for at least the next one or two years, significant expansion of credit to any one of these sectors will only be possible at the expense of others.

However, there are grounds for believing that this difficult situation may have recently bottomed out. A major investigation completed early this year by French consultants, with Arab Monetary Fund, IMF and IBRD participation, has come up with very specific diagnoses and recommendations, including measures to collect overdue loans, to inject new capital into the banks (the need is estimated at more than UM 5 billion), and to improve the efficiency of the banks. The Government is committed to report to the IMF by the end of June 1986 on exactly what it proposes to do in this area. Agreement on a plan of action is a pre-condition for the continuation of the IMF Stand-by arrangement. One action already taken - the raising of interest rates in February 1985 - should encourage savings and lead to a more rational use of credit over the medium term.

Sophisticated Mauritians - borrowers as well as the banks themselves - seem to realize that the excesses of the past are now over. The country's era of "go-go banking" is excused on grounds that all concerned were new to the idea of commercial banking, that the resources of the mainly Arab-backed banks were thought to be limitless, and that in any event the State, as ultimate owner of the banks, did not really expect to get repaid. (If this seems naive, it should not be forgotten that major U.S. commercial banks concurrently went through a similar period of expansion in international lending based largely on OPEC resources, the results of which are still severely straining the world economy.) The recent privatization of two of the previously state-controlled banks - the government is committed under the IMF program to further moves in this direction - appears to have had a salutary effect, since individuals known to each other are now both borrowers from and shareholders in local banking institutions.

The adequacy of bank credit at present should also be judged against the background of a country traditionally unfamiliar with modern ideas of banking. Merely 15 years ago, there were only two banks, both branches of French banks which dealt almost exclusively with French enterprises. Local wealth was largely stored outside the banking system in goods, cattle or specie. Some, no doubt, was held abroad. Much of this private wealth, accumulated perhaps over many years, seems still to be held in the same fashion, and there appears to be a considerable number of very wealthy Mauritians, mostly of the merchant-trader classes, who can quickly raise large sums for investment of Islamic-type lending, if suitable opportunity offers, without any recourse to the banking system. This is difficult to prove and impossible to quantify, but tangential evidence includes an unusually high proportion of currency in circulation in Mauritania - notes and coin in circulation constituted nearly 40% of the money supply (M1), at the end of 1985 - and the fact that several recent new industrial ventures were capitalized by Mauritanian individuals entirely from their own hoarded resources. If this supposition is true, then the limited availability of modern credit facilities through the banking system constitutes much less of a brake on new investment and enterprise in Mauritania than it would in other more financially sophisticated developing countries. Nevertheless, there is clearly an urgent need to develop and improve modern credit facilities, including, among other things, raising the infinitesimal proportion now afforded to the agricultural sector. It is encouraging that major reforms of the banking system are imminently in prospect with competent international advice, monitoring and support.

The provision of medium-to-long-term credit through the National Development Bank is constrained by that institution's shortages of resources and qualified staff, and statutory limitations on the size on each loan. The second quasi-development banking institution now concentrates largely on commercial banking. The proposed reforms include a possible merger of the development banking functions of these two institutions, and a new effort to extend agricultural credit through the FND. The lack of medium and long term credit is viewed by most of the private sector as sharply unfavorable for private sector development.

#### 8. Business Services, Entrepreneurial and Management Resources

No offices of foreign public accounting or consulting firms were identified, nor were operating joint ventures with local firms in collaboration with such foreign companies located. Several small local firms which combine public accounting and consultancy services are in operation. The owners of these firms tend to work closely with their clients from project feasibility stage through plant start-up and operations. In almost all cases, the entrepreneur and his local consultant rely heavily on technical assistance from equipment suppliers, and normally bring in a foreign operations manager for start-up and training purposes.

Mauritanian owners of two construction companies and water well-drilling operators were also interviewed. While they obviously rely on equipment suppliers for counsel and assistance, both were 100% Mauritanian owned companies, and did not have any permanent association with offshore counterparts.

There is a general agreement within both the Government and private sectors that a professional consulting entity with international access to a broad range of specialists is needed in Mauritania. The proposal to establish such an autonomous entity, SEPIM, was discussed in a previous section of this report. (I-10 above).

The survey team was impressed - if not astonished - by the quality and number of private sector businessmen interviewed. All of them exhibit the risk-taking qualities, intelligence, and drive essential for successful entrepreneurship.

In this respect, their tradition and background are more typical of North Africa than of Sub-Saharan Africa. Within the public sector, SNIM - the national iron ore mining company - has an impressive top and middle management group and an effective team of technicians and skilled workers. Once largely foreign-run, its staff is now virtually 100% Mauritanianized.

The top private sector entrepreneurs and investors all agree however, that there is a dangerous lack of middle managers, supervisors, skilled technicians and qualified workers. Most believe that very little is currently being done to remedy this situation - particularly in the strategically important fisheries sector. The result is that managers of most businesses surveyed feel that the best - and maybe only - way to develop business and technical skills is to "do it yourself." In summary, the area of availability of business services and managerial resources is viewed as being unfavorable for private sector development.

9. Skilled Labor

The ability to recruit and train effective workers is linked to the availability of individuals possessing basic literacy and numbers skills. The table below dramatizes the lack of such a base.

EDUCATIONAL ENROLLMENT AND LITERACY

CATEGORY	1970	1980
PRIMARY SCHOOL ENROLLMENT	14%	33%
SECONDARY SCHOOL ENROLLMENT	2%	10%
PUPIL TEACHER RATIO		
° PRIMARY	24	41
° SECONDARY	24	25
ADULT LITERACY	10%	17-25%

Expenditures for education in the 1976-1980 Development Plan were 1,204 million UM - 3.7% of the national budget. The 1981-1985 Plan recognized the deficiency and allocated 6.182 million UM - 6.9% of the budget.

The non agricultural labor force is small but growing. In 1960, such employment was estimated at 27,000 or 3% of the total work force. By 1980, non agricultural employment was estimated at 136,000, or 8% of the work force.

There is no pool of skilled labor available for new start-up or plant expansion projects. Employers initially face the basic problem of acculturation of new ex-nomadic employees to a disciplined, shop floor environment. Once this hurdle is overcome, on-the-job training and close supervision is employed to achieve quality production levels.

Wage rates fluctuate widely. The following wage data was given by a large machine shop and a shoe factory.

- ° Official Minimum Wage Base           4,500 UM/month
- ° Unskilled Worker                    9,500 UM/month
- ° Machine Shop Skilled Operator      17,000 to 40,000 UM/month
- ° Factory Worker                      8,000 UM/month  
(50 US cents per hour)
- ° Factory Supervisor                 10,400 - 15,000 UM/month  
(68 to 97 US cents per hour)

There is general agreement in both the public and private sectors that the lack of skilled labor is an important constraint to private sector development.

10. Summary

Exhibit II-1 which follows portrays in dramatic fashion the obstacles to private sector development which exist in the economic and resources availability areas. A question to ponder is why, in the face of these difficulties, has there been as much activity as there has on the part of the Mauritanian private sector to risk their capital and form new businesses. The answer may be somewhere between an inability to forecast the magnitude of the problems they would encounter, and the strong spirit of individualism and entrepreneurship so evident in Mauritanian businessmen.

The donor community - USAID among them - could do much to assist the private sector in terms of policy dialogue, policy reform, technical and consulting assistance, credits and guarantees, privatization, and opening up channels between Mauritanian businessmen and overseas investors and entrepreneurs. Specific suggestions for such assistance follow in the next section of this report.

EXHIBIT II-1

RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES  
TO ECONOMIC AND MARKET FACTORS IN ENCOURAGING  
PRIVATE SECTOR DEVELOPMENT IN MAURITANIA

FACTOR	CONSIDERED FAVORABLE			CONSIDERED UNFAVORABLE		
	MAJOR	MODERATE	MINOR	MAJOR	MODERATE	MINOR
1. ECONOMIC AND MARKET STABILITY				X		
2. POPULATION				X		
3. BUSINESS BASE					X	
4. MARKET POTENTIAL				X		
5. BASIC MATERIEL AND PARTS						X
6. INFRASTRUCTURE				X		
7. LOCAL CREDIT AND CAPITAL					X	
8. BUSINESS AND HUMAN RESOURCES					X	
9. SKILLED LABOR				X		

### III. A PRIVATE SECTOR STRATEGY FOR MAURITANIA

#### 1. Introduction And Strategy

This concluding part of Volume One of the report suggests possible strategic objectives, policies and priorities which USAID Mauritania might adopt in guiding the development of specific private sector programs. While there are literally limitless opportunities for assisting Mauritanian private sector development, USAID's program should flow from a clear and agreed statement of the Mission's private sector strategy which is:

- ° Relevant to the Mission's on-going objectives, programs, budgets, staffing and overall capabilities
- ° Compatible with the practical realities of budgetary and manpower resources which can be directly expanded on private sector development programs on a continuing basis

Once such a private sector strategy is framed and agreed, the follow-on program should:

- ° Focus on a very limited number of program initiatives which are consistent with the Mission's basic goals in Mauritania and its available, in-house expertise
- ° Avoid the creation of expectations within the Government and the private sector to which USAID cannot possibly respond

The sections which follow summarize the needs of the Mauritanian private sector as perceived by leading private sector businessmen, assess USAID's capabilities to address these needs, recommend a private sector strategy, and suggest specific high-priority program to the short to medium term ideas compatible with the agreed strategy.

#### 2. Assessment Of Private Sector Development Needs

The major needs identified by the Mauritanian private sector may be briefly summarized as follows:

- ° Financial Assistance: Secure working capital, medium and long term loans, loan guarantees, trade finance, supplier credits, foreign exchange and equity investments.
- ° Joint Venture Partners: Seek partners who can bring various combinations of equity investment, technical assistance and operational management; process and product technology and licenses; raw material and equipment supply and credit; access to foreign markets; and training of personnel.
- ° Training and Development: Have access to commercial, technical and management training services and/or qualified technicians and managers.
- ° Regulatory Change: Obtain relief from what are perceived to be onerous Government controlled duties, price controls, utility rates and insurance premiums. Seek liberalization of the Investment Code.

- ° Improved Infrastructure: Obtain efficient and competitively priced water, electricity and communication services. Develop road and transport services able to deliver products to major population centers. Develop a ship maintenance and repair facility at Nouadhibou to provide these services to the national fishing fleet.

The above list is indicative of the wide range of problems facing private sector development in Mauritania. Many of these programs are fundamental long range national development issues for which short - and even medium - term solutions are not possible.

### 3. USAID Capabilities To Deliver Private Sector Development Services In Mauritania

The delivery of private sector assistance services is a product both of overall USAID policies and individual Mission capabilities. While in theory USAID can provide some form of assistance to address many of the specific elements of the private sector needs listed above, in practice the capacity for structuring, planning, budgeting and approving such programs for Mauritania in the current political and budgetary climate is essentially limited. The current staffing and specialized qualifications and experience of USAID personnel in Mauritania place limitations on the options open to the Mission in developing and implementing private sector programs. In these circumstances, USAID Mauritania might consider making more use of personal service contractors to supplement its own scarce staff resources. In summary, a private sector strategy for Mauritania must be highly focused, easily managed and controlled, be realistic in terms of budget availability, and not require major inputs of scarce staff resources already committed to other ongoing programs.

### 4. A Recommended USAID Strategy Statement For Private Sector Development In Mauritania

The survey team strongly recommends that the strategy focus for private sector assistance be placed almost exclusively on fisheries and agriculture. The following statement is proposed as a basis for discussion in developing an agreed strategy for USAID Mauritania:

USAID Mauritania will support a limited program of assistance primarily to the agricultural and fisheries sectors to encourage, stimulate and support private sector development in these high priority development sectors. In addition to on-going policy dialogue, education and training, and road maintenance and repair activities which have been and are making meaningful contributions to the easing of private sector constraints, new program initiatives will concentrate on the areas of human resources development and technical assistance. The objective of this strategy is to make a limited but meaningful and measurable contribution to private sector development in Mauritania. This strategy implies close working relations with and through private sector individuals and organizations on a shared cost basis in program design and delivery, the development of strong Government support, and a willingness to reassess and redirect USAID private sector initiatives in the light of periodic program evaluation and a changing regulatory and economic climate. The strategy also encourages cooperation and pooling of resources where appropriate with other members of the international donor community and multilateral assistance agencies.

## 5. Recommended Private Sector Priorities

Private sector program proposals which follow are summarized in the following four categories:

- Policy Dialogue
- Agriculture and Agro-Industry
- Fisheries
- Other Industrial Activities

### (1) Policy Dialogue

USAID, in principle, should be able to exert considerable influence over certain Mauritanian Government policies since it is a major supplier of food aid and can attach policy pre-conditions to the use of substantial counterpart funds accumulated from sales of that aid. There are, however, very practical limitations to the leverage that can be applied:

- USAID Mauritania is not generally equipped to identify, research, present and push policy initiatives at a Government level.
- Agencies such as the IBRD and IMF are normally much more effective in the policy reform area and have capable and experienced back-up staffs available in most policy areas.
- The major macro economic policy issues are currently receiving close IBRD and IMF attention: the IMF on shorter-term financial, monetary and external policies, while the IBRD is concentrating on longer-term development policies on a sectoral basis.
- The extent of the research and the detail in which the IMF and IBRD have addressed policy reform in Mauritania, as contained in major 1985 and 1986 program documents, makes it difficult to discern in what areas USAID could add its weight in addition to general support of the two bodies.

In such circumstances, an appropriate approach for USAID would be to target its policy intervention at areas directly related to individual projects or food aid distribution. Earlier USAID efforts, for example, in placing pressure on food price levels was well chosen and produced results, even admitting similar and simultaneous IMF efforts. USAID pressure to maintain food prices at economic levels should continue. A review of the various areas of potential policy dialogue suggests other issues which may be useful to consider in terms of private sector development.

- Food Aid Distribution And Marketing: CSA, the National Food Security Commission which is responsible for distribution and selling all donor food aid, could be convinced to relax its hold on retail level activities to permit greater entry of small private sector distributors. The objective would be for CSA to restrict its activities to bulk storage and sales to wholesalers or large private retailers.

- Agricultural Input Marketing: Pressure could be applied to encourage strong Government support of private sector entry into all phases of agricultural input activities on a gradual "from the bottom up" approach. Efforts could be made to change policies so as to permit elimination of remaining controls and duties on imported fertilizers and pump spare parts destined for agricultural uses, and to liberalize margin and price controls which limit profits and discourage private sector suppliers from offering credit and after-sales services.
- Technical Assistance. The private sector has repeatedly stressed its need for technical assistance, including feasibility studies. USAID Mauritania might actively participate in obtaining and financing such assistance from U.S. sources, e.g., from the IESC. It might also finance such services from local private consultants, with the dual objectives of providing needed assistance and strengthening the local consultancies.
- Example. The Government and all donor agencies should be encouraged to use local private services where available to support development projects, e.g., in the supply and maintenance of equipment, spare parts, etc. USAID could set a leading example in the implementation of its own projects.
- Private Sector Seminar: USAID Mauritania has proposed and budgeted for follow-on work which would organize and present a private sector-Government seminar to explore policy issues related to private sector development. This program of organized dialogue could serve a number of useful purposes, but it must obviously be carefully planned so that public and private sector participation is willingly secured, its objectives are clear and USAID commitments are understood.

While this report contains much background information useful for such a seminar, it should not, in the survey team's opinion, be used as a basic document for this purpose without certain modification.

In summary, USAID should remain highly selective in the policy dialogue issues it chooses to pursue. It should stay close to USAID's own field of operation and expertise, and ensure that there will be staff continuity in developing, presenting and pursuing such issues with senior Government officials.

## (2) Agriculture and Agri-business

Apart from possible large scale pooled-fund projects in cooperation with other donors, it is recommended that USAID Mauritania concentrate private sector efforts in the agricultural sector over the next three to five years on three major areas:

- Assist private sector operators in the establishment of pump and agricultural equipment supply and repair services to fill the gap left by SONADER's withdrawal from this field.
- Support private sector insecticide equipment and products operators in design of on-the-job training for extension agents on the proper application of insecticides.

- Provide feasibility study assistance to private sector promoters attempting to organize joint ventures between agricultural producers and food processing entrepreneurs. Specific opportunities currently exist in tomato products processing, fish canning, etc.

The assistance recommended above can be carried out by means of short term technical assistance consultants or IESC type assignments.

A growth area of urgent need which should be considered is technical assistance - and possibly specific funding - for FND's efforts to establish an agricultural credit program. SONADER's exit from this field and the current reorganization and additional work loads being placed on FND raise doubts about whether FND on its own will be able to respond successfully to the critical needs for agricultural credit.

### (3) Fisheries

The following statement summarizes a private sector fisheries strategy proposed for USAID Mauritania:

USAID's primary long range strategic objective for private sector development of the Mauritanian fishing industry is to assist in the design and long-term support of fisheries industry training and development programs with the objective of contributing to the planned and orderly entry of Mauritanian nationals into private sector positions of responsibility at all operational and management levels of the industry.

A number of policy guidelines are recommended in the implementation of this strategy:

- USAID should work with and through private sector companies and organizations, in particular the Federation des Industries et d'Armements de Peche (FIAP) and the Societe de Promotion de la Peche Artisanale en Mauritanie (SPPAM).
- USAID programs should compliment or support long term and public and private sector initiatives to train and develop industry specialists and managers.
- USAID financial assistance should take the form of scholarships provided on some form of matching aid based on contributions from private sector beneficiaries of the training and development programs.
- USAID scholarship assistance to the fisheries industry should place priority on the encouragement and development of permanent training institutions located in the Nouadhibou area. USAID should be prepared to assist in the financing and procurement of equipment and training aids required for the establishment of such a center.
- USAID should support direct short-term matching fund technical assistance to the fisheries private sector in the form of marketing and feasibility surveys, technology transfer, and industry sanitation control systems.

- USAID should support a limited program of foreign scholarships and industry orientation travel programs on the basis of written program priorities and approved budgets.

The survey team strongly suggests that the centerpiece of the program proposed above be built around the modern and well equipped and staffed technical training institute currently operated by the Societe Nationale et Miniere (SNIM). This large center, fully equipped with specialized workshops, classrooms, dormitories, food service and recreational facilities, is now operating at a very low level of its capacity. SNIM executives and World Bank representatives agree that SNIM no longer has an operational need for the center, and it may soon have to be closed as part of the current economy drive. SNIM would welcome a proposal which would serve to keep the center and its staff operational by means of outside subsidization of training for apprentices and specialists destined for the Nouadhibou-based private sector fishing industry. FIAP, the private sector industry federation, has indicated a willingness to sponsor such a program with USAID scholarship support. SPPAM, the private sector artisanal fishing company, would undoubtedly wish to participate in the program also. The SNIM technical training center represents a unique national asset which could, with only minimum changes in its program, be adapted to the urgent technical training needs of the fishing industry. The survey team strongly recommends that USAID Mauritania fund and support a survey in cooperation with FIAP, SNIM, and SPPAM to design the training program and lay out a program of action and a budget for launching a program for the initial intake of fisheries industry technical apprentices.

Such a program, being directly related to national food security objectives, should in the team's opinion be eligible for financing from PL 480 II 206 local currency funds. It should be noted that the need is almost entirely for local currency, and the foreign exchange requirements of such a program would be minimal. The training center program would also be in line with Human Resources Development projects already approved.

Other private sector projects in the fisheries sector deserving close attention include:

- A survey proposed by the Food and Drug Administration to improve the quality of seafood export products from Mauritania with a view to eventual approval for export to the U.S.
- Specific targeting of private sector fisheries industry personnel for training and orientation visits to the U.S. under existing program and budget authorizations.
- Assistance to FIAP in obtaining a dry dock for temporary ship repairs in Nouhadibou, possibly from U.S. Government surplus stocks.
- Technical assistance in the establishment of fish-canning.

#### (4) Other Industrial Activities

The Volume One report on Mauritania's Investment Climate and the Volume Two Company Summaries provide ample examples of the very real needs of the emerging small manufacturing segment. While USAID cannot at this time address the serious

financing and credit problems faced by this segment, there are many opportunities for technical assistance programs such as those provided by the International Executive Services Corps.

One project in the general industrial sector, however, deserves USAID support in some form. This is the proposed creation of an autonomous Institute of Industrial Studies and Promotion (Societe d'etudes et de Promotion Industrielle de Mauritanie - SEPIM), first studied and proposed in 1982. The original idea was to group the Government - as a 55% shareholder - with the two national development banks (FND and BMDC) and the private sector employees federation (CGEM) in the sponsorship of SEPIM. The proposed entity would have provided a broad range of policy and strategy development, investment promotion, training, technical assistance, and general management consulting services to both private sector and Government organizations. The proposals for creation of SEPIM have been dormant since 1983, but are once again up for serious discussion. If SEPIM could in fact be created as an autonomous entity operating on a fee basis for private sector clients, foreign donors should be encouraged to consider funding and technical assistance. USAID could play a leadership role in organizing support for SEPIM. Bilateral and multinational donors and agencies were prepared to support SEPIM when the plan was first broached.

A second possibility would involve USAID support - possibly via a technical assistance approach - in assisting FND with two current privatization projects referred to it by the Government:

- ° Rehabilitation and privatization of a Government garment factory
- ° Rehabilitation and privatization of an artisanal rug weaving company established by the Government

#### 6. Proposed Next Steps In Implementing A Private Sector Strategy

Both the current and the newly appointed USAID Mission Directors should obviously be given ample opportunity to review the findings, conclusions and recommendations contained in this report. Their senior staff members, and those in Washington, should also be encouraged to give their views. The report should serve as a useful background document to the new Mission Director and his team in final formulation of private sector strategy statements and program priorities.

This report strongly recommends that the Nouadhibou training center project be actively pursued as the centerpiece of the private sector program. There is some urgency to get this project started before the existing facilities rundown through lack of use. The logical next step, if the mission decides to move ahead, is to name a project officer, who should ideally be prepared to spend considerable time in Nouadhibou, should understand the fisheries industry, and have fluent French and if possible Arabic. This officer could spearhead and lead a taskforce of the principal players - SNIM, SPPAM, USAID and FIAP - in developing the start-up program and organizing the on-going structure, relationships, program coordination and control. The task force could possibly be supported by a short term consultant with specific industrial training experience in a fishing industries or marine context.

As mentioned earlier, the proposal to hold a Private Sector Seminar in the near future needs to be considered carefully; and its objectives as well as USAID's role and commitment of staff resources should be defined before deciding to go ahead. We would suggest that a preliminary informal meeting between Mauritanian Government, private sector and USAID representation be held to discuss the proposed seminar.

Many suggestions have been made above of specific interventions by USAID which would aid the development of a more flourishing private sector in Mauritania. From these, a short list for immediate action might be drawn up and acted upon.