PN-ABE-236
64595

MAURITANIA: RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

Final Report

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID/Mauritania*

Prepared by: *Maurice Samuels*
Consultant, Multinational Strategies, Inc.

Stevens Tucker
Consultant, Arthur Young

Sponsored by: *Private Enterprise Development Support Project II*
Project Number 940-2028.03
Prime Contractor: Arthur Young

November 1988

Arthur Young
A MEMBER OF ARTHUR YOUNG INTERNATIONAL

MAURITANIA: RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

Final Report

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID/Mauritania*

Prepared by: *Maurice Samuels*
Consultant, Multinational Strategies, Inc.

Stevens Tucker
Consultant, Arthur Young

Sponsored by: *Private Enterprise Development Support Project II*
Project Number 940-2028.03
Prime Contractor: Arthur Young

November 1988

TABLE OF CONTENTS

Page

Acronyms and Abbreviations

I. Introduction 1

II. The PRIF and the PCR 2

A. Aggregate Demand and Output 2

B. Sectoral Demand and Output 3
1. The Fisheries Sector
2. The Agricultural Sector

C. External Trade and Payments 8

D. Tariff Reform 9

E. Public Finance 10
1. The Consolidated Budget
2. Revenue
3. Recurrent Expenditures
4. Investment Expenditures
5. Parastatals
6. Money and Credit
7. Exchange Rate
8. External Debt and Financing Requirements

III. Conclusions 20

A. Prospects 21

B. Implications for the U.S. Position 23

Tables

1. Output Growth 3

2. Current Account 9

3. State Budget 12

4. External Debt 18

5. External Finance 19

ACRONYMS AND ABBREVIATIONS

BCM	Banque Centrale de Mauritanie
BMCI	Banque Mauritanienne de Commerce International
CG	Consultative Group
CSA	Commissariat a la Securite Alimentaire
EEZ	Exclusive Economic Zone
FFW	Food For Work
FND	Fonds National du Developpement
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
MEF	Ministere de l'Economie et des Finances
MPEM	Ministere des Peches et de l'Economie Maritime
PCR	Programme de Consolidation et de Relance
PREF	Programme de Redressement Economique et Financier
PVO	Private Voluntary Organization
SAC	Structural Adjustment Credit
SNIM	Societe Nationale Industrielle et Miniere
SONADER	Societe Nationale du Developpement Rural
SONELEC	Societe Nationale d'Eau et d'Electricite
SONIMEX	Societe Nationale d'Import Export (food)
UM	Ouguiya (11/25/88: $1 dollar (US) = 73.75 UM)

I. INTRODUCTION

Since 1985 the Government of Mauritania has attempted to carry out a comprehensive program of economic adjustment with substantial financial and technical support from bilateral and multilateral creditors and donors. The initial phase of the adjustment program, outlined in the Programme de Redressement Economique et Financier (PREF), sought to reduce large budgetary and external payments deficits and to create a favorable climate for balanced and sustainable growth through policy reform and institutional restructuring. This program contained a number of specific macro-economic targets which formed the basis of conditionality for general balance-of-payments and budgetary support through IBRD and IMF facilities.

Despite a substantial injection of financial resources, only modest progress has been recorded to date. Some positive measures have been adopted, including staff reductions in some parastatal enterprises, a slowdown in the growth rate of current budgetary expenditures, a rationalization of public investment programs and the adoption of a somewhat more flexible exchange rate policy. However, the growth of aggregate output and income has barely kept pace with the increase in population, while new sources of growth have yet to be efficiently exploited. The reforms undertaken to date have not been sufficient to stimulate a measurable increase in private sector initiatives, with the notable exceptions of irrigated rice production in areas of the Senegal river valley, and transportation activities. The uncertain policy climate and difficult credit conditions have acted to restrict the growth of productive investment, and there is insufficient evidence of the broad liberalization envisaged under the PREF.

The Mauritanian Government is now entering the second phase of its adjustment program which will be guided by the recently published Programme de Consolidation et de Relance (PCR). While the PCR restates many of the desirable objectives of the PREF, its guidelines for the implementation of policy and administrative reform remain somewhat vague, particularly in view of the three years of structural adjustment experience under the PREF. Furthermore, there is a notable absence of specific targets in some key areas such as banking sector restructuring. Lastly, there continues to be a disproportionately heavy reliance on external financial support relative to internally generated savings.

What follows is a summary assessment of selected elements of the adjustment program under the PREF and of prospects for progress under the PCR. Our assessment is based on discussions with representatives of the Mauritanian government, multilateral institutions and major bilateral donors, as well as a survey of available analyses.

II. THE PREF AND THE PCR

Contained in the Programme de Redressement Economique et Financier (PREF) were a number of specific targets which included,

* GDP growth rate of about 4%;
* Reducing the rate of inflation to 7% in 1986 and 5% in late 1988;
* Reduction of the current account payments deficit to less than 10% of GDP;
* Cutting public investment to about 20% of GDP;
* Redressing the budgetary imbalance; and,
* Generating a surplus over investment of about 15% in 1988.

These objectives were to be met through a combination of specific policy measures and sectoral restructuring programs which are summarized in the sections which follow.

A. Aggregate Demand and Output

The PREF sought to restore conditions compatible with long-term growth through a combination of restrictive demand management and reallocation of investment to sectors with the greatest productive potential. The need for corrective measures was illustrated by a chronic resource gap resulting from rapid growth of public and private consumption, coupled with unsustainably high levels of investment expenditures which together exceeded national output by some 25 to 30% in the 1980-1984 period.

Since 1985, budgetary austerity, reinforced by tight monetary policy, was meant to curb the growth of consumption while public investment was cut by almost one third relative to GDP. Preliminary government statistics indicate some success in curtailing the growth of domestic demand. This has resulted in a modest but favorable reduction of import expenditures. With exports of goods and services relatively constant in real terms, there was a marked improvement in the net external balance which contributed substantially to GDP growth.

Table 1

	Output Growth (UM Millions at constant 1982 prices)			
	1985	1986	1987	1988f
Gross Domestic Product	39,931	42,099	43,280	44,653
(% change)	2.1%	5.4%	2.8%	3.2%
Of which:				
Agriculture	646	1,266	1,564	1,580
Fishing	3,200	3,498	3,438	3,507
Mining	5,948	5,983	5,780	6,023

GDP has reportedly expanded by an average of 3.5% annually since 1985. Although this was somewhat lower than the PREF target of 4%, it is nonetheless a welcome increase from the 2% average over the 1980-1984 period. On an aggregate basis, therefore, the PREF can be characterized as moderately successful in maintaining a positive growth rate while achieving some reduction of the resource gap.

B. Sectoral Demand and Output

On a sectoral basis, the largest contribution to growth came from increased agricultural production due mostly to better rainfall and a significant expansion in irrigated perimeters. Higher growth rates were also recorded in the construction, transportation and trade sectors, primarily reflecting increased private sector activity. Modest growth in livestock and fishing activities also contributed marginally to the increase in output, while mining and fish processing were relatively stagnant.

1. The Fisheries Sector

Fisheries production replaced iron ore as the greatest contributor to foreign exchange earnings in 1983, and continues in this position despite recent indications that catches may be declining due to poor resource management. Indeed, the misallocation and mismanagement of fish resources without regard to sustainable exploitation levels characterize the Mauritanian fishing sector during the period leading up to the PREF. Evidence suggests that total offtake (recorded + unrecorded) in the Mauritanian EEZ has already passed the point of maximum sustainable yield for certain species.

Despite the fact that the country's fishery resources and its fishery sector produce a net foreign exchange inflow of some $270 million per year, and account for approximately 20% of total government budgetary revenues, an estimated 70 percent of the output of the sector is returned to factors of production outside Mauritania in the form of wages to foreign crews, payments to foreign suppliers, profits of foreign companies and servicing of foreign bank loans. To this extent the expansion of the fisheries industry has had a more limited impact on overall economic growth and on employment for Mauritanians than might have been desired.

Within the context of the PREF, the government developed a set of policy guidelines for the fisheries sector designed to:

* guarantee national control of the rate of exploitation within the Mauritanian EEZ with a view towards a rational management of resources;

* increase the level of revenue returned to Mauritania for the exploitation of its resources, by improving collection of taxes and royalties; and

* increase the level of local value added in the sector which is minimal at this time.

During the period of the PREF, a variety of efforts were begun with the assistance of donors to reinforce government capacity to design and implement sound policies to accomplish these general goals. Specific measures, intended to limit overfishing, reduce unauthorized offtake, promote the Mauritanianization of the fishing fleet, develop a Maritime Fisheries Code, improve fisheries research and improve the management capabilities and performance of the MPEM, were envisaged. A variety of donors have become involved in various aspects of this global approach, providing either technical assistance, or financial and material support.

A long-term strategy for the fisheries sector was adopted by the Government in April 1987, establishing guidelines for both offtake and the type of fleet to be permitted in the Mauritanian EEZ. The priority actions outlined in this strategy essentially echo those contained in the PREF. They include:

* the careful monitoring of fishing capacity;

* limitation of the authorized fleet through an annual system of fishing permits;

* the lowering of maximum fishing quotas;

* a reduction in the number of licensed and chartered vessels in the National fleet; and

* promotion of production systems which increase net national value added.

Despite these policy reform guidelines, progress has been limited. The level of local value added continues to be low in the absence of significant movement on the Mauritanianization of crews in the national and joint-venture fleets, of substantial local processing activities, or of adequate local repair capabilities. A variety of training efforts designed to produce qualified Mauritanian crews to replace foreign labor are underway. Due to the technical nature of this training, however, these efforts can only be expected to yield results over the medium term. As a consequence, the outflow of resources in the form of payments to foreign crews will continue to constitute a major drain on the sector's net return to the economy for some time to come.

Although there is some evidence of increasingly effective surveillance, apparent inefficiencies and irregularities in the assessment and collection of fines levied against offending vessels (by MPEM) are likely to continue to limit the impact of improved surveillance as a disincentive to unauthorized fishing within the Mauritanian EEZ, in the absence of significant institutional reform. Monitoring of offtake by the domestic, joint-venture and foreign fleets remains inadequate, and does not yet provide sufficient data for effective resource management. A number of technical problems remain to be solved in this area. Finally, efforts to impose effective limits on the growth of the domestic fleet have not been entirely effective.

The prospects for the future remain mixed. The PCR restates the objectives of controlling resource exploitation while stressing the need to encourage local value added, but fails to address a number of the critical structural problems afflicting the sector. The Mauritanian fleet continues to age and there is little evidence of investment in maintenance activities, in part due to the unsound character of the domestic banking sector and consequent difficulties in obtaining credit. Indeed, the problems facing the fishing and banking sectors are closely intertwined since much of the apparently irrecoverable debt owed to domestic banks originated with loans of dubious quality to fishing sector operators. Further problems can be expected as catches, and consequently returns, decline in the absence of effective resource management.

According to the PCR, onshore fisheries activities will be encouraged through fiscal incentives. These measures should be supplemented by more aggressive use of exchange rate management to maintain adequate incentives for further development. Furthermore, vertical integration should be encouraged through liberalization of marketing structures. Additional measures to support the development of the artisanal fishing sector, the key to local value-added and employment generation in the short to medium term,

via the provision of an appropriate incentive structure, credit facilities and training should be encouraged.

2. The Agricultural Sector

The PREF identified agriculture as a priority sector for future growth with the aim of increasing food security and reducing pressure on the external accounts. Food needs are presently met through a combination of local production, commercial imports and concessional food assistance, the majority of which is destined for sale. A variety of State administrative structures and parastatal enterprises share responsibility for the import, distribution and sale of both domestic and imported foodgrains within a pricing regime of their determination. The measures aimed at stimulation of agricultural production included:

* increases in producer prices;
* the liberalization of marketing and distribution activities for both inputs and products in the agricultural sector;
* the rationalization and streamlining of public and parapublic bodies in the agricultural sector (SONADER, CSA and SONIMEX), and a reduction of their role; and
* a rationalization of investment programs.

These measures were intended to complement earlier measures including the 1983 land tenure reform law. Although there has been movement in several of these areas, most notably in the publication of a revised Food Policy statement ("Politique Alimentaire"), tangible evidence of progress to date remains limited.

The 1983 revisions of the land tenure regime, coupled with the establishment of a policy of guaranteeing purchase of production by the CSA at the official price of 18,5 UM/kg, provided the incentive for substantial speculative investment in irrigated perimeters by private-sector entrepreneurs beginning in about 1985, leading to significant increases in production. This expansion in irrigated rice production, coupled with a period of relatively favorable climatic conditions, has led to a significant increase in domestic cereals production over the period of the PREF. It should be noted, however, that this increase reflects neither broadly based increases in productivity within the agricultural sector as a whole, improvement in the functioning of the agricultural sector parastatals, nor a return on the relatively heavy state investment in the agricultural sector over the past several years. Nor, again, has it been translated into either a reduction in the level of food assistance requests by CSA or a reduction in commercial imports by SONIMEX, which seems to be

benefitting from relatively higher commodity prices in Mali and Senegal.

Although recent increases in rice production have been impressive, and have been taken to indicate that the attainment of a significantly greater coverage of the country's food needs through domestic production is a realistic goal in the medium term, Mauritania will continue to face substantial food deficits in the short term. In addition, unless there are significant reforms in incentive and tariff structures, land tenure, and agricultural sector public enterprise performance, the attainment of medium term food production and security objectives will be difficult. Imported rice and wheat continue to be sold for less than locally produced cereals. Price policy alone, however, seems unlikely to solve Mauritania's agricultural dilemmas. Under present conditions, the elasticities of production faced by small and large producers seem quite different. As a consequence, careful attention to equity and distributional impact of proposed policy changes is imperative.

Although producer prices for certain commodities - notably rice - have become more remunerative for producers who can assure the purchase of their stocks by the CSA, pricing and marketing policies pursued in the agricultural sector remain highly complex and inflexible, and a substantial impediment to the more efficient use of existing capacity or the development of greater capacity. Both producer and consumer prices have been adjusted over the period of the PREF; however, there is little or no evidence of price liberalization in the strictest sense, and distortions continue to abound.

In effect the fixed margin between producer and consumer prices has remained relatively constant, and continues to be a disincentive to the development of independent agro-processing activities. Within the present framework, private entrepreneurs have not found it attractive to invest in transformation because the margin between the price paid by the CSA for paddy and the consumer price for rice, established by SONIMEX, is insufficient to cover the cost of transport and the transformation process. In addition, the relative price levels fixed for various cereals act to discourage the production of traditional grains (millet/sorghum) and facilitate the substitution of imported for domestically produced cereals which require considerably more time and effort to prepare.

The process of institutional reform and liberalization has lagged considerably, statutory changes to the contrary. The role of public and parapublic structures in the agricultural sector remains dominant, despite the commitment to reducing their role contained in the Politique Alimentaire. Some progress has been recorded in closing selected CSA sales centers during the harvest period. In addition, the CSA has endorsed Food for Work as an alternative to free distributions, which have been reduced in volume, but the

quality of FFW activities to date has been mixed. Despite some progress, however, other major elements of the Politique Alimentaire have yet to be acted upon. These include appropriate increases in prices for imported cereals and rice, and the privatization of CSA's rice mills and garage. The results of administrative and financial reform efforts have also been mixed.

For the most part, CSA and SONADER lack the administrative, financial and physical capacity to effectively discharge the functions which they have been assigned. As a consequence, they inhibit the responsiveness of the agricultural sector to market forces while failing to provide a workable alternative. Although there is some disagreement among donors as to whether the total elimination of CSA is desirable, at the very least a reduction of its role to a limited number of precisely defined activities should be encouraged. The reexamination of SONADER's role should continue as well. At the same time, however, parallel efforts are needed to ensure that physical and legal infrastructure are adequate to support the assumption of critical functions by private sector operators, and to mitigate the effects of adjustment felt by the rural and urban poor.

C. External Trade and Payments

The PREF aimed to cut the current account deficit in half (as a percent of GDP) during the 1985 to 1988 period. Recent estimates suggest that this objective has largely been met through a turnaround in the trade balance and a reduction in real terms of the invisibles deficit.

In dollar terms, the trade account moved into surplus in 1986 and has stabilized since then. Merchandise exports grew only slightly as increased receipts from fish were partly offset by a decline of iron ore exports due to lower prices and unchanged volumes. Most of the improvement in the trade balance was generated by a substantial compression of imports. This was primarily attributable to the slowdown in demand for investment goods.

Although the PREF targets were partially realized, near-term prospects for further improvements appear limited on several fronts. Fish export expansion may be limited by resource management constraints; iron ore exports will be capped by technical production problems; further import compression seems incompatible with growth and investment targets; and interest payments are likely to continue to increase. Nevertheless, there are perhaps three areas that leave room for optimism: development of offshore and on shore fisheries activities which might reduce service payments to non-residents and add value to existing fish exports; increased agricultural output which could reduce essential food imports; and the establishment of appropriate incentives to attract offshore assets of residents as well as a greater share of the

income accruing to Mauritanian nationals working abroad. The experience of Morocco in dealing with similar issues may provide useful lessons.

Table 2

	Current Account ($ millions)			
	1985	1986	1987	1988f
Merchandise Trade	(32)	32	68	40
Exports, fob	372	419	404	411
Imports, fob	(403)	(387)	(336)	(371)
Invisibles, Net	(274)	(307)	(292)	(288)
Services Exports	41	37	45	54
Services Imports	(292)	(317)	(317)	(323)
of which:				
Interest Payments Due	(74)	(80)	(71)	(71)
Private Transfers	(24)	(27)	(20)	(19)
Current Account Balance	(306)	(275)	(224)	(248)
as % of GDP	-42.8%	-32.6%	-24.0%	-24.7%

While strategies for agriculture and fishing continue to be developed, the PCR is silent on measures to stimulate private transfers. Given widespread speculation on the existence of substantial offshore savings, and the more well known number of Mauritanians working abroad, the authorities should be encouraged to stimulate repatriation through the adoption of appropriate interest rate incentives supported by assurances of convertibility.

D. Tariff Reform

As part of the conditionality coupled to the IBRD Structural Adjustment Credit, the Mauritanian authorities committed themselves to a revision of the investment code and to a reform of the tariff structure. The objective was to streamline the tariff structure and reduce nominal rates of protection to a level consistent with other countries in the region, while coordinating the incentives in the investment code to remove excessive levels of effective protection and stimulate development of competitive enterprises. The new investment code, delayed for several months, was prepared in October 1988, and is awaiting approval. Among the most important measures contained in this code was a removal of total exoneration from customs duties of inputs for domestic enterprises.

The new code is expected to be followed shortly by the adoption of a tariff reform plan whose measures will be gradually phased in during the period of the PCR (1988-1991). Under the current structure, nominal tariff rates on certain items reach as much as 300%, with the average rate of protection estimated at about 80%. The streamlining presently under discussion aims to reduce the average rate of protection to 45%, which is consistent with tariff structures in the region. The tariff structure is to be graduated such that by 1991 raw material inputs will carry a nominal tariff of 15%, semi-processed products 30% and finished goods about 50%.

In conjunction with the streamlining of the tariff system, the authorities are expected to continue to gradually eliminate the system of "homologation" of prices which currently affects nine locally produced products. The present system encourages a concentration on trading profits rather than true value added by fixing the margin between cost and sale price.

If implemented as described, the tariff reform program seems likely to have a desirable impact on trade by reducing existing distortions and creating incentives for the expansion of private sector import substitution activities. A streamlined and appropriate tariff structure would greatly facilitate the continued decontrol of domestic pricing mechanisms, without sacrificing developmental objectives. For example, with an appropriate level of protection the current price structure for paddy and rice, which has stimulated production but discouraged local processing, could be eliminated. The tariff structure would determine consumer prices while market forces would determine the relative prices paid for production, transport, transformation and marketing.

E. Public Finance

Insufficient administrative controls and the absence of a systematic budgetary process have contributed to chronic financial deficits characterized by inefficient revenue collection and wasteful spending. Budgetary mismanagement and the lack of transparency were root causes of the misallocation of treasury and parastatal resources. Furthermore, the large imbalances between domestic revenue and ambitious spending plans resulted in excessive credit growth, inflation, external payments imbalances and the rapid accumulation of external debt. The PREF outlined a series of corrective measures aimed at consolidating and rationalizing the State budget while simultaneously rehabilitating parastatal institutions.

1. The Consolidated Budget

Beginning in 1985, an effort was made to consolidate and centralize current receipts and expenditures, while revising and reducing the investment program. The main objectives under the PREF were:

* improved tax collection;
* containment of recurrent outlays;
* a rationalization of the investment program, with a reduction of total public investment to 20% of GDP; and
* the reduction of the consolidated budget deficit.

2. Revenue

Budget revenues have increased modestly as a share of GDP. The authorities have reportedly improved the enforcement and recovery of direct taxation. Fiscal receipts from direct taxes have increased from 10% to 16% of GDP. The recovery of arrears, however, has been sometimes hampered by payments difficulties within the banking system. Taxation and royalty revenues in the fishing sector also increased during the period of the PREF. The gradual reduction in exemptions and efforts to streamline tax and tariff structures are thought to have been a contributing factor in the overall growth of revenues. Although the increase in revenues is encouraging, it has fallen somewhat short of expectations, mainly due to slow growth of import duties, and a reduction in tax receipts from SNIM.

3. Recurrent Expenditures

From 1985 to 1987, recorded current expenditures grew only moderately and broadly in line with targets. This occurred largely as a result of a freeze on civil service hiring, a cap on the wage bill, and a compression of budgetized operating expenses. However, the most recent budget (1988) provides for a more rapid increase owing largely to growing interest expense. Furthermore, the consolidated budget does not reveal any cuts in subsidies and transfers, which now account for almost 15% of current expenditures.

While the authorities have reiterated their ongoing commitment to budgetary austerity as a major element in restoring broad equilibrium, much remains to be done. The team is not aware of any major reductions of civil service staff levels or significant reorganization of administrative structures. Although these were not specific targets under the PREF, they appear to be necessary to improve the efficiency of the administration.

Table 3

	State Budget (UM millions)			
	1985	1986	1987	1988f
Revenues	12,108	14,082	15,682	16,529
of which fishing	2,399	2,692	3,181	3,246
Expenditures	16,568	16,756	19,650	22,290
Current	10,609	11,463	12,421	14,496
Capital	5,959	5,293	7,229	7,794
Deficit	(4,460)	(2,674)	(3,968)	(5,761)
as % of GDP	-8.1%	-4.3%	-5.7%	-7.6%
Memo:				
Public Investment	12,534	11,873	12,558	13,919

4. Investment Expenditures

Capital expenditures attributable to the state budget were sharply reduced in 1985, in line with adjustment program objectives. Since then, however, investment has been among the fastest growing expenditure categories. In 1988, the combined investment spending of the state's budgetary, extra-budgetary and special accounts will exceed the originally programmed target by at least 15%. This is partially offset by restraint in other public investment expenditures (such as SNIM), allowing the government to remain within its broad target of limiting total public investment to some 20-22% of GDP.

Although there has been some improvement in the budgetary process which somewhat facilitates the global assessment of the level of planned expenditures, there is still a need for greater transparency, particularly with respect to investment spending. While the official data presented provide a breakdown of investment by sector, it remains difficult to determine the extent to which recurrent expenditures may have been included in the investment category.

Based on official figures, the initial cut in investment spending, coupled with the improvement in revenues and slower growth of recurrent expenditures led to reduced budget deficits in 1985 and 1986. Since then, however, the gap has widened substantially and

seems likely to exceed originally programmed objectives by a large margin. This apparent relaxation of fiscal discipline seems to have been accompanied by a substantial increase in grants, meaning that it may not necessarily lead to a violation of maximum borrowing targets.

The PCR generally reiterates the revenue enhancement measures of the PREF, including improved inspection, enforcement, collection of taxes and tariffs. On the expenditure side, the civil service payroll freeze (in real terms) will be extended while efforts to improve the efficiency of the administration are to be continued. Furthermore the sectoral shifts and refocusing of public investment which were initiated under the PREF are programmed to continue during the period of the PCR with particular emphasis on rural development.

While the broad objectives of the PCR appear desirable, the apparent mismatching of ambitious expenditure plans and limited budgetary resources seems excessive and unduly dependent on perpetual increases in external funding. A closer linkage between the authorities' success in generating public savings and the growth of capital spending plans might encourage greater fiscal discipline.

5. Parastatals

In conjunction with budgetary reform and efforts to improve the efficiency of public investment projects, the authorities undertook a comprehensive parastatal rehabilitation program. The objectives included improvements in administration, a rationalization of operating expenses, enhanced financial controls and a broad reexamination of the economic viability of each enterprise. The expectations under the PREF were for the establishment of better financial reporting, broad staff reductions, and the liquidation or privatization of parastatals where feasible.

As the most heavily indebted parastatal, SNIM was initially targeted for immediate action. In view of relatively weak international prices for iron ore and limited prospects for increased physical output in the near term efforts were focused on cost reduction. In 1987, SNIM's staff was cut by one quarter and broad austerity measures were reportedly introduced. Furthermore, revenues were bolstered by two government actions: a reduction of export taxes on iron ore and the devaluation of the Ouguiya. Further improvements in SNIM's viability seem to be constrained by technical factors relating to the lower than expected output and high unit costs of the Guelbs project. The resolution of these difficulties may require additional investments which are currently under discussion with the World Bank and bilateral donors.

Another priority target of the rehabilitation program was SONELEC. A number of technical problems in electricity production and water delivery systems have been overcome with the assistance of bilateral donors. Furthermore, utility rates were raised to more fully reflect their cost. However, despite some reported improvements in managerial procedures, SONELEC's financial situation remains precarious largely because of its insufficient efforts to collect user fees.

A general survey of the parastatals reveals that very limited progress has been recorded in reducing their number through privatization or liquidation, and hard data concerning the sector continues to prove elusive. There have been modest efforts to raise prices to more realistic levels and to collect user fees, some direct subsidies have been abolished, and an audit program is under way. Further improvements are needed in accounting practices, managerial controls will have to be streamlined and strengthened and additional cost savings must be found to ensure the long-term viability of the parastatals which are to be retained. Furthermore, the settlement of reciprocal debts within the public sector which continue to have harmful secondary repercussions in the banking sector must be urgently addressed by the State.

6. Money and Credit

Excessive credit growth, which was characteristic of monetary policy until 1984, has been slowed considerably since the implementation of the PREF. Similarly, the net foreign asset position of the banking system, which had deteriorated to a critically negative position, was stabilized in 1986 and has improved somewhat since then.

Beginning in 1985, the authorities announced a commitment to following a restrictive monetary policy to coincide with fiscal restraint and to support the program compression of domestic demand. Furthermore, the establishment of positive real interest rates was seen as a means of mobilizing additional savings. Specific monetary objectives included freezing net credit to the Government, capping overall credit growth and raising interest rates by 2%. Available data for the 1985-87 period suggest that these objectives were largely met and that monetary aggregates grew only moderately during this period. Another revelation of recent data is the relatively faster growth of savings compared with currency and demand deposits. This is a modest but encouraging reversal of the previous trend of financial disintermediation. In addition to outlining a policy of monetary restraint, the PREF focused on banking reform as a key element in the restructuring and development of the financial sector.

During the period of liberal credit allocation, primary banks' balance sheets grew rapidly without appropriate administrative and managerial controls. Moreover, the capital base was insufficient to support the increase in assets. Funding came mostly from parastatal deposits and credit lines with external correspondents. The cumulative effects of cash deficits in the public sector and the growing portfolio of nonperforming loans resulted in a liquidity crisis in the financial sector. This was accompanied by an accumulation of domestic and external arrears, and a de facto immobilization of a large proportion of deposits.

Within the context of the PREF, the authorities outlined a series of measures aimed at overhauling the banking system. Following a lengthy period of evaluation, a plan of action with a one-year time horizon was elaborated. The principal elements were as follows:

* the adoption of a new banking law;
* a redefinition and strengthening of the BCM's regulatory and supervisory functions;
* the transfer to the State of BCM's equity interests in the primary banks;
* the financial restructuring of all primary banks, with the State assuming responsibility for public-sector indebtedness;
* the repurchase of all BCM claims on the public sector in exchange for treasury bonds;
* privatization of all primary banks, with the exception of the FND;
* the adoption of appropriate prudential ratios;
* the establishment of risk management procedures;
* the establishment of standardized accounting and reporting procedures; and
* a formal commitment by the State to attempt the collection of non-performing loans.

Progress in implementing these measures has been mixed. A new Banking Law was passed in April 1988 which formalized most of these objectives. The BCM has established a centralized risk evaluation procedure, but it is too early to assess its effectiveness, particularly in view of the reportedly slow growth of private sector credit. The BCM's capabilities are currently being reinforced through technical assistance, enhanced training, and substantial reorganization. The State's assumption of the

financial sector's claims on public enterprises is far from complete, although an unreported amount of treasury bonds have been issued to BCM in exchange for some existing claims.

Similarly the financial restructuring of primary banks is theoretically proceeding, if perhaps at a slower pace than anticipated. It is clear that the goal of privatizing all but one of the primary banks will not easily be met. Only one bank (BMCI) was successfully sold to private interests, and this was accomplished prior to the initiation of the sector restructuring. The authorities have solicited foreign shareholders, thus far without result.

The delay in privatizing or otherwise recapitalizing the remaining primary banks has perpetuated the illiquidity of the financial system, with important secondary repercussions. Parastatals and other large depositors regularly encounter difficulties in accessing or transferring their funds, resulting in a multiplicative buildup of interrelated arrears. Depositors seem likely to continue to experience delays in executing routine financial transactions until a long-term capital injection is realized.

Despite the relatively slow pace of progress in banking sector reform, the PCR fails to address this urgent issue is a sufficiently detailed manner. While the further revision and simplification of the interest rate structure is proposed, the issues of privatization, recapitalization, and the settlement of overdue public-sector credits are treated only very generally and without the establishment of specific targets.

7. Exchange Rate

Exchange rate management has officially become more flexible following the 22% devaluation in 1985 and smaller subsequent devaluations. Ostensibly, the more flexible exchange rate was aimed at maintaining or improving international competitiveness. In practice, however, owing to the country's small industrial base and limited capacity for manufactured exports, exchange-rate management seems to have been targeted to balancing local-currency revenues in the fishing and mining sectors against local-currency costs of imported consumption and equipment goods. The initial devaluation seems to have been motivated in large part by SNIM's financial difficulties. In effect, because SNIM faces a globally-determined dollar price for its exports, the devaluation resulted in increased domestic currency resources for a given level of exports.

Since 1985, the BCM has apparently pursued a somewhat passive exchange rate policy by straddling the dollar and a basket of European currencies. Nevertheless, the initial devaluation seems

to have produced some stimulus to agricultural production and fishing exports by supporting higher local-currency prices. Foreign currency availability is uncertain. Although officially all licensed importers should have immediate access, delays of one to three months in confirming documentary credits are routinely reported. One official explanation is that importers are sometimes lacking the local currency counterpart for foreign exchange purposes, or that their banks are unable to transfer the local-currency counterpart because of liquidity difficulties.

8. External Debt and Financing Requirements

Foreign debt is estimated to have reached almost 2 billion dollars by the end of 1987. By traditional measures and regional comparisons, debt is exceptionally high and has continued to grow rapidly in both absolute and relative terms. Most of the debt was ostensibly contracted in conjunction with physical investments in productive ventures; however the returns on these investments have grown less quickly than associated debt service payments.

More than 90% of external debt is owed to official creditors, two thirds of which is from bilateral sources and one third multi-lateral. Most of the debt was contracted at concessional terms. As such, the typical maturity exceeds 20 years and the average interest rate is about 3.4 %. Despite highly concessional terms, however, debt-service payments have grown more rapidly than national output or foreign earnings. In 1988, interest and principal repayments due are projected to reach almost 200 million dollars, an amount larger than annual exports of iron ore.

During the first three years of the PREF, bilateral creditors reduced debt service requirements by agreeing to reschedule the bulk of eligible principal and interest due through Paris Club and similar agreements. The Mauritanian Government will be seeking similar rescheduling arrangements following the satisfactory conclusion of the next IMF consultation.

Despite the success of the PREF in some areas, extended financing requirements have continued to grow and the PCR projects further increases through 1991. While grants and other official transfers may continue to fill part of this requirement, substantial external borrowing has been programmed. In view of the country's huge existing debt, a reconsideration of the ambitious borrowing plans outlined in the PCR seems warranted. External borrowing, even at highly concessional terms, should be limited to specific projects with a strong likelihood of generating economic returns. Borrowing for general balance-of-payments and budgetary support as outlined in the PCR should be avoided.

Table 4

	External Debt (millions of dollars)		
	1985	1986	1987
Medium and Long Term Debt	1,418	1,705	1,915
Bilateral Creditors	902	1,092	1,192
OECD	178	255	0
Others	724	837	1,192
Multilateral Creditors	380	466	596
IBRD & IDA	116	148	217
IMF	30	36	47
Others	232	282	332
Commercial Creditors	136	147	127
Short Term Debt	109	118	119
Total External Debt	1,527	1,822	2,035
as % of GDP	213.6%	216.1%	217.3%

Table 5

	External Financing (millions of dollars)					
	1985	1986	1987	1988f	1989f	1990f
Current Account Balance	(306)	(275)	(224)	(248)	(232)	(220)
Direct Investment	7	3	2	12	10	2
Official Transfers & Grants	126	107	115	117		
Net External Borrowing	175	172	122	129		
Gross Borrowing	272	248	255	258		
Repayments Due	(97)	(76)	(133)	(129)	(157)	(148)
Changes in Reserves	0	(1)	(20)	(10)	0	0
Net Errors & Omissions	(2)	(6)	5	0	0	0
External Financing Requirement					380	366

III. CONCLUSIONS

The policy adjustments undertaken since 1985 within the context of the PREF contributed to a partial correction of macro-economic disequilibria and somewhat faster aggregate growth. However, many of the sectoral objectives have not been realized, notably in the areas of bank restructuring and parastatal rehabilitation. Moreover, the limited success in generating budgetary savings, liberalizing pricing mechanisms, and generally improving the efficiency of the civil service and parastatals, calls into question the sustainability of the progress recorded to date. Economic and financial conditions do not appear to have improved sufficiently to stimulate broadly-based growth in the private sector, despite notable entrepreneurial initiatives in certain areas such as paddy production and transportation.

While the PCR restates some of the desirable objectives of the PREF, many of the shortcomings of the earlier document are repeated. The lack of specific and measurable targets continues to be a source of concern along with the insufficiently detailed plans for implementing recent legislative reforms and study conclusions.

If adjustment is to be successfully accomplished, the authorities will have to pursue more vigorously additional reforms including an overhaul of the tax system. Efforts will have to be intensified to resolve the pressing problems of the banking system and to speed up the liberalization of pricing mechanisms in conjunction with the rationalization of tariff structures. Furthermore, the pursuit of a more aggressive exchange rate policy could help stimulate further development of on-shore fisheries activities while supporting more remunerative farmgate prices and encouraging import-substitution activities. Indeed, if other regional currencies weaken, a substantial devaluation of the Ouguiya may become necessary.

External financial support has been and will continue to be a crucial element of the adjustment process. In the recent past a substantial portion of this assistance was in the form of general budgetary and balance-of-payments support which was linked to broadly-defined performance criteria. However, comprehensive but vague objectives of the adjustment program, and the relative absence of a clear hierarchy among its goals, have made it difficult to measure progress and hence to ensure adherence to conditionality. In view of this, adjustment facilities accorded in the future by the World Bank are likely to focus on sectoral reform and project development in order to increase the measurable effectiveness of its financial support.

It seems essential, therefore, that other donors and creditors, including the United States, similarly refocus their ongoing support for Mauritania's economic adjustment and development,

leaving specialized institutions such as the IMF to continue to promote macro-economic policy reform with periodic reviews. If, in this way, a greater portion of external support can be channeled into productive investments with reasonable potential for economic return, prospects for sustainable long-term growth will be enhanced, while a relatively smaller funding of a joint nature will serve to reinforce the official Mauritanian goal of increasing financial discipline in the public sector.

A. Prospects

External financial support has been and will continue to be a crucial element of the adjustment process. During the period of the PREF, a substantial portion of this assistance was in the form of general budgetary and balance-of-payments support which was linked to broadly-defined performance criteria. The outcomes of this approach have been mixed for a variety of reasons. As noted above, a number of the broad macro-economic objectives established under the PREF have been partially realized due to some improvements in policies and to favorable external developments, including better rainfall. However, the substantial reforms necessary to sustain this improvement have generally not been forthcoming, and one is left with the impression that hard choices have yet to be taken in most areas.

To date, much of the recorded movement has come in the form of revisions of the statutory codes governing economic activity: elaboration of the new investment code, banking reform act, tariff and customs reforms, etc. It is at present unclear whether the limited nature of progress stems from an absence of "volonte" (will) on the part of the appropriate authorities, resistance at the level of the bureaucracy, or physical limitations in administrative capacity. One would suspect that elements of all three are at work. Whatever the cause, because even the pace of statutory reform has lagged, as the end of the period of the PREF nears, few steps in the direction of implementation have occurred. It is thus difficult to judge with any precision the real or potential impact of these changes, or their ability to make a significant contribution to Mauritanian economic health in the near future.

It is clear that greater efforts are required to generate public savings, ensure parastatal rehabilitation and the restructuring of the banking sector, and to promote progressive price liberalization throughout the economy. The likelihood that these reforms will be successfully accomplished over the period of the PCR will depend to a great extent on the manner in which the donor community approaches the twin issues of conditionality and compliance. With this in mind, while attempting to assess the prospects for the future, it is perhaps interesting to reflect, at a general level, on the nature of the reform process initiated with the PREF.

The PREF was extremely ambitious both in its objectives and assessment of Mauritanian capacity to reach prescribed goals. It is worth noting that the PREF was and, more importantly, was perceived to be, a document prepared by the IBRD with little Mauritanian input. It was apparently seen by many elements of the administration as essentially imposed; it was a document adopted out of necessity, but the necessity of securing new money rather than the necessity of correcting macro-economic imbalances in order to restore the economy to a semblance of working order and stimulate domestic economic activity. Thus, the formal adoption of the reform program outlined in the PREF should not necessarily be taken as an indication of a solid commitment to its successful implementation within the Mauritanian administrative system. Indeed there are indications that support below the highest decision-making levels was marginal.

The applicability, effectiveness and sustainability of the conditionalities which accompanied the PREF were undermined by the document's broad scope. Its comprehensive but imprecise objectives, coupled with the relative absence of a clear hierarchy among goals, made it difficult to measure progress and hence to ensure adherence to conditionality. Clear implementation targets were, for the most part, lacking. It seems worth noting in this regard that despite the poor performance of the Mauritanian government in the areas of banking reform, parastatal reorganization, civil-service reform and economic liberalization during the period of the PREF, both tranches of the SAC were released, albeit with some delay. The apparent reasoning behind the release of the second tranche is instructive. Having failed from the outset to specify precise indicators, it was difficult for the Bank to argue that the relative weight of accomplishments did not merit release. Furthermore, the argument was made that further delay would risk upsetting the adjustment apple cart, and presumably unsettle the environment within which ongoing and future discussions concerning sectoral adjustment programs would occur.

While the PCR restates many of the desirable objectives of the PREF, its guidelines for the implementation of policy and administrative reform are vague, particularly in view of the three years of structural adjustment experience under the PREF. Furthermore, there is little discussion of institutional capacity to carry out proposed objectives, and a notable absence of specific targets in some key areas such as banking sector restructuring. Lastly, there continues to be a disproportionately heavy reliance on external financial support relative to internally-generated savings.

B. Implications for the U.S. Position at the Consultative Group Meeting

Stress should be placed on the need for greater donor communication on an ongoing and, preferably, regular basis if the overall reform process is to be effective; co-financing arrangements tend to facilitate this sort of communication, but are not the only way to go. At a minimum, donors should aim to communicate to each other the outlines of the conditionalities they are individually including in their assistance programs so as to avoid overload and/or contradictions. Preferably, general sectoral guidelines could be agreed upon (for example, support for increasing sale prices of concessional grains).

In view of the country's huge existing debt, a reconsideration of the ambitious borrowing plans outlined in the PCR seems warranted. External borrowing, even at highly concessional terms, should be limited to specific projects with a strong likelihood of generating economic returns. Borrowing for general balance-of-payments and budgetary support as outlined in the PCR should be avoided.

The team recommends supporting a thorough re-examination of the PCR with a view to defining stricter and more precise conditionalities across a more narrow range of issues. Overly ambitions goals and calendars should be avoided, if possible. The goal should be to develop a series of clearly measurable indicators of progress, particularly indicators for which information can be collected and verified outside government channels.

For example, in the agricultural sector, a series of specific conditionalities relating PL 480 deliveries to CSA actions, including price increases, distributional requirements for the buying campaign, or seasonal closing of sales centers might be proposed; alternatively, one might condition continued imports of PL 480 for sale (as opposed to FFW or free distribution) on the possibility of sale directly to the private sector, i.e., on the availability of competition. One might also consider using counterpart funds which are destined for CSA to support only those activities of CSA which are in line with revised conception of its proper function. Some of these activities might include the following:

* forecasting of regional/local food availability, based on monitoring of demand via local market prices;

* maintenance of security stocks and limited number of regional distribution centers; preferably only the Nouakchott facility; rest should be turned over to local authorities;

* managing supply of enclaves where it is determined that the private sector is either uninterested or abusive, but

perhaps doing so via contracts with private transport to extent this is possible;

* at the margin a bit of counter-cyclical buying and selling.

* limited involvement in free food distribution: for example, if CSA market data/price analysis identifies need, it should arrange for private transport of grains from central security stocks; distribution would then be entrusted to elected local authorities, with the possibility of technical assistance at the local level, perhaps via PVOs.

Continuing stress on the need for substantial banking sector reform and for an investment code which provides a secure environment for private sector investment in domestic productive capacity should be maintained. The need for real dialogue between state and private sector actors should also be emphasized.

BACKGROUND NOTES TO THE REPORT

The PEDS Project

This study was conducted under the Private Enterprise Development Support Project. The PEDS Project is a five year (FY88 - FY92) $20 million project managed by the Bureau for Private Enterprise. The PEDS Project is designed to provide a wide range of expertise in private sector development. Areas of technical assistance include the following:

- Policy analysis related to private sector development
- Sector assessments and analyses
- USAID private sector strategy development
- Legal and regulatory analysis and reform
- Small-scale business development
- Trade promotion
- Investment promotion
- Free trade zone development
- Financial institutions and instruments
- Management and financial training
- The role of women in private enterprise
- Applications of MAPS: Manual for Action in the Private Sector

USAID Missions have the resources of thirteen contractors available to them through the PEDS Project.

- Arthur Young (prime)
- SRI International
- Management Systems International
- The Services Group
- Trade and Development, Inc.
- Multinational Strategies
- J.E. Austin Associates
- Ferris & Company
- Metametrics
- Elliot Berg Associates
- Robert Carlson Ass.
- Ronco
- Dimpex Associates

The Consultancy

The purpose of this consultancy is to review the current macro-economic situation in Mauritania and develop a draft U.S. position paper for the IBRD Consultative Group Meeting. The team consisted of Maurice Samuels and Stevens Tucker. The team spent three weeks in Mauritania during November 1988 to conduct interviews with key officials in the public and private sectors and write the report.

The Authors

Maurice Samuels, Consultant for Multinational Strategies, Inc.

Mr. Samuels is currently a portfolio manager/advisor for the Banque Arabe et Internationale d'Investissement in New York. Previously, he was an international economist for the Institute of International Finance in Washington, D.C., where he conducted macro-economic studies on francophone African countries. From 1982-85, Mr. Samuels served as an international economist for the Royal Bank of Canada in Montreal. Mr. Samuels holds a Master of International Affairs degree from Columbia University and a Bachelor of Arts degree from Concordia University in Montreal.

Stevens Tucker, Consultant for Arthur Young

Mr. Tucker is currently completing his Ph.D. at the University of California, Berkeley. He has conducted extensive research in the Sahel (Burkina Faso, Mali, Niger and Senegal) and France for his dissertation on the evolution of relations between Sahelian states, regional organizations and international donor agencies. He also served as a consultant to the Club du Sahel to redesign USAID support to Sahelian regional institutions. Mr. Tucker holds an M.A. and a B.A. in Political Science from the University of California, Berkeley.