

International Monetary Fund

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Mauritania: Letter of Intent, Memorandum of Economic and Financial
Policies, and Technical Memorandum of Understanding

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Completes Sixth
Review Under the
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Mauritania and
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Million Disbursement](#)
June 17, 2013

May 30, 2013

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Letter of Intent

Nouakchott, May 30, 2013

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20433
USA

Madame Managing Director,

1. Over the past three years, the government has successfully met the challenges of strengthening macroeconomic stability and returning to economic growth in a difficult environment at both the national and international levels. By implementing appropriate economic policies consistent with the priorities established in our Poverty Reduction Strategy Paper (PRSP), we have been able to restore macroeconomic resilience and maintain price stability, while putting in place a series of emergency programs to aid our most vulnerable communities. Despite our considerable efforts, the economy still faces high unemployment and poverty rates and our development indicators continue to fall short of the Millennium Development Goals (MDGs)—which we have adopted as our official development objectives.

2. We have achieved the quantitative targets laid out for end-2012 under the program supported by the three-year Extended Credit Facility (ECF) arrangement, (Table 1). However, because of slippage in compliance with the quantitative target on contracting or guaranteeing medium and long-term nonconcessional external debt that occurred after January, we request a waiver on the basis of the corrective measures. Moreover, the structural benchmark for March 2013 (Table 2) was met, but the structural benchmarks for end-December are still pending due to delays. For the structural benchmark related to public enterprises, the final report for Mauripost was completed, and we expect the reports for SNDE, SONIMEX and SOMAGAZ to be completed by mid-June. The increase in electricity prices for large consumers was postponed owing to delays with the tariff study, which has now been completed. The indicative target on priority social spending was achieved for the year after the lag was made up following the adoption of the supplemental appropriation decree (*décret d'avance*).

3. Our economic policy program for 2013 will continue to focus on economic stabilization while stepping up efforts to fight unemployment and poverty. To that end, in consultation with Fund staff, we have set quarterly indicative targets for 2013

Recent Economic Developments and the Program for 2012

4. Buoyant conditions in the construction and fisheries sectors and the recovery of agricultural production were the main engines of the economic recovery in 2012. In real terms, GDP growth amounted to 6.9 percent in 2012 (8 percent excluding extractive industries), despite the ongoing economic crisis in Europe, one of our main trading partners. Inflation fell to 3.4 percent in December 2012, significantly lower than projected, as the regular increases in retail fuel prices were more than offset by the decline in food prices (which make up 49 percent of the consumption basket). Nevertheless, this favorable economic performance and the social programs implemented unfortunately proved insufficient to reduce the unemployment and poverty rates that remain too high to achieve our development objectives.

5. The marked deterioration of the current account deficit was accompanied by a significant increase in foreign direct investment. Lower iron ore exports, a surge in imports due to the EMEL 2012 emergency program, and new investment projects account for the worsening of the current account deficit, which exceeded 30 percent of GDP at end-2012 (up from 7 percent of GDP in 2011). Still, the current account deficit would be 2.8 percent of GDP if imports associated with foreign direct investment were excluded. Improved management of foreign exchange reserves, a significant repatriation of mining revenues, advance payment of the European Union fishing license, and the exceptional grant in the context of the Brussels Donor Round Table enabled us to increase our stock of foreign exchange reserves to US\$962 million at end-2012. This level of reserves, equivalent to 6.2 months of imports, already far exceeds both the optimal level and the level forecasted for 2017 as necessary to absorb exogenous shocks.

6. In the area of public finances, budget execution performance at end-2012 showed improvement as a result of significant tax collection efforts (a 43 percent increase year-on-year in tax revenue (excluding mining), an increase in mining revenues (of 23 percent year-on-year), an earlier-than-expected disbursement of the financial contribution under the fishing agreement with the EU, and exceptional external support (5 percent of GDP). Thus, the basic fiscal balance recorded a non-oil surplus of 0.4 percent of GDP at end-2012, instead of the 2 percent deficit projected during the Fifth Review. The overall balance, including grants, reached a surplus of 2.8 percent of GDP for the first time in our recent history despite the new emergency programs (food and drought relief) and a significant increase in domestically financed investments.

7. At end-2012, money creation was better than anticipated, owing to the stronger fiscal performance and implicit sterilization by the state-owned mining company (SNIM). Given moderate inflationary pressures coupled with declining headline inflation and the implicit sterilization by SNIM, the Central Bank of Mauritania (CBM) made use of its new monetary policy instrument (seven-day Treasury bills for an amount of UM1 billion) only once, on a trial basis, to absorb excess liquidity. The exchange rate depreciated 5 percent against the dollar and 3 percent in real effective terms. As a result of this depreciation, the premium against the dollar and the euro on the parallel market remains small, indicating that there is no fundamental imbalance on the official market.

Economic Outlook for 2013

8. The strong economic recovery that started in 2012 is expected to continue in 2013, with real GDP growth at around 6 percent. On the demand side, growth is supported by strong private and public spending, along with improved external sector performance buoyed by firmer commodity export prices. On the supply side, construction and public works, agriculture, and services sectors are poised to be the main drivers of growth. Inflation will be contained at 5.1 percent (year-on-year) thanks to the moderation of food prices and the attenuating effects of administered prices. The current account deficit will remain high at 28 percent of GDP, driven mainly by imports in connection with mining investments and infrastructure projects, and be financed by foreign direct investment and external borrowing. The capacity of the Mauritanian economy to withstand exogenous shocks will continue to be strengthened by a high level of foreign exchange reserves (US\$869 million, equivalent to 7.3 months of imports at end-2013).

The Macroeconomic Program

Fiscal policy

9. Fiscal policy will continue to be anchored in the performance of non-extractive industries to ensure that the fiscal position remains sustainable over the medium term. The overall fiscal deficit (excluding revenue from the extractive industries and externally funded investment) is projected at 9.4 percent of GDP, which corresponds to an improvement of 1 percent of GDP, and a marginal deterioration of the basic balance of close to 0.3 percent of non-oil GDP. This worsening of the basic balance, compared to budget estimates, is mainly attributable to payment of the first tranche of the fishing license in 2012 and an increase in investment spending, notwithstanding the improvement in tax revenues. Financing needs remain largely covered by nonbank financing and external support.

10. An increase in tax revenue, resulting in part from the enhanced tax base in 2012, helped offset the shortfall from the fisheries partnership agreement, thus making it possible to meet the government's revenue target of 30 percent of GDP considered in the budget. Tax revenue outturn in the first quarter of 2013 was 10 percent higher than expected, a trend reflecting both an improvement in the tax base and the sustained pace of economic growth. Mining revenues were also revised upwards from the government's 2013 budget projections, on the basis of a higher turnover propelled by the recent spike in the price of iron ore. The review designed to make the wages and salaries tax (ITS) more progressive, and the new excise exemptions for agricultural machinery, will only have a minimal impact on the 2013 budget (a loss of less than UM2 billion).

11. Domestically funded investment—the largest expenditure item in the budget—is set to grow further in response to pressing infrastructure needs. This growth, of around 10 percent of the level budgeted, reflects projects that are already under way and in conformity with the priorities established in the PRSP. These projects—consistent with available capacity and principally related to the agricultural sector, energy networks, and road infrastructure—will continue to be subject to the

new procurement procedures and to current regulation. We are also committed to ensuring that assessment and feasibility studies are carried out for all new projects.

12. As regards current expenditure, we have completely eliminated fuel subsidies and continue to contain the wage bill. Medium-voltage electricity rates for large consumers (structural benchmark) could not be raised as planned because of delays in completing the rates study. We have, however, raised additional temporary revenue from petroleum product distributors as average sale prices remain above international prices. The emergency program, in turn, has been considerably scaled down by reducing the number of subsidized products available through the dedicated shops used in the solidarity program and by falling international prices. In the event of a shortfall, we are committed to making cuts in nonessential spending, including spending on investment projects that are not urgent.

Monetary, financial, and foreign exchange policies

13. For 2013, the monetary policy stance will be cautious, and we will remain vigilant to the re-emergence of any inflationary pressures. We have reduced excess liquidity over the past three months through our considerable interventions in the foreign exchange market. However, the level of bank liquidity remains high and credit to the private sector, a corollary of growth in the Mauritanian economy, has risen markedly. In line with our objectives, we intend to manage liquidity principally by using indirect monetary policy instruments and by strengthening our forecasts:

- *Monetary policy tools.* We have successfully equipped the CBM with a short-term liquidity management instrument. Therefore, for liquidity management purposes, we plan to issue seven-day Treasury bills every week starting in June, with amounts based on weekly evaluations of liquidity and taking into account private sector credit conditions and inflationary pressures. We will give consideration to increasing reserve requirements if excess liquidity produces a destabilizing effect on the banking system.
- *Liquidity forecasts.* A new decree, adopted in May, officially instituted the establishment of the monetary and fiscal policy coordinating committee. This committee, which will meet on a weekly basis, will be responsible for determining the trend of factors affecting bank liquidity and informing the monetary policy directorate of the amounts to be absorbed using monetary policy instruments. This will facilitate the separation between the issuance of Treasury bills for fiscal purposes and the issuance of CBM instruments to meet monetary policy needs.
- *Monetary policy costs.* We have drawn up an agreement between the Ministry of Finance and the CBM establishing the mechanisms for the repayment of government claims on the CBM, which has been approved by the Council of Ministers on May 2 (prior action). Consequently, interest payments will begin following parliamentary approval at end-June. We intend to pursue our efforts to have the debt securitized so as to provide the CBM with the necessary financial resources for effective implementation of its monetary policy.

14. The CBM will continue to redouble its efforts to further strengthen the functioning of the foreign exchange market and the transparency of transactions. In this regard, in the first four months of 2013, we have resumed regular foreign currency sales (US\$160 million in the past two months), which made it possible at end-April to eliminate all outstanding requests for foreign exchange. To maintain confidence in the foreign exchange market, the CBM undertakes to make available a share of mining revenues to the foreign exchange market on a regular basis (in the amount of at least US\$40 million dollars a month). To further enhance the transparency of these operations, in May 2013 the CBM published all direct foreign exchange transfers made to public and private operators (in cases of emergency) over the course of 2012–13. The CBM undertakes to ensure that such transfers—carried out at the official price—are limited to government transactions. The exchange rate will continue to be aligned with fundamentals dictated by market supply and demand. Depending on market trends, we will examine the possibility of carrying out an in-depth reform, possibly including reforming the fixing price and repatriating a share of mining revenues through the banking system.

15. The central bank—which is independent by virtue of its charter—remains the guarantor of the stability of the financial system. In that capacity, it is committed to monitoring the impact of the entry of four new banks on the stability of the banking system. A competitive environment could intensify competition among banks in a shallow market with a limited customer base. Therefore, the CBM will continue to apply the prevailing regulations of the banking law in a neutral and uniform manner: any bank that fails to comply with the regulatory provisions will be sanctioned as provided for in the relevant regulations. The CBM will assess the repercussions for the banking system in the event of judicial liquidation, particularly as regards the confidence of depositors in the Mauritanian banking system.

16. The financial system strategy, prepared in collaboration with the World Bank, has been adopted and is being used to set the priorities and the timetable for implementation of the reforms aimed at deepening financial intermediation and remedying the weaknesses identified through technical assistance. Our actions will continue to focus on the following:

- *Continuous monitoring of risks.* Work will continue on computerization of the credit bureau and a database on default payments will be finalized by June 2013. International audits of commercial banks have shown that the level of outstanding nonperforming loans—classified by international standards—is high (39 percent of gross loans) and have identified shortcomings in the governance of certain banks as well as provisioning shortfalls. The situation was resolved for all banks in 2012, except for one (scheduled for 2013). Following this exercise, at end-2012, we drew up performance contracts to address banks' vulnerabilities. The contracts require banks to put in place rigorous internal audit procedures (such as a credit committee) and submit detailed, quarterly progress reports to the bank supervision authority on the implementation of their performance contracts. An agreement was also reached with banks on the need to remove long-standing, 100 percent provisioned overdue loans from their balance sheets by September 2013, thereby reducing the rate of nonperforming loans to less than 20 percent. In that context, we

will request IMF technical assistance to examine the feasibility of establishing a private collection agency to recover nonperforming loans.

- *Consumer credit.* The recent high growth of consumer credit—driven by intense competition among banks in an environment of low Treasury bill rates—requires close monitoring to preempt the excessive buildup of household debt. To that end, we intend to bring prudential banking standards for consumer loans in line with existing related employment legislation that caps capacity to repay at 30 percent of monthly salary. We will also look into the possibility, with the help of West AFRITAC, of introducing other prudential measures that could help keep households from becoming overly indebted.
- *Strengthening of banking regulations and supervision.* In collaboration with technical assistance from West AFRITAC, we are continuing to implement the regulatory provisions that have recently been revised, in particular new regulation on affiliates, net capital, risk allocation, and internal audit. We have stepped up our ex post controls of foreign exchange positions: the proposed penalties for noncompliance with requirements concerning foreign exchange positions are currently being applied to all transactions not properly justified. In the short run, the CBM will strengthen its bank supervision capacity by recruiting new inspectors, who will be trained by a visiting international expert.
- *Introduction of IFRS accounting and enhancement of transparency.* A timetable is currently being developed to implement the new IFRS standards for the CBM's financial statements, now that a bridge table has been prepared by an international firm. The CBM will continue to have its accounts, including its reserves, regularly published and audited by an international audit firm selected through a bidding process.

External debt and debt management

17. We are firmly committed to safeguarding external debt sustainability. Therefore, as a first resort, we will seek to mobilize concessional and domestic financing. However, given the limited scope of concessional resources, we have had to contract three nonconcessional loans (grant element less than 35 percent) for an electricity line (US\$75 million) and a hydraulic project (US\$118.3 million). To ensure better coordination of these loans and reduce the risk of contracting nonconcessional debt without adequate prior assessment, we will sign a Memorandum of Understanding for institutional coordination between the economy and finance ministries and the CBM in early June. The resulting commission is entrusted with analyzing the need for, and the fiscal impact of, all loans as well as for submitting plans for new loan commitments to Fund staff for prior consultation. This institutional coordination will strengthen the medium-term debt strategy adopted in September 2012.

18. We will actively continue our efforts to complete debt relief agreements with bilateral creditors. In this regard, we will continue our discussions with the Kuwaiti authorities to achieve bilateral debt treatment that is consistent with the terms of the HIPC Initiative so as to cancel the

passive debt. In the meantime, the Kuwaiti portion of the CBM's debt has been removed from its balance sheet as a counterpart for government claims on the CBM.

Structural Reforms

19. We attach great importance to structural reforms because of their positive effect on the business climate, growth, job creation, and poverty reduction.

Strengthening the social protection system and gradually eliminating subsidies

20. The new fuel price structure allowed us to bring domestic fuel prices in line with international prices in 2012. To ensure the credibility of adjustment under the new price mechanism and avoid politicizing its implementation, we intend to apply the formula systematically and automatically, both upward and downward. However, so as to avoid sharp adjustments, our intention is to prepare a new instruction establishing a cap of 3 percent in the smoothing formula to provide for particularly steep international price increases.

21. We have evaluated the EMEL program and have maintained the number of dedicated shops used in the solidarity program while simultaneously reducing the quantity and the number of products subsidized. We are mindful that the EMEL program is an emergency program and, as such, it would need to be replaced by a better-targeted social transfer program. In that context, this year, we plan to broaden the cash transfer and food programs by mobilizing the savings from the EMEL program. This strategy will also benefit from the vulnerability and poverty survey (domestically funded) conducted in Nouakchott, the World Food Program (WFP) surveys on food insecurity areas, and finalization of the population census. A more detailed vulnerability survey will shortly be rolled out to the rest of the country.

22. The social protection strategy developed with UNICEF was adopted by the Council of Ministers in early June 2013. This strategy will make it possible to further strengthen the coverage of the social protection system and better coordinate the actions necessary to protect the poor, vulnerable segments of society with the assistance of our technical and financial partners (TFPs). Moreover, recognizing the adverse effects of the drought on food security, we have started to implement a national food security strategy for 2015–30 and an associated national investment program.

Reform of government finances

Management of natural resources and mining taxation

23. The government has been discussing ways to further optimize its mining resources. We have, therefore, aligned the tax and customs regime established in agreements with new foreign investors with the new mining code currently in force, and have filled existing gaps in our tax code in order to tax capital gains resulting from transfers of ownership of assets in Mauritania. To avoid the accumulation of tax credits owed to mine operators, we have, in line with Fund staff recommendations, introduced a VAT self-assessment mechanism for services performed by foreign

companies. We have identified two or three inputs used by mining companies for which VAT credit reimbursement requests are almost always filed. We are still exploring the best solutions for the effective management of VAT credit reimbursements without resorting to shortcut solutions such as exempting mining companies or giving them the possibility of offsetting their VAT credits against their mining royalties payable. We will also continue to review and assess the prospects for renegotiating the tax incentives in the mining sector with investors who so wish, while at the same time seeking to ensure Mauritania's attractiveness for foreign investment.

24. The government seeks to ensure full transparency in the development and use of financial resources originating from the mining industry. We are, therefore, planning to establish a mechanism to improve the management of revenue from the extractive industries, so as to strengthen the protection of the Mauritanian economy against exogenous shocks. A technical assistance mission by Fund staff will help us set up this mechanism. On another note, we are engaging in our best efforts to restore our compliant status with the Extractive Industries Transparency Initiative (EITI), suspended because of procurement delays. We have also posted the tax and nontax revenue from the mining sector (SNIM, TASIAST, MCM) on the Ministry of Finance website, as is the practice in the oil and gas sectors.

Maintaining the upward trend in revenue collection

25. We are committed to continuing the significant improvement in tax collection. A Large Taxpayer Unit (LTU) with national jurisdiction, improved tax control, and widespread use of taxpayer identification numbers has enabled us to broaden the tax base and combat tax evasion. We intend to further improve our performance by adopting a genuine tax control strategy based on better programming, realistic objectives, improved procedures for dealing with outstanding tax liabilities, and strengthened oversight of the audit function. We also plan to increase the DGI's resources by increasing its operating budget and strengthening staff training. At the same time, we will continue to assess the DGI's performance indicators, including those established for each directorate based on their various functions (arrears, new taxpayers). To ensure a stable business environment and that taxpayers understand our collection procedures, we will conduct a communication campaign to explain the procedures, which will be applied to taxpayers across the board, while bringing on stream the appeal procedures, including formal creation of the joint committees.

26. We will accelerate the reform of customs to strengthen its role in revenue collection, trade facilitation, and combating fraud. In this regard, we have installed a system of selective inspection parameters with the new scanner and the new ASYCUDA system. Moreover, we intend to extend the contract with the inspection company (SGS) to end-2013, by which time we expect to be able to make both the valuation office and customs intelligence office operational. To strengthen performance-based management, we intend in the next few months to introduce performance indicators for customs staff. Synergies with the DGI have been reinforced through a memorandum of understanding, signed by the Directorate General of Customs (DGD), the DGI, the Directorate General of the Budget (DGB), and the Directorate General of Public Works (DGTP) to formalize exchanges of information on taxpayers, which became operational as of June 2013. A new draft

customs code will be submitted to the Council of Ministers in June 2013. Strengthening human resources capacity in the DGD remains a priority.

Managing public expenditure

27. The work recently launched to prepare—with technical assistance from the Fund—a new organic law by 2014 will make it possible to update the regulatory framework for public expenditure management. The new law provides an opportunity to strengthen the normative framework for certain government operations, including the use of immediate settlement requests, earmarked accounts, and emergency spending authorizations. In this regard, we intend to simplify the stages of the expenditure process using computerized controls, which should reduce recourse to exceptional procedures as use of the latter will be subject to clear and stricter conditions.

28. To solidify the government's financial situation, we have produced, as planned, a report on the government's pending claims at end-March 2012. The claims recognized by the government total nearly UM6 billion and have been publicly released. At the same time, joint government-supplier committees and a dedicated dispute resolution office have been established. We continue to adhere scrupulously to the plan to settle the recognized arrears during 2012–14. We have also established an inventory of government guarantees that have been called (UM6 billion), but not paid, and a repayment timetable will be developed by end-July 2013.

29. Further, the new public procurement code came into force in 2012. The relevant enabling decrees have all been adopted and implemented. The new code will be applied without exception to all contracts awarded by the public sector. Awarding contracts by private negotiation has been eliminated, only to be used under exceptional circumstances, which will continue to be overseen by the monitoring committee set up under the new code and will be made public.

Containing the wage bill and improving the quality of public services

30. We continue our efforts to control the wage bill and reform payroll management. To that effect, we continue to ban any recruitment that is not governed by the civil service regulations. We have harmonized the civil service database with the payroll database, thus creating a unified payroll management system using a single database. To take this work further and ensure tighter control on wage bill and family allowances, we have launched a project to bring all files for civil servants and their families fully up to date as well as to improve the monitoring of wage expenditures and our forecasting system (with assistance from West AFRITAC). In the short term, we are working to put in place an effective and permanent mechanism to check whether civil servants and other government employees actually do report to work, including onsite inspections and censuses of the largest ministries.

Improving the performance of public enterprises

31. To strengthen and improve the management of public enterprises, technical and financial audits of public enterprises have been undertaken, with support from the World Bank. Unfortunately, they have not been completed as planned under the program owing to delays in procurement procedures. As regards *Mauripost*, the final report has been submitted by the firm, including the organizational study. Regarding SNDE, SONIMEX, SOMAGAZ, contracts have been signed, and interim reports will be prepared by mid-June. We are aware that rebalancing the financial situation of these enterprises is essential, and we want to ensure that they are more effectively managed. We also intend to monitor more closely the wage bill of the public enterprises and institutions by carrying out a personnel census and producing a centralized database of staff in the Directorate General of Government Assets.

Reforming the electricity sector

32. The electricity sector is one of the government's major concerns. After recapitalizing SOMELEC and normalizing its financial relations with the government, and securing the new credit line from the Islamic Development Bank, the company significantly reduced its bank borrowing costs. A tariff study, which was completed in April 2013, will serve to design an action plan to revise electricity rates as needed. In the near term, we plan to increase the rates for large consumers whose rates have not yet been aligned with the low voltage rates. Furthermore, we will continue to support SOMELEC's efforts to recover arrears from other public entities. We will also engage a consulting firm to establish a performance contract between SOMELEC and the government.

Promoting the private sector and employment

33. We are determined to improve the business climate significantly and identify the obstacles to private-sector development so as to meet the challenge of creating jobs. With this in mind, we also intent on removing constraints on business, as identified in the World Bank's Doing Business survey, particularly with respect to streamlining tax procedures, business registration procedures, and the granting of construction permits. Notwithstanding some delays, we intend to make the one-stop shop operational by June 2013 with a view to simplifying procedures and shortening administrative timeframes. We will also ensure that the legal framework is applied in a uniform and consistent manner.

34. We continue to rely on a multipronged strategy to promote employment. Thus, we plan to introduce by September 2013 a national strategy for developing skills tailored to the needs of the private sector, which will strengthen our vocational training programs and help young graduates join the labor market. The new strategy for rural development (notably the development of new irrigation areas) will enhance investment in the agricultural sector. A new strategic study of the telecommunications sector will help identify and create new jobs in this industry. To gain a fuller understanding of the labor market situation, we have completed the nationwide survey on employment and we expect to have results by June 2013 that we will then process with the assistance of other technical and financial partners (ILO and UNDP).

Strengthening governance and combating poverty

35. Fighting corruption remains an absolute government priority. The national anticorruption strategy (SNLCC), adopted in 2010, is to be implemented through an action plan outlining the authorities' major actions to combat corruption. The strategy was presented to the National Assembly in the form of draft legislation at end-2012. Further, during the course of 2013, we intend to establish a technical commission to make recommendations to the government on streamlining its oversight structures.

36. The eradication of poverty is a strategic objective that we have prioritized in all our national policies. To ensure that the macroeconomic objectives are consistent with the poverty reduction strategy, we have revised our Poverty Reduction Strategy Paper (PRSP) and finalized the second evaluation report for 2011 and, in June 2013, we plan to hold national consultations to discuss the 2012 report. The creation of the new agency responsible for addressing poverty-related issues and the legacy of slavery will help coordinate monitoring of the implementation of the PRSP and social programs for the most vulnerable.

Improving economic statistics

37. We are mindful of the crucial role of reliable statistical information in the preparation, monitoring, and assessment of macroeconomic policies, PRSP implementation, and progress toward the MDGs. Accordingly, a number of surveys, such as the population and employment census, are in the final phase, while others, such as the comprehensive review of the consumer price index (CPI), the updating of the national directory of industrial firms, and the survey on household living conditions, have not yet started (the latter will draw on the results of the general population census). We have requested World Bank assistance to strengthen statistical capacity by pressing ahead with the organizational and institutional reform of the National Bureau of Statistics (ONS). Further, we also intend to embed statistical functions as part of the ministries' operations and set up ongoing training and development in this area.

Risks

38. In spite of the positive developments seen at the start of 2013, several risk factors weigh on our ability to achieve our objectives: (i) a downturn in external demand and export prices (iron ore, copper, and gold) and the volatility of import prices for wheat, rice, and oil; (ii) the low availability of concessional external financing; (iii) the impasse with respect to the fisheries partnership agreement with the European Union; and (iv) bottlenecks that could delay the implementation of our investment program. Nevertheless, the government stands ready to take appropriate measures to mitigate the effects of such risks, if they should materialize, in consultation with Fund staff.

CONCLUSIONS

39. As the principal objectives of the program set for December 2012 have been achieved (Tables 1 and 2), the government requests the completion of the Sixth Review of the program

supported by an arrangement under the ECF as well as the disbursement of SDR 11.04 million. The government is also requesting a waiver for nonobservance of the criterion on nonconcessional borrowing on the basis of the corrective measures taken (paragraph 17). The sixth program review should be completed by June 17, 2013.

40. For the remainder of 2013, we will remain committed to pursuing prudent policies conducive to preserving hard-won macroeconomic stability and maintaining our reform efforts to generate more inclusive growth. Given our interest in continued close collaboration with Fund staff, we have agreed with Fund staff on indicative targets for 2013, and stand ready to take any further measures that may become necessary to that end.

Sincerely yours,

/s/

Sid' Ahmed Ould Raiss
Governor
Central Bank of Mauritania

/s/

Thiam Diombar
Minister of Finance

/s/

Sidi Ould Tah
Minister of Economic Affairs and Development

Technical Memorandum of Understanding

1. This memorandum sets out the definitions of the quantitative targets for the period January 1, 2010–December 31, 2012, which are set forth in the Letter of Intent (LOI) and reported in Table 1. It also establishes the content and frequency of the data to be provided to IMF staff for monitoring the program. For the purpose of this memorandum, the government is defined to include only the central government.
2. The quantitative targets are defined as ceilings or floors for cumulative changes between the reference periods described in Table 1 and the end of the month indicated.

DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

3. Net international reserves (NIR) of the Central Bank of Mauritania (CBM) are defined as the difference between the reserve assets of the CBM (i.e., the external assets that are readily available to, and controlled by, the CBM, as per the 5th edition of the IMF Balance of Payments Manual) minus the foreign exchange liabilities of the CBM to residents and nonresidents. The gold holdings will be evaluated at the gold price in effect on November 30, 2009 (\$1,127 per oz.) and the U.S. dollar value of reserves assets (other than gold) and foreign exchange liabilities will be calculated using program exchange rates, namely, the November 30, 2009 exchange rates between the U.S. dollar and the ouguiya (UM/\$262.0), the SDR (\$/SDR 1.61), the euro (Euro/\$1.49), and other nondollar currencies as published in the IFS.
4. Net domestic assets (NDA) of the CBM are defined as reserve money minus net foreign assets (NFA) of the CBM. Reserve money comprises: (a) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (b) deposits of commercial banks at the CBM. NFA are defined as gross foreign assets of the CBM, including the external assets not included in the reserve assets, minus all foreign liabilities of the CBM (i.e., $NDA = \text{Reserve Money} - NFA$, based on the CBM balance sheet). NFA will be measured at the program exchange rates as described in Paragraph 3.
5. Government balance is defined for program monitoring purposes as non-oil central government basic balance excluding grants, which is equal to non-oil government revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest due on external debt and seven-day Treasury Bills issued for liquidity management). The government balance will be measured based on Treasury data. Revenue are defined in accordance with the *Government Financial Statistics Manual* (GFSM 2001), excluding the revenue related to oil- and other hydrocarbon-related activities and transfers from the National Hydrocarbon Revenue Fund (FNRH) to the budget. They will be monitored on a cash basis (revenue recorded by Treasury). Expenditure will be monitored on the basis of payment orders, including the interest on domestic debt (paid by the Treasury or automatically debited from the treasury account

at the CBM, including but not limited to discounts on treasury bills held by banks and nonbanks and interest charges on the consolidated debt of the government vis-à-vis the CBM).

6. The new medium- and long-term nonconcessional external debt contracted or guaranteed by the government, the CBM, and State-Owned Enterprises (excluding SNIM) is defined as debt to nonresidents, with maturities of one year or longer, contracted or guaranteed by the government or the CBM with a grant element (defined as 1 minus the NPV-to-face value ratio, and estimated on the basis of the currency- and maturity-specific discount rates reported by the OECD (commercial interest reference rates) of less than 35 percent. This definition applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, attached to IMF Executive Board Decision No. 6230-(79/140), adopted August 3, 1979, as amended, but also to commitments contracted or guaranteed for which value has not been received. The national industrial and mining company (SNIM) is excluded from the ceiling on medium- and long-term nonconcessional external debt because the firm does not pose fiscal risks and can borrow without government guarantee.

7. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the OECD. For debt with a maturity of at least 15 years, the 10-year average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the 10-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

8. The short-term nonconcessional debt is defined as the stock of debt with nonresidents, with original maturity of less than one year, contracted or guaranteed by the government or the CBM with a grant element (defined as 1 minus the NPV-to-face value ratio, and estimated on the basis of the currency- and maturity-specific discount rates reported by the OECD (commercial interest reference rates) of less than 35 percent. This definition applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, attached to IMF Executive Board Decision No. 6230-(79/140), adopted August 3, 1979, as amended, but also to commitments contracted or guaranteed for which value has not been received. This definition excludes foreign currency deposits with the CBM. It also excludes normal import-related credits.

9. External payments arrears are defined as overdue payments (principal or interest) on the external debt contracted or guaranteed by the government or the CBM after the expiration of the applicable grace period.
10. Treasury float (outstanding payments at the Treasury) is defined as the outstanding stock of payment orders registered at the Treasury and not yet executed by the Treasury. Once the RACHAD payment module is implemented, the float will be defined as the payment orders validated by the RACHAD payment module and not yet executed by the Treasury.
11. Poverty reduction expenditures will be estimated on the basis of the public expenditure functional classification based on the recommendations of the January 2006 technical assistance mission report of the IMF Fiscal Affairs Department ("*Les réformes en cours de la gestion budgétaire et financière*," March 2006). This estimate will only take into account domestically financed expenditures.

B. Structural Benchmarks

12. Structural benchmarks for the 2011 tranche of the program were:
- Complete by end-December 2011 the issuance of new taxpayer identification numbers. This benchmark aims at building a centralized taxpayers database and providing each taxpayer with a single identification number.
 - Fully implementation and use ASYCUDA++ in major customs offices by end-December 2011.
 - Introduction of a Treasury Single Account by end-December 2011.
 - Design by end-December 2011 an overall external debt management strategy (**deferred to end-September 2012**).
 - Increase by end-December 2011 bank minimum capital to UM5 billion (US\$18 million).
 - Complete by end-December 2011 the study on the financial situation of major public enterprises. This will be based on the financial audit of the following companies: SOMELEC, SOMAGAZ, SNDE, MAURIPOST and SONIMEX (**deferred to end-December 2012**).
 - Complete by end-December 2011 a government arrears repayment plan for SOMELEC.
 - Assess effectiveness of the dedicated shops used in the solidarity program by end-December 2011.
13. Structural benchmarks for the 2012 tranche of the program are:
- Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears by end-March 2012.

- Audit the CBM's NIR and NDA data as of end-December 2011, end-June 2012, and end-December 2012 by end-March 2012, end-September 2012, and end-March 2013, respectively.
- Complete by end-September 2012 (original test date was March 2012), the report quantifying the differences between the CBM's 2010 financial statements under national accounting principles with those under IFRS, prepared with the assistance of an international audit firm.
- Review the rules on connected lending practices and calculate the impact on banks of tightening the definition of connected parties by end-March 2012.
- Sign by end-June 2012 a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.
- Conduct by end-April 2012, with assistance from the World Food Program, a poverty and vulnerability survey.
- Publish on the CBM's website the audited financial statements together with audit opinion for the year ended on December 31, 2011, by end-June 2012.
- Fix the modalities for the repayment of government claims to the CBM through a convention that will be presented for adoption to the Council of Ministers (originally structural benchmark for end-December 2012, set as a prior action for completion of the sixth review).
- Update the payroll file with actual results from the census of employees by end-June 2012.
- Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study by end-July 2012 (deferred to end-December 2012).

PROGRAM ADJUSTORS

14. NIR and NDA targets are derived based on the projected amounts of the FNRH contribution to the budget and of the net international assistance. The latter is defined as the difference between (a) the sum of cumulative disbursements of official loans and grants (budget support; excluding HIPC assistance and project-related loans and grants) in foreign currency and of the impact of any additional debt relief obtained after June 30, 2006; and (b) the total amount of external cash debt service payments (including interest on foreign liabilities of the CBM).

15. In case net international assistance or the contribution of the FNRH to the budget falls short of the amounts projected in Table 1, the floor for NIR will be adjusted downward and the ceiling on NDA will be adjusted upward by an amount equivalent to the difference between the actual levels and the projected levels. In the case of the NDA ceiling, this amount will be converted into ouguiya at the program exchange rates. The cumulative downward adjustments to NIR will be limited to \$35 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of \$35 million at program exchange rates. In case the contribution of the FNRH to the budget exceeds

the amounts projected in Table 1, the floor for NIR will be adjusted upward and the ceiling on NDA will be adjusted downward by an amount equivalent to the difference between the actual levels and the projected levels.

16. The floor on the basic non-oil deficit will be adjusted upward—that is, the maximum deficit will be increased for any higher-than-programmed disbursement of budgetary grants.

REPORTING REQUIREMENTS

17. To allow for the monitoring of economic developments and program performance, the Mauritanian authorities will provide the IMF with the following specific information.

A. Central Bank of Mauritania (CBM)

- The monthly balance sheet of the CBM, and monthly data on (a) CBM's gross foreign exchange reserves (at program exchange rates and at actual official exchange rates); and (b) the FNRH (National Hydrocarbon Revenue Fund) balances, as well as receipts and outlays (transfers to the Treasury account) and their timing, within two (2) weeks following the end of each month.
- The monthly monetary survey, the aggregated balance sheet of the commercial banks, and monthly data on foreign exchange positions of individual commercial banks by currency and on a consolidated basis at actual official exchange rates within three (3) weeks from the end of each month.
- Data on Treasury bill auctions and the new stock outstanding within a week following each auction.
- Monthly data on the level of liabilities of each public enterprise to the banking sector, within one month from the end of each month.
- Monthly external debt data within 30 days after the end of each month, following the monthly meeting of the technical debt committee, the minutes of which will be attached. This information shall include:
 - The external debt data file: service of the external debt of the CBM, government, and SNIM, including changes in arrears and rescheduling operations, debt service due and paid in cash, HIPC relief granted by multilateral and bilateral creditors and the amount of HIPC relief provided to Mauritania in the form of grants.
 - The monthly list of medium- and long-term public or publicly-guaranteed external loans contracted during each month, identifying, for each loan, the creditor, the borrower, the amount and currency, the maturity and grace period, interest rate arrangements, and commissions. The list must also include any loans currently being negotiated.

- Quarterly complete balance of payments and data on the outstanding stock of external debt (by creditor, by debtor, and by currency) within 30 days following the end of each quarter.
- Bimonthly table projecting foreign exchange flows and flows of monetary liquidity within one week.

B. Ministry of Finance

- The Treasury's monthly cash and liquidity management plan, updated by the fiscal and monetary policy coordination committee, will be reported on a monthly basis along with the minutes of the weekly meetings.
- Monthly Treasury data on budget operations, revenues (including transfers from the FNRH), expenditures, and financing items, data on operations of special accounts, data on the execution of the domestically-financed part of the investment budget (including the data on capital spending, spending on goods and services, and salaries included in the investment budget), and Customs and Tax Departments monthly revenue collection reports (*Rapports mensuels des recettes*) within two (2) weeks following the end of each month.
- Monthly data reconciled between the Treasury and the Budget Directorate on the execution of expenditure on wages, including the breakdown of civil service base pay and back pay, wages for which payment has been authorized or is pending authorization for diplomatic missions, the military, the police, the national guard, and public institutions.
- Monthly data on the execution of the foreign-financed part of the investment budget, based on the summary presentation included in the Consolidated Investment Budget document (*Budget consolidé d'investissement*) and data on foreign grants and loans received by government, its agencies, and by public enterprises by donor or creditor and by currency of disbursement within two (2) weeks following the end of each month.
- Monthly reports on oil- and other hydrocarbon-related production and financial flows, including data on oil sales and repartition of oil revenue among all partners involved in oil production within one (1) month from the end of each month.
- Annual balance sheets audited or certified by a statutory auditor of the accounts of public enterprises and autonomous public institutions.
- Quarterly data on the operations of oil sector enterprises and on those in the mining sector.

C. National Statistical Office

- Monthly consumer price index within two (2) weeks following the end of each month.
- Quarterly industrial production index within one (1) month of the end of each quarter.

- Quarterly note on economic activity and international trade.

D. Technical Monitoring Committee

18. Monthly report on program execution three (3) weeks at the latest after the expiration of the month.
19. All data will be transmitted electronically. Any revisions to previously reported data accompanied by an explanatory note shall be promptly communicated to Fund staff.

CENTRAL GOVERNMENT OPERATIONS TABLE

20. The Treasury will prepare a monthly budget execution report in the format of a Central Government Operations Table (TOFE). In preparing this table, the following definitions shall be used:

- **Grants** are defined as a sum of foreign project grants (grants used in the execution of the foreign-financed investment projects included in the central government and the EPA parts of the consolidated investment budget and (parties BE et BA)); and foreign program grants for budget support, including the multilateral HIPC debt relief on the government external debt budget and HIPC debt relief on the external debt of CBM and SNIM (including the part of the AFD/BFD debt relief on Cologne terms).
- **Domestic bank financing** of the government deficit is defined as a change in the net credit to the government from the banking system, defined as claims on the government minus deposits of the government with the banking system (including the HIPC account but excluding the deposits of public establishments and other administrative units (EPA) with the CBM).
- **Domestic nonbank financing** of the government deficit is defined as a net change in holdings of Treasury bills by nonbanks.
- **Domestic arrears** are defined as a net change in the Treasury float and in the stock of domestic claims (beyond a period of three months) on government acknowledged by the Ministry of Finance (including but not limited to accumulated payment arrears to public enterprises (utilities), international organizations, procurement contracts, and court orders).
- **External financing** is defined as the sum of the net outflows from (i.e., the opposite of the change in the balance of the FNRH's offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of arrears and passive debts as defined in Paragraph 9; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

Table 1. Mauritania: Quantitative Benchmarks, Performance Criteria, and Indicative Targets for 2010-13

(Cumulative year-to-date changes) 1/

	End-Dec. 2010			End-Dec. 2011			End-Dec. 2012			End-Mar. 2013	End-Jun. 2013	End-Sep. 2013	End-Dec. 2013
	Performance criteria	Performance criteria adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Actual	Indicative target	Indicative target	Indicative target
Quantitative targets													
Net international reserves of the BCM (floor); in million of U.S. dollars 2/	34.4	53.2	68.6	82.9	47.9	201.4	292.3	292.3	435.0	-66.1	-95.6	-46.6	-60.1
Net domestic assets of the BCM (ceiling); in billions of UM 3/	20.4	15.5	-11.4	-7.5	1.7	-1.9	-62.4	-62.4	-91.2	8.7	36.9	23.1	16.7
Basic non-oil balance; in billions of UM	-28.5	-28.5	-23.0	-17.0	-17.0	-2.4	-23.3	-22.1	4.4	10.4	15.0	11.2	1.1
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling) 4/	0	0	105.0	0.0	0.0	105.0	193.3	0.0	0.0	193.3	0.0	0.0	0.0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New external arrears on non reschedulable debt (continuous)	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Poverty-related expenditures; in billions of UM (indicative target)	106.7	89.9	106.5	107.9	135.6	139.5	22.3	66.8	116.3	161.2			
Adjustors (in millions of U.S. dollars)													
Net international assistance	35.4	34.0	32.8	-6.0	202.4	216.6	10.6	-8.4	3.0	-24.5			
Cumulative disbursements of official loans and grants in foreign	76.6	34.0	92.6	58.6	279.5	298.0	23.8	38.8	58.5	67.3			
Impact of any additional debt relief	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Cumulative amounts of external cash debt service payments	-41.2	0.0	-59.8	-64.6	-77.1	-81.4	-13.3	-47.2	-55.6	-91.8			
FNRH contribution to the budget	47.2	110.1	34.8	34.7	64.4	58.3	33.7	33.7	42.9	42.9			
Cumulative disbursements of official grants in foreign currency	46.9	33.8	24.6	3.6	219.9	215.4	23.8	38.8	58.5	67.3			
Memorandum item: UM/US\$ exchange rate (program)	262.0		262.0		262.0		262.0		262.0	262.0	262.0	262.0	262.0

1/ For definitions, see Technical Memorandum of Understanding. Quantitative targets correspond to cumulative changes from the beginning of the relevant year.

2/ Adjusted upward by FNRH contribution to the budget and downward by net international assistance and FNRH contribution to the budget (see TMU).

3/ Adjusted upward by net international assistance and FNRH (see TMU) contribution to the budget.

4/ The increase in the ceiling in 2011 accommodates the financing of a hybrid power plant. Due to a delayed parliamentary approval, this performance criterion was technically missed in 2012. Three additional nonconcessional loans were contracted in the beginning of 2013 (text table).

Table 2. Mauritania: Status of Implementation of Prior Actions and Structural Benchmarks, 2012–13

Item	Measure	Date (end-of-period)	Outcome	Objective	Comment
Prior Actions					
	Agree on the modalities of repayment of the loans to the government that the CBM carries on its balance sheet. The agreement will be presented for adoption to the Council of Ministers.		Met	Strengthen the financial health of the CBM to allow for a more active conduct of monetary policy.	The Protocol of agreement between the Ministry of Finance and the central bank was signed on May 2.
Structural Benchmarks					
Expenditure policy					
1	Update the payroll file with actual results from the census of employees.	June 2012	Met	Control public wage bill.	The payroll database is now consistent with the civil service database, resulting in a wage bill based on a unique data set.
2	Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study.	December 2012	Not met	Phase out poorly targeted subsidies.	Rephased after not met in July 2012. The study was finished in April, but the tariff increase for large consumers has not yet been implemented.
Public financial management					
3	Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears.	March 2012	Met		A report on domestic arrears—and the action plan to settle these arrears—has been prepared.
4	Design an overall external debt management strategy.	September 2012	Met	Safeguard fiscal and external sustainability.	Rephased after not met in December 2011. The technical committee in charge of public debt management has finalized and adopted an official medium-term debt management strategy, which fully incorporates World Bank and Fund staff's recommendations.
5	Complete a study on the financial situation of the main public enterprises, following financial audits of the following enterprises: SOMELEC, SOMAGAZ, SNDE, MAURIPOST, and SONIMEX.	December 2012	Not met	Ensure efficient use of public resources.	Ongoing process. Rephased after not met in December 2011.
Central bank transparency					
6	Complete the report on the quantification of differences between the CBM's 2010 financial statements prepared under national accounting principles and under IFRS, prepared with the assistance of an international audit firm.	September 2012	Met with delay	Enhance central bank transparency.	Rephased after not met in March 2012. The auditors have completed the quantification and submitted a preliminary report, together with detailed background information.
7	Audit the CBM's NIR and NDA data as of: end-December 2011.	March 2012	Met		The audit has been completed, and the authorities have submitted the final auditor report to the Fund.
	end-June 2012.	September 2012	Met		The audit has been completed, and the authorities have submitted the final auditor report to the Fund.
	end-December 2012.	March 2013	Met		The audit has been completed, and the authorities have submitted the final auditor report to the Fund.
8	The CBM should publish on its website audited financial statements together with audit opinion for the year ended on December 31, 2011.	June 2012	Met	Enhance central bank transparency.	
9	Sign a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.	June 2012	Met	Improve monetary policy effectiveness.	The memorandum was signed in June 2012, and the authorities started issuing the new instrument in November.
Financial sector					
10	Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties.	March 2012	Met		The regulation on connected lending was approved in early March 2012 by the Monetary Policy Council and signed by the governor on March 26, 2012. An assessment of the impact of the new instruction was prepared with help from Fund TA.
Social Policy					
11	Conduct, with the support of the World Food Program, a vulnerability and poverty survey.	April 2012	Met		As agreed at the time of the third review, the poverty survey will be conducted in two phases. The Nouakchott phase was completed in April 2012, while the survey for the rest of the country has been delayed.