
ACTION PLAN FOR PRIVATE SECTOR STUDIES

Draft Report

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

*Prepared for: USAID/Mauritania and
Confederation Generale des Employeurs de
Mauritanie (CGEM)*

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

April 1989



Arthur Young

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

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I. INTRODUCTION

In September 1988, USAID/Mauritania provided a \$300,000 buy-in to the Private Enterprise Development Support project (PEDS). The purpose of the buy-in is to conduct a series of private sector feasibility studies in coordination with the Confederation Generale des Employeurs de Mauritanie (CGEM). This Action Plan represents the first activity under the \$300,000 buy-in. It was prepared by Sydney Lewis, an Arthur Young Staff Consultant, after a ten day field trip to Mauritania.

The purpose of the Action Plan is to provide an outline of the types of studies to be funded under the PEDS Project and develop preliminary plans for implementing the studies. To that end, the consultant reviewed a number of documents on the role of the private sector and conducted interviews with key individuals in the Mauritanian private sector. She also held meetings with a number of consulting firms in Mauritania to assess their capacity for carrying out the studies in collaboration with the PEDS team. A list of the individuals interviewed is provided in Attachment I to the Action Plan.

A special note of gratitude is extended to Mr. Mohamed Aly, the Secretary General of the CGEM, and the staff of USAID/Mauritania for their generous hospitality.

A. The Private Enterprise Development Support Project (PEDS)

As noted above, this Action Plan was prepared through a buy-in to the PEDS Project. The PEDS Project is a five year (FY 88 - FY 92) \$20 million project managed by the Bureau for Private Enterprise in A.I.D. Washington. The PEDS Project is designed to provide a wide range of expertise in private sector development. Areas of technical assistance include the following:

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

The resources of thirteen firms are available through the PEDS Project.

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

B. Objectives of the Private Sector Studies

The objectives of Private Sector Studies in Mauritania are three-fold:

1. To strengthen the CGEM's and USAID's capacity to respond to private sector needs;
2. To assess opportunities for new private sector investment.
3. To strengthen the capacity of local consulting firms to conduct private sector feasibility studies.

To meet these objectives, Section II of the Action Plan provides a prioritized list of proposed private sector studies. This list is not intended to be "fixed," but rather, it represents an initial plan for the feasibility studies to be conducted under the project. In the course of implementing the studies, it is very likely that new ideas for feasibility studies might arise, and these should be pursued to the extent possible. Section III of the Action Plan provides a review of the consulting services available in Mauritania. Lastly, Section IV outlines a Management and Implementation Plan for the studies.

II. PRIORITIZED LIST OF PROPOSED PRIVATE SECTOR STUDIES

The following areas have been identified as priority areas for the joint CGEM-USAID Private Sector Studies:

- * Assessment of the Small Business Sector
- * Assessment of Private Sector Opportunities in Cereals Marketing and Sales
- * Sectoral Market Studies, Particularly in Food Processing Sectors
- * Policy Studies

A. Small Business Sector Assessment

1. Justification

The USAID Mission is currently considering the design of a new small enterprise project as the focus of its private sector program. The Assessment of the Private Sector conducted by Arnold Lessard (ISTI) several years ago provides useful background information on the private sector. It provides very little information, however, on the needs of the small enterprise sector. A close examination of the sector would provide USAID with the type of information it needs to develop an effective project. The Secretary General of the CGEM has also expressed an interest in providing greater out-reach to small enterprises. This assessment has been listed as a top priority because of the Mission's need to proceed on the design of its new private sector project.

The Mission has also considered modeling its small enterprise project on the Kaoleck Small Enterprise Project in Senegal; the project has had an excellent track record in terms of repayment rates. It is important to note, however, that much of the project's success is credited to a long-term study that preceded the initiation of the program; the designers of the project had access to a considerable amount of data on small enterprises in the region and their needs. In sum, it is very important to know the milieu and to study carefully the needs of enterprises before initiating a credit program.

Most small firms in Mauritania have no access to financial and/or technical assistance, and yet, they are said to be the most dynamic part of the Mauritanian private sector. The banking sector is unwilling and probably unable to service the needs of small enterprises, despite the fact that may well prove to be excellent credit risks. The banking community is unlikely to change its traditional pattern of lending to larger enterprises in the near future; hence, an independent financing facility for small enterprises may be the only solution to addressing credit needs. This is one of the issues that should be examined during a small enterprise assessment. A more detailed scope of work is provided below.

2. Preliminary Scope of Work

2.A. Purpose:

Conduct an assessment of the small enterprise sector in Mauritania and make recommendations concerning the types of activities USAID should support to promote small enterprise development.

2.B. Tasks:

1. Define the small enterprise sector as it exists in Mauritania at the current time.

- a. Assess the role of small enterprises in the Mauritanian economy; examine their contribution to GDP and to private sector activity in the economy.
- b. Examine the types of businesses found in the small enterprise sector and their ownership patterns; include gender distinctions.
- c. Examine the sectoral and regional distribution of small enterprise activity.
- d. Assess small firm's need and access to the following critical inputs; include gender distinctions.

- * Labor
- * Finance
- * Infrastructure
- * Technology
- * Management and Technical Skills
- * Business Support Services
- * Training

2. Examine the policy environment in which the small enterprise sector operates.

- a. Identify factors in the Mauritanian policy environment which foster the growth of small enterprises; identify factors which impede their growth.

- * taxes
- * tariff policy and customs regulations
- * banking laws
- * investment incentives
- * registration procedures

- b. Examine the legal framework in which small enterprises operate; in particular, examine the impact the legal system may have on the development of small firms in the formal vs. the informal sector.

3. Examine small enterprises' access and need for credit.
 - a. Assess small enterprises' access to finance: sources and terms; compare access to credit on a regional basis.
 - b. Assess the effective demand for credit based on estimates of the number of creditworthy "projects" in the small enterprise sector.
 - c. Evaluate existing and potential institutional arrangements for lending to the small enterprise sector.

4. Recommend activities which USAID might support to promote small business development.
 - a. Examine the types of business activities and sector that might be appropriate for small enterprises.
 - b. Identify options for the development of a USAID-financed Small Enterprise Program.

An important focus of this assessment should be the role of women entrepreneurs in the small enterprise sector. According to a number of private sector businessmen, it is women that are often the most dynamic and creative entrepreneurs in the Mauritanian economy. Their businesses tend to be one-person operations, frequently in the commercial and services sectors.

2.C. Approach

The Small Enterprise Assessment should be carried out by one of the firms under the PEDS Project in conjunction with a Mauritanian consulting firm. The PEDS team should work with the local firm to develop a methodology for conducting the assessment in Nouakchott; the local firm could then apply the methodology in secondary towns where small businesses play an active role. Once the local firm has collected and analyzed the data, the PEDS team could return for a second visit to complete additional analyses and write the assessment.

The estimated level of effort to conduct the assessment would be as follows:

- * PEDS: Small Enterprise Specialist (5 weeks)
- * PEDS: Credit Specialist/Financial Analyst (5 weeks)
- * Local Firm: Economist (7 weeks)
- * Local Firm: Institutional/Social Analyst (7 weeks)

B. Assessment of Private Sector Opportunities in the Distribution and Marketing of Food Aid

1. Justification

As part of USAID's Section 206 program, the Commissariat a la Securite Alimentaire (CSA) temporarily closes sales centers for imported wheat during the harvest season. The intent of such closings is to stimulate increases in the price of local cereals, which in turn provide incentives to local producers. This assumes a certain cross-elasticity between the demand for imported wheat and local cereals. The World Bank is also interested in closing the CSA sales center, but for different reasons; the Bank's concerns are primarily focused on questions of efficiency.

A recent evaluation of the 206 program indicates that there could be significant potential for private sector involvement in cereals marketing and sales. The purpose of this study would be to examine more closely that potential and recommend measures to stimulate greater private sector involvement in cereals marketing.

2. Preliminary Scope of Work:

2.A. Purpose:

Conduct an in-depth study to assess the potential role of the private sector in cereals marketing and sales and provide recommendations for strengthening its role.

2.B. Tasks:

1. Assess the actual socio-economic impact of closing CSA sales centers on a temporary basis.
 - a. Examine consumption patterns before, during and after the closing of the CSA centers; determine the extent to which consumers substitute local cereals for imported cereals during the closings.
 - b. Examine changes in the price of cereals due to the CSA closings; determine to what extent changes in price impact changes in consumer patterns.

2. Assess the potential impact of closing the CSA sales centers on a permanent basis.
 - a. Conduct an analysis of the costs and benefits of this measure in terms of the following factors:
 - * efficiency
 - * employment
 - * food availability
 - * impact on the food security of vulnerable groups
 - * market development potential

3. Assess the current and potential role of the private sector in the marketing and sales of local cereals;
 - a. Identify constraints and opportunities for the private sector in the commercialization of cereals, including the following key areas:
 - * transportation
 - * storage
 - * milling and refining

4. Provide recommendations to USAID on possible measures to include in the P.L. 480, Section 206 program to ensure greater private sector participation in cereals commercialization.

2.C. Approach

This study would probably not require a large level-of-effort from the PEDS team, but it would require work over a longer period of time from the in-country consultants in order to measure the before, during and after impacts of closing the CSA Centers. It is recommended that a PEDS Agricultural Economist with private sector experience conduct the study in coordination with a Mauritanian agricultural economist and a survey team. The Mauritanian agricultural economist could either be associated with a local firm or serve as an independent consultant under the PEDS contract.

The estimated level of effort to conduct the study is as follows:

- * PEDS: Agricultural Economist (5 weeks/two trips)
- * Local: Agricultural Economist/Field Manager (12 weeks)
- * Local: Data Collection/Analysis (9 weeks/2 individuals)

C. Sectoral Market Studies

1. Justification

Based on a review of USAID-financed private sector studies and interviews with a number of key private sector representatives, it is clear that there are several "product areas" which have considerable potential for private sector involvement and which warrant detailed market assessments. Most of these areas involve food-processing. To be more specific, the following key product areas were mentioned repeatedly during the course of interviews with Mauritanian business-people:

- * Rice: processing, storage and transportation
- * Fish and fish by-products: processing, storage and transportation
- * Meat: livestock management; meat production and marketing; production and marketing of dairy products.
- * Non-Traditional Crop Production and Marketing

During the past few years, the private sector has just begun to become actively involved in the productive side of these sectors. There appears to be significant room for additional involvement, however, in the processing, storage and transportation of these products. Thus far, no feasibility studies have been conducted to assess the potential returns in these areas. The purpose of the sectoral market studies would be to examine in detail the opportunities and constraints to private sector involvement in these sectors. The studies could potentially benefit a number of private sector entrepreneurs. If certain government policy constraints inhibit investment in these sectors, the studies might also serve as a policy dialogue tool for USAID and the CGEM vis-a-vis the Mauritanian government.

1.A. Rice Production and Milling

Private sector entrepreneurs have been increasingly attracted to the Rosso area in southern Mauritania, where they have invested heavily in irrigated perimeters for rice production. With the completion of major dams which ensure year-round availability of fresh water, the agricultural potential of this region is very significant. Rice production has increased dramatically during the last few years. Nonetheless, milling and storage facilities to support this increased production are sorely lacking. This clearly has had a major impact on the quality of Mauritanian rice, as well as its commercial potential.

1.B. Fish Processing

Overall, the fisheries sector has been studied intensively by a number of bilateral and multilateral agencies, as well as Mauritanian institutions. The one area that has not been explored, however, is the potential for processing fish products and by-products. In fact, at this time, the level of local value added in the Mauritanian fisheries sector is minimal. Private sector entrepreneurs within the sector identify fish-processing as a key area for potential private sector investment.

1.C. Meat and Dairy Production

According to a recent study financed by USAID (A Private Sector Development Strategy, February 1989), "the only sizable and well-established market available to Mauritanian agriculture is livestock. The River Valley should explore the means by which it may be able to tap into this huge potential market to valorize its production." The recent up-surge in agricultural activity in the Senegal River Basin offers a unique opportunity to stimulate the development of the livestock sector. Crop residues could be used as feed for local livestock. The off-take could in turn satisfy the internal demand for meat products, as well as offer a potential opportunity for increased exports.

1.D. Non-Traditional Crop Production and Marketing

A number of entrepreneurs expressed interest in studies related to the production of alternatives crops, particularly fruits and vegetables. It appears that attempts to produce vegetables on irrigated farms for the local market have not been very successful to date. For this reason, this area of study should be considered a last priority; nonetheless, there is considerable interest in examining the potential for strawberries, tomatoes and other fruits and vegetables.

2. Scope of Work

2.A. Purpose

Conduct a series of sectoral feasibility studies to assess the potential opportunities for private sector investment in select areas. Based on preliminary investigations, these areas include: rice milling and storage, the processing of fish and fish by-products, production and marketing of meat and dairy products, and the production of non-traditional fruits and vegetables.

2.B. Tasks

Each of these "product areas" would be the subject of a separate feasibility study. The tasks to be conducted under each study would include the following:

1. Assess the current status of development in each product area.
 - a. Identify and describe the key players in each product area: public vs. private sector; large vs. small firms; formal vs. informal sector, etc.
 - b. Examine public and private levels of activity at each phase of the cycle: production, processing, marketing, transportation and storage.
2. Examine key incentives and constraints to private sector investment in the sectors.
 - a. Policy environment and the role of the government
 - b. Labor requirements
 - c. Credit needs and financing options
 - d. Infrastructure
 - e. Technology
 - f. Management and Technical Skills
3. Examine the potential costs and benefits to investing in these sectors. Some of the factors that should be considered include the following:
 - * Profitability
 - * Investment Requirements
 - * Job-Creation
 - * Foreign Exchange Impact
4. Recommend measures to increase private sector involvement in these sectors. These should include measures at the host-country policy level, as well as smaller initiatives that might be supported by the CGEM, USAID or other donors to promote private sector development.

2.C. Approach

A private sector specialist from the PEDS team would work in collaboration with two Mauritians, preferably a technical specialist in the product area and an economist. The estimated amount of time required for each of these studies would be approximately three weeks.

D. Policy Studies

The Mauritanian private sector operates in an uncertain policy environment. The government is gradually implementing reforms to stimulate private sector growth, but progress has been relatively slow. In an effort to stimulate policy analysis and reform, a series of policy studies could be conducted through the PEDS Project. Such studies would provide an assessment of the impact of selected policies on private sector development and overall economic growth. The aim of such studies would be to provide the CGEM and USAID with the analytical and technical information needed to discuss potential policy reforms with the Government of Mauritania.

The topics for policy studies should be suggested by the CGEM and USAID. One suggestion already raised by USAID would be to examine the feasibility of opening up the Mauritanian insurance industry to the private sector competition. Currently, the insurance industry is completely dominated by the State; the system is inefficient and provides little protection to the insured. Other studies might examine specific policy changes to promote private sector investment (such as changes in the investment code) or other policy changes to create a more favorable environment for the private sector.

III. REVIEW OF CONSULTING SERVICES IN MAURITANIA

Consulting firms are a relatively new phenomenon in Mauritania. The sector is nascent, but growing in accordance with increased demand for and availability of trained technicians in-country. As noted in the introduction of this study, one of the objectives of the Private Sector Studies project is to strengthen the ability of local firms to carry out feasibility studies. There is a second, and perhaps more important reason for collaborating with local firms, and that is to ensure a better product. Local firms have an understanding of the Mauritanian economic and social structures that an expatriate cannot possibly expect to achieve during a short visit; the studies conducted under the PEDS Project will surely be better grounded to the realities of Mauritania with the participation of local firms and/or consultants.

An Association of Mauritanian Consultants was recently created to represent the interests of local consulting firms vis-a-vis the government and the private sector. The aim of the Association is to provide some structure, support and quality control to the consulting sector as it grows. The Association is considering the possibility of creating a common bank of information and data, as well as office/computer equipment. In effort to identify local counterparts to undertake the studies, the PEDS consultant visited as many firms as possible. The most likely counterparts included the following firms:

- * AFRECOM
- * SODESE
- * DAFFA BAKARY
- * BA SAMBA DIOM

This list is not intended to limit other consulting firms from participating in the feasibility studies in the future. Rather, this is a preliminary list of firms to be considered as potential counterparts for the initial studies. A brief description of these firms is provided in the following sections.

A. AFRECOM:

Created in 1979, AFRECOM is probably one of the oldest consulting firms in Mauritania; it also appeared to be the most technically sophisticated firms in terms of its staff and its availability and use of computer and communications equipment. While AFRECOM is known best for its work in the agricultural sector, it also provides consulting services in the following areas:

- * Economic Analyses and Planning
- * Human Resource Development
- * Hydraulic Engineering
- * Cadastral Surveys; Land Management/Planning
- * Infrastructure Development
- * Fisheries Development
- * Housing

The firm has also conducted a number of industrial feasibility studies in the following areas:

- * candle production
- * textiles
- * tomatoe paste
- * milk production
- * motor oil
- * solar energy
- * bottled mineral water
- * artisinal fisheries (on-going)

According to the Director of AFRECOM, M. Jiddou, there are approximately twenty-four people on the firm's staff with a variety of technical skills: economists, engineers, and others. Originally, AFRECOM worked under sub-contract to other firms; the firm now has the capacity to work independently, but maintains close ties with African, Arab and European firms.

The firm is well equipped with computers (IBM PC-XT and Toshiba 1200 laptops; software includes Lotus 1-2-3, Framework II, and Word-Perfect). Relative to other Mauritanian consulting firms, AFRECOM's computer capabilities appeared very strong. During the consultant's visit, the staff was actively using the computer facilities. Such computer capacity (and compatability with Arthur Young's computers) could be a major advantage in the production of the private sector reports under the PEDS Project.

B. SODESE

SODESE, the Societe de Developpement et des Etudes Economiques et Sociales, is one of few consulting firms which which USAID has had experience. Under contract to the German foreign assistance agency and financed by local counterpart funds generated under the P.L. 480, Section 206 Program, SODESE prepared a lengthy study to examine the Food for Work program and developed a strategy for improving the program. The study served as the basis for a National Food for Work seminar. SODESE worked over a three to four month period to complete the study; by all accounts, the firm proved to be very conscientious despite numerous obstacles such as power shortages which impeded their work.

SODESE is best known for its work in the agricultural sector and rural development; it also emphasizes small business development, the fisheries sector and infrastructure development. It works in conjunction with numerous European consulting firms, in particular Euroconsult. The Director of SODESE, Cheikh Benani Youba, is an energetic and dynamic leader. The firm's qualifications statement lists about nineteen other staff members, including these types of professions: agricultural engineer, economist, sociologist, lawyer, civil engineer, hydraulic technician, and topographers. It is not clear, however, whether all of these individuals work full time at SODESE.

SODESE has conducted an impressive of number of consultancies in Mauritania and other countries. A sample of the types of studies conducted by SODESE include the following:

- * Technical Assistance to the Office of Renewable Energy in Niger
- * Feasibility Study: cattle breeding
- * Feasibility Study: tannery
- * Feasibility Study: development of tomato paste
- * Feasibility Study: private sector fisheries project
- * Feasibility Study: recreational park in Nouakchott
- * Topographical studies
- * Socio-economic study of 150 villiages
- * Agricultural, fisheries and land management studies for the Gorgol Noir (sub-contract to EuroConsult)

The firm appears to be strong in terms of its technical abilities and has a good reputation in Mauritania. One disadvantage is that it has very limited computer capacity. The firm has one MacIntosh which it uses primarily for graphics. Reports are prepared on a Xerox typewriter with memory.

C. Daffa Bakary

The Director of this firm, M. Daffa is a former Ministre de l'Equipement, des Transports, des Postes et Telecommunications. The firm specializes in construction and public works projects, but is currently engaged in broader economic studies. The firm is relatively small with perhaps three full-time staff people; when specific projects require additional staff, M. Daffa uses consultants.

Under USAID's start-up activities with the CGEM, Daffa Bakary conducted a study entitled "Mille Logements" to assess the feasibility of building low-cost housing in Mauritania. (Cost: \$25,000). The report was held in high regard by both USAID and the CGEM. Daffa Bakary has initiated a second study to examine investment opportunities in Kiffa and Kaedi; the study will be financed by USAID and conducted under the auspices of the CGEM. (Approximate cost: \$50,000). Per our meeting, Daffa Bakary will submit a more detailed scope of work and budget for this study in the near future. Both the housing and regional economic studies will be conducted by a team of three: Daffa, an economist and a sociologist.

The firm has just begun to purchase computer equipment, most recently a MacIntosh.

D. Ba Samba Diom

Ba Samba Diom is a very well-respected accountant in Mauritania; his accounting firm represents Arthur Young in Mauritania and Diom maintains close ties with other Arthur Young affiliates in West Africa. As an accounting firm, Ba Samba Diom's primary focus is audit and financial management. He does maintain a roster of consultants, however, that work in areas beyond the audit function. He also holds a specialist interest in training financial management principles to Mauritania entrepreneurs. If any financial analyses were to be conducted under the PEDS project, Ba Samba Diom's firm should be strongly considered.

E. Other Consulting Firms

There are a number of other consulting firms operating in Mauritania. For the most part, these firms deal with projects outside the realm of this project's objectives (for example, infrastructure development, architectural design and others).

These firms include:

- * BCTECH: Bureau de Control Technique
(specializes in architecture)
- * BEC: architecture
- * BETG: construction; civil engineering
- * BERCI: economic analysis; financial management
- * DAR Genou: electrical studies
- * SAMEF - Mauritanie

Of these firms, the only potential counterpart firm for the PEDS project might be the successor to SAMEF-Mauritanie. During the consultancy, SAMEF was in the process of being dissolved. The founder of SAMEF-Tunisia and Morocco, M. Rabah, plans to create a new firm in the future to address the consulting and business training needs of Mauritanian firms; his firm in Tunisia has an extensive list of professional training courses in business development. When and if M. Rabah does create a new firm in Mauritania, the firm should be considered as a potential partner for work under the PEDS Project.

IV. MANAGEMENT AND IMPLEMENTATION PLANS

The management plan for the \$300,000 Private Sector Studies Fund is intended to be as simple as possible. It is also designed to ensure that there is relatively little management burden for USAID and CGEM. USAID and CGEM will make the final decisions as to what types of studies should be financed by the Fund; Arthur Young as prime contractor for the PEDS Project will be responsible for the management and implementation of the studies. The following steps will be required to launch the studies.

Step 1: Establishment of a Formal Agreement Between CGEM and USAID

The CGEM and USAID should enter into a formal agreement to demonstrate their mutual commitment to conducting a series of private sector feasibility studies; the total cost of these studies is not to exceed \$300,000.

Step 2: Decision on the First Study

Based on the prioritized list of feasibility studies contained in Section II of this report, or based on any other needs that may arise, USAID and CGEM should mutually decide on the first study to be conducted under the PEDS Project. USAID should inform Arthur Young of its decision and provide a statement of work via cable to AID/W.

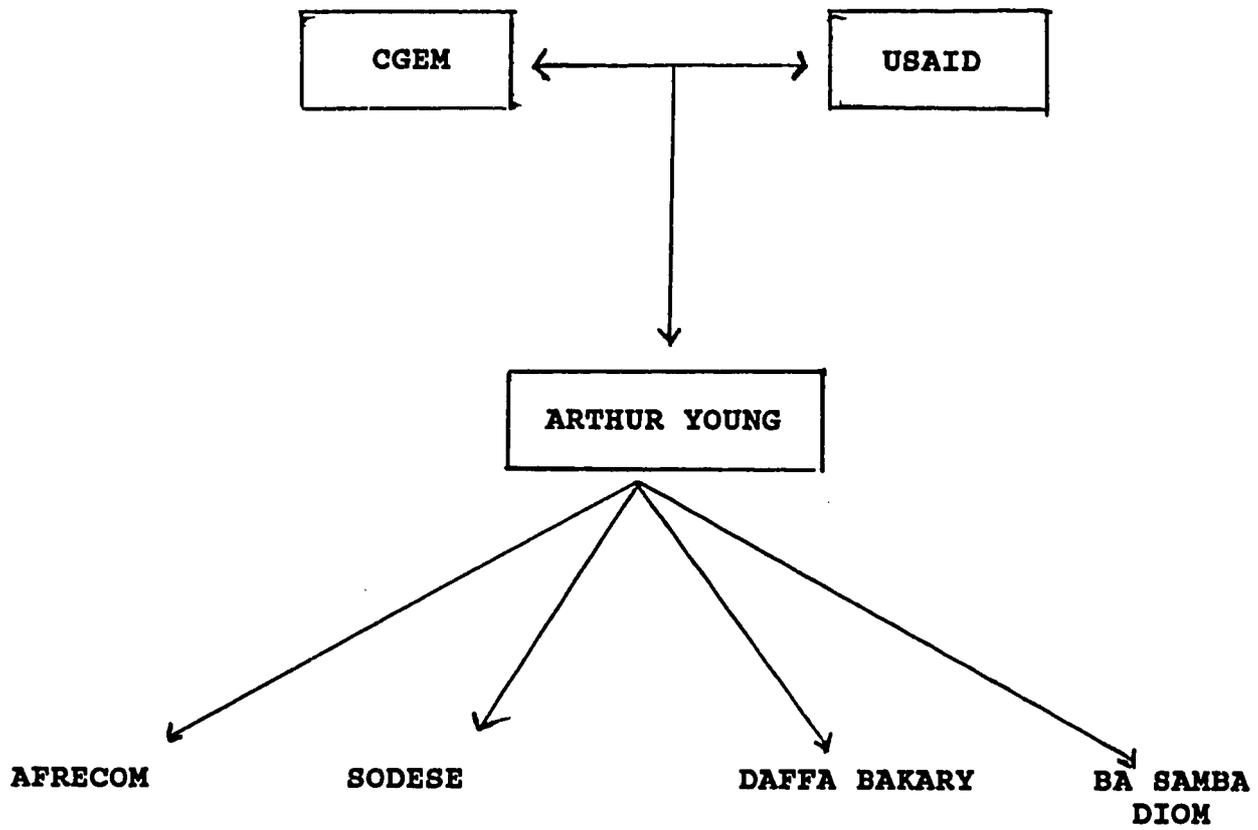
Step 3: Nominations and Contracting

Arthur Young will nominate candidates from the PEDS team to carry out the study via cable from AID/W; it will also design a terms of reference for the activities of the local consulting firm. The terms of reference will be distributed to the four consulting firms described in Section III of the report; a limited request for proposals will ensure competition among the most qualified firms. Firms that are interested in responding to the request will submit both cost and technical proposals to Arthur Young. Arthur Young will select the best response, taking into account cost and other relevant factors, and negotiate a sub-contract with a Mauritanian firm.

Step 4: Field Work

The PEDS team and the staff from the local firm initiate field work for the study.

The reporting relationships described herein are depicted on the following page:



ATTACHMENT I

LIST OF INDIVIDUALS INTERVIEWED
February 22 - March 1

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USAID Staff:

Glenn Slocum, USAID Director
Andrew Gilboy, Private Sector Advisor
James Bedner, Food for Peace Officer
Yousseouf Ould Abdel Jelil, Food for Peace Advisor