

Islamic Republic of Mauritania: Report on the Observance of Standards and Codes—Fiscal Transparency Module

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ISLAMIC REPUBLIC OF MAURITANIA

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module**

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December 4, 2002

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in the Islamic Republic of Mauritania in relation to the rules defined in the IMF *Code of Good Practices on Fiscal Transparency*. It is based on the responses to the questionnaire on the Code and additional information provided by the Mauritanian authorities.

In the past few years, Mauritania has made considerable efforts to improve fiscal transparency. The withdrawal of the government from commercial activities and the banking sector has helped to clarify the role of government in the economy and reduced quasi-fiscal activities. The private sector has a new investment code and is benefiting from simplification of the tax system. The legislative framework underlying the budget is complete. A new budgetary nomenclature was adopted in 1999, although it is not fully applied. Sectoral medium-term expenditure frameworks have been prepared. An external audit agency was created in 1993 and its capacity has been strengthened.

Despite considerable progress, there remain several areas where Mauritania has not yet achieved a high degree of transparency. In general, there is a need for effective and rigorous implementation of all legal provisions. Despite clear provisions of the 1991 Constitution, no annual government accounts have been produced since 1967. The greatest weakness is in the accounting system, which is currently incapable of producing reliable and comprehensive information on budget execution. In these circumstances, the availability of public information on government finances is very limited. Moreover, the external Audit Office is not able to perform its basic duties, namely to verify the accounts of central and local governments and to prepare an annual report on budget execution and management.

The Mauritanian authorities are determined to continue to improve fiscal transparency. The top priority action proposed in the IMF staff commentary is to ensure that the government accounting system is fully functioning and capable of producing reliable, comprehensive and timely annual government accounts and monthly fiscal reports. This will require full integration of the budget and accounting information systems. Once rehabilitation of the accounting system occurs, it will be important to provide the public with more complete and timely fiscal information. It will also be essential that the external Audit Office's annual reports are prepared within the statutory time period and presented to Parliament in their entirety. In addition, parliamentary budget committees need to be strengthened and the effectiveness of internal audit should be enhanced, particularly through reinvigorating the Financial Inspectorate (*Inspection des Finances*). Finally, certain aspects of the budget preparation process need to be improved.

Contents

	Page
I. Introduction	4
II. Description of Practice.....	4
A. Clarity of Roles and Responsibilities.....	4
B. Public Availability of Information.....	8
C. Open Budget Preparation, Execution, and Reporting.....	9
D. Assurances of Integrity	12
III. IMF Staff Commentary.....	14

ABBREVIATIONS AND ACRONYMS

BCI	<i>Budget Consolidé d'Investissement</i> [Consolidated Investment Budget]
BCM	Central Bank of Mauritania
CCP	<i>Comptes chèques postaux</i> [postal checking accounts]
CDHLPI	<i>Commissariat aux Droits de l'Homme, à la Lutte contre la Pauvreté, et à l'Insertion</i> [Commissariat for Human Rights, Poverty Reduction, and Employment]
CNSS	<i>Caisse Nationale de Sécurité Sociale</i> [National Social Security Fund]
CSA	<i>Commissariat à la Sécurité Alimentaire</i> [Food Security Commission]
DBC	<i>Direction du Budget et des Comptes</i> [Budget Directorate]
DTCP	<i>Direction du Trésor et de la Comptabilité Publique</i> [Directorate of the Treasury and Government Accounting]
EPA	<i>Etablissement public administratif</i> [Administrative Public Entity]
EPIC	<i>Etablissement public à caractère industriel et commercial</i> [Industrial and Commercial Public Entity]
GDDS	General Data Dissemination System
GFS	Government Finance Statistics
IGF	<i>Inspection Générale des Finances</i> [Financial Inspectorate of the MINFI]
MAED	<i>Ministère des Affaires Economiques et du Développement</i> [Ministry for Economic Affairs and Development]
MINFI	<i>Ministère des Finances</i> [Ministry of Finance]
MTEF	Medium-Term Expenditure Framework
ONS	<i>Office National de la Statistique</i> [National Statistics Office]
PIP	Public Investment Program
PRSP	Poverty Reduction Strategy Paper
ROSC	Report on the Observance of Standards and Codes
SNIM	<i>Société Nationale Industrielle et Minière</i> [National Mining Industry Company]
TOFE	<i>Tableau des Opérations Financières de l'Etat</i> [Monthly fiscal report]

Islamic Republic of Mauritania: Basic Data

Type of government: Unitarian

Fiscal year: January 1st to December 31st

Population (2001): 2.6 million

GDP (2001): \$966 million

Total debt of government, as percent of GDP (2000): 190 percent

I. INTRODUCTION¹

1. This report provides an assessment of fiscal transparency practices in the Islamic Republic of Mauritania against the requirements of the IMF *Code of Good Practices on Fiscal Transparency*. (See <http://www.imf.org/external/np/fad/trans/>.) The assessment has two parts. The first part is a description of fiscal transparency practice, prepared by the IMF staff on the basis of responses of the authorities to the fiscal transparency questionnaire and on additional information provided by the authorities or from public sources. The second part is an IMF staff commentary on fiscal transparency in the Islamic Republic of Mauritania.

II. DESCRIPTION OF PRACTICE

A. Clarity of Roles and Responsibilities

2. **Government and public entities are clearly defined in legislation.** The Constitution of July 20, 1991 defines the broad competencies of government (see the government website at <http://www.mauritania.mr>). Ordinance 90-09 of April 4, 1990 defines the regulations for all public entities, including public enterprises. Decree 90-154 of October 22, 1990 distinguishes administrative public entities (EPA) and industrial or commercial public entities (EPIC). All EPAs should be included in general government, as defined by the IMF's Government Financial Statistics Manual.² The national social security fund (CNSS), which is an important EPIC, should also be included in general government. By contrast, the other EPICs, which are involved in industrial and commercial activities, enjoy financial autonomy, and are subject to private sector accounting regulations, should be excluded from general government.

3. **The government's budget includes most, but not all, central government activities.** The budgets of the 216 *communes* are excluded. General government includes the central government, the above-mentioned public entities, and local governments (216 *communes*). In 2002, the government's budget covered 17 ministries, 10 constitutional or governance institutions,³ 5 secretaries of state and 2 commissions. The CNSS budget, although it is large, is not submitted to Parliament. The EPAs also have separate budgets; the government budget only records central government transfers to these organizations. Nonetheless, the EPAs' revenues and expenditures are annexed to the consolidated investment budget (BCI). Finally, the central government budget shows only transfers to lower levels of government.

4. **The responsibilities of the central government and those of local governments are clearly defined.** Ordinance 87-289 of October 20, 1987, which sets forth the

¹ The first discussions on fiscal transparency were held at Nouakchott in May 2002 by Mrs. Gisèle Suire; they were completed by an IMF staff mission in August 2002, led by Mr. Ian Lienert, and accompanied by Mr. Lucien Gaillard.

² Examples include: University of Nouakchott, the National Statistics Office (ONS), and Mauritania Television.

³ Namely, the presidency, the prime minister, the National Assembly, the Senate, the High Islamic Council, the Constitutional Council, the Supreme Court, the Audit Office, the *Médiation de la République* [Ombudsman's office], and the *Secrétariat Général du Gouvernement*.

organization of local government, defines the taxation responsibilities, expenditure assignments and provisions for borrowing of the communes. Local government is currently confined to 216 communes; however, a proposal to create regional governments was under study in mid-2002.⁴ The 216 communes are responsible for the provision of public services which do not, by their nature or importance, fall under the authority of the state. Expenditure assignments include local roads; construction, maintenance and equipment of buildings for basic education and healthcare; and urban transport. For their own revenues, communes levy land taxes, property taxes, and collect licenses. These are supplemented by central government transfers. Communes enjoy financial autonomy: they prepare their own budgets, which are approved by municipal councils. Budgets of communes are submitted to the oversight authorities, namely the Ministries of Interior and of Finance, for information. Communes may borrow, but only after approval is obtained from the two oversight ministries.

5. **Government activities are clearly distinguished from those of nonfinancial public enterprises.** Nonfinancial public enterprises includes all EPICs except the CNSS, “national companies” (*entreprises nationales*), and public corporations for which the government holds at least 50 percent. Ordinance 90-09 of April 1990 governs the relationship of public enterprises (*sociétés à capitaux publics*) with the state. The standard regulations of public companies are defined by Decree 91-072 of April 20, 1991. The National Mining Industry Company (SNIM), Mauritania’s most important company, has its own regulations.

6. **Recent privatizations are taking place satisfactorily.** There is no general legal framework for privatization—a separate law is prepared for each privatization. The privatization process brought about a substantial reduction in the government’s portfolio of holdings. In 1990 the government held interests in 32 public enterprises, but by the middle of 2002 this figure had fallen to 16.⁵ Certain monopolistic activities carried out by public enterprises in the areas of transport, insurance, and the importation of food products have now disappeared. The State’s direct and indirect equity holdings in public enterprises is known, but not published. The most recent privatizations have abided by the principles of transparency, such as open invitations to bid, notifications, and scrutiny of bid documents.

7. **The Central Bank of Mauritania (BCM) is independent of the Ministry of Finance (MINFI).** According to the statutes of the BCM, which are set forth in Law 73-118 of May 30, 1973, the governor and the deputy governor as well as four to six members of the BCM’s Board of Governors are appointed by decree, without approval of Parliament. Although the governor is appointed for a period of four years (Article 8), he has, in certain circumstances, been removed from his position before the end of his term of office. Article 19 specifies that the board members perform their duties totally independently and may not be given instructions. The BCM is authorized to grant advances to the central and local governments; the total overdraft limit is set at 15 percent of tax revenues, except in exceptional circumstances. In 2002, since the government had large deposits, it was not using

⁴ At present, the central government is represented in 13 regions (wilayas), which are administrated by a governor (wali) appointed by presidential decree, under the supervision of the Interior Ministry. The Nouakchott urban area has been established as an urban community.

⁵ Comprised of 12 public corporations with majority holdings by the State and 4 national companies. The 10 EPICs are excluded.

this facility at all. The BCM Act specifies the principles for transferring BCM net profits to the Treasury: these are defined to be gross profits less amounts for statutory reserves, other reserves, and other allocations deemed necessary by the Board of Governors. Joint circulars of the BCM and the MINFI govern other financial relationships between the two institutions (for example for the issuance of Treasury bills for monetary policy purposes or the management of the Treasury's current account held at the BCM).

8. **A process of divestiture from the banking sector took place during the 1990s.** All institutions performing banking or financial activities are subject to the provisions of Law 95-011 regulating the banking sector. After occupying a dominant position in this sector in 1990, by 2002 the government only held interest in two commercial banks.⁶ The government does not intervene in day to day management of these banks, which determine interest rates according to market conditions. In 2001, the balance sheet of Chinguitti Bank was in a weak condition, posing a implicit liability for government; however, it appears that this reflects management problems rather than quasi-fiscal activities such as directed credits at below-market interest rates. Apart from its limited ownership of commercial banks, the government has full ownership of Mauripost, which carries out banking activities via postal checking accounts and savings deposit accounts.

9. **Since 1997, the government has endeavored to simplify the regulatory framework of the nonbank private sector.** Apart from the tax code (see paragraph 13 below) this sector is governed primarily by the commercial code, the investment code, the labor code, the code of obligations and contracts, and collective bargaining agreements. In 1997, a single processing window dealing with the formalities involved in setting up new enterprises was created to help entrepreneurs with administrative procedures. This was followed up by the creation of a Directorate for the Promotion of Private Investment in the Ministry for Economic Affairs and Development (MAED) in 1998. A new investment code was adopted by Law 2002-03 of January 20, 2002; it provides incentives for exporters through free trade zones.⁷ The labor code, dating from 1975, was under revision in mid-2002.

10. **The roles of the executive, legislative and judicial branches are clearly defined in the 1991 Constitution.** The President of the Republic is the Head of State and exercises executive power. He appoints the Prime Minister and Cabinet Ministers, and he can delegate some of his powers to them by decree. The Constitution specifies clearly the relationship between the legislative and the executive branches. In particular, it specifies that draft budget laws are to be submitted to Parliament, which approves annual budgets and budget execution laws (*loi de règlement*). The timetable for presenting the budget laws is specified in Article 68, which also refers to the external Audit Office, which is under the judicial branch (see also paragraph 37).

11. **Fiscal management is governed by a legal framework oriented toward administrative control.** The provisions of the 1991 Constitution are supplemented by the Organic Budget Law 78-011 of January 19, 1978, which provides further details governing

⁶ The government has a 50 percent share in the Chinguetti Bank and its holding in the Housing Bank (*Banque El Amane pour le Développement de l'Habitat*) is a minority one.

⁷ All tax incentives were transferred from the Investment Code to the Tax Code.

the budget process. This law and the accounting regulations (*Règlement Général de la Comptabilité Publique*) define the various participants' roles and responsibilities with regard to accounting for revenues and expenditures. The legal and regulatory system is quite complex and certain aspects of it could benefit from updating.

12. **Mechanisms for the coordination and management of budget activities are sufficiently well defined but difficult to implement.** Two budgets for expenditures are prepared: the Ministry of Finance (MINFI) prepares the annual budget for recurrent expenditures and the MAED prepares by the annual consolidated investment budget (BCI). Not all investment projects are included in the BCI because, at the time it is prepared, not all data are available; various financing agreements are signed with donors only after its adoption. The Organic Budget Law states that grants and loans drawn down in the course of budget execution and not provided for in the budget are entered as revenues by decree; budget appropriations corresponding to these resources must be approved at the next parliamentary session. Concerning poverty-reducing actions, Parliament adopted a framework law (*Loi d'orientation relative à la lutte contre la pauvreté*) on July 19, 2000.⁸ Under present circumstances, it is not possible to monitor all poverty-reducing expenditures in detail, as some subvented agencies (notably the two commissariats—the CDHLPI and the CSA) have accounting arrangements that are not fully integrated with treasury accounts. However, a large proportion of the spending of the CDHLPI is monitored in a quarterly report.

13. **The legislative basis for taxation, regulation and administrative procedures is clearly defined** by the Tax code, the Customs code and the Investment code. Special tax provisions apply for oil exploration and production. The value-added tax (VAT), which replaced a complex turnover tax system, was adopted in 1995. Since then, the government has modified the tax system and customs régime;⁹ as a result the tax systems are more transparent. These include: subjecting nearly all public enterprises to the same tax provisions as private sector firms; not renewing ad hoc tax concessions for specific enterprises when they expired; simplifying the external customs tariff structure; and subjecting the SNIM to regular VAT for its imports.¹⁰ For most taxes, the potential to negotiate amounts to be paid in taxes has been reduced. It is mainly at the level of small business subject to flat rate taxes, tax rebates and in cases of tax dispute, that the taxpayer has opportunities to negotiate taxes. The Tax and Custom Departments have issued guides to explain taxpayer rights and obligations. An audiovisual campaign on VAT reimbursements was conducted in 2001.

14. **Although there is no formal code of conduct guaranteeing that taxation is applied in a uniform and non-discriminatory manner, regulations exist in this area of concern.** However, some potential taxpayers may evade taxation, either because they are not aware of their obligations or because of inadequate supervision by the revenue-collecting agencies. Although not specifically protected by law, the tax and customs administrations are free from higher-level interference in their day to day activities. Nonetheless, the revenue

⁸ For a summary, see Box 1 of the March 2002 report on PRSP implementation.

⁹ For details, see Box in section 3 of the January 2001 PRSP.

¹⁰ With the exception of capital equipment used exclusively in mining activities.

collecting agencies are not obliged to provide annual reports to the legislature on their activities.

15. **The civil service statutes define the rights and obligations of civil servants.** These statutes were adopted as Law 93-09 on January 18, 1993; they also apply to government contractual employees, including those of the EPAs and EPICs. This law contains provisions relating to salary structures, career development, and discipline. Law 68-066 of March 4, 1968, as amended by law 69-410 of November 15, 1969, imposes penalties for misappropriation of government resources committed by State employees during the exercise of their duties.

B. Public Availability of Information

16. **The objectives for the budget are not clearly stated in the budget documents.** Budget laws (*loi de finances*) are published in the Official Gazette. Prior to this, three documents are presented to Parliament: (1) the main budget for the year including an explanation of its rationale, the draft *loi de finances*, and the detailed current expenditures; (2) the BCI, which includes the investment budget (i.e., projects financed by domestic resources), as well as all central government externally-financed projects for which information is available at the time of budget preparation. The BCI also includes an appendix summarizing the budgets of the EPAs; and (3) explanatory appendices, notably: an economic and financial report; a table of appropriations for current expenditures for the budget year and the four years preceding the new fiscal year; and the budget outcomes of the EPAs for the two previous years. The “economic and financial report” does not provide a clear explanation of the objectives of the budget—in part because the budget does not provide a clear statement of the government’s medium-term fiscal strategy.

17. **Defense expenditure is covered by the budget law.** In the budget, the heading “Defense Expenditure” covers the expenditure of the army, the National Guard and the police, broken down into three sub-headings: operation, maintenance, and equipment

18. **The projections of the main budget aggregates for the two fiscal years following the current year’s budget are not presented in the budget documentation.** Because no annual accounts have been produced for over 30 years (see paragraph 32), the budget documentation does not provide an estimate of the likely outturn for the base year underlying the budget estimates for the new fiscal year, nor the actual outturns for years preceding the base year. For the BCI, an estimate of the current year disbursements is presented for domestically financed capital expenditure.

19. **Statements on contingent liabilities, tax expenditures and quasi-fiscal activities are not included in the budget document presented to Parliament.** The public is not informed of the costs—in terms of foregone revenue—of tax exemptions allowed under the Tax code, nor of those associated with late payment or other revenue-reducing practices.¹¹

¹¹ Since there are no firm data on tax arrears for all enterprises, there could be considerable leakage from late payments, stop-filing, or non-filing.

20. **Data on gross public debt and information on financial assets are not published.** However, all external financing agreements are approved by Parliament and are published in the Official Gazette. This information does not include actual disbursements, which is monitored in executive agencies, but not published.

21. **The authorities have decided to undertake to publish fiscal statistics according to the standards of the GDDS.**¹² Advance release timetables have not yet been announced. A draft law relating to the national statistics system was prepared in April 2002. This law refers explicitly to transparency, to compliance with the periodicity and publication dates of statistics, as well as to the question of harmonization with international standards. The ONS publishes annual public finance data in its yearbook and quarterly data in *Eléments de Conjoncture*. However, publication lags may be long and coverage is incomplete. The BCM also publishes a limited amount of public finance data, in both its Annual Report and its quarterly bulletin. For example, the March 2002 quarterly bulletin provided estimates of the 2001 outcome for central government revenue and domestically-financed expenditures, as well as those for 1996-2000. However, no details are provided on how fiscal deficits were financed. Finally, although monthly public finance data are prepared, these are only distributed internally within the government.

C. Open Budget Preparation, Execution, and Reporting

22. **The medium-term objectives of fiscal policy are incorporated in the Poverty Reduction Strategy Paper (PRSP).** In the PRSP, the overall macroeconomic framework, annual budget objectives, and investment needs for the next three years are presented. These are increasingly being related to projected improvements in social indicators.¹³ The 2000 poverty-reduction framework law provides for the introduction of program budgets for the priority sectors. This work was beginning to gather momentum in 2002: by mid-2002, medium term expenditure frameworks (MTEFs) had been prepared for education, health, urban development, rural development, and infrastructure, and an overall MTEF is expected to be completed on time for the discussion of the 2004 budget law.

23. **The macroeconomic framework and the assumptions underlying the budget estimates are not made explicit in the budget documents.** In principle, the MAED is responsible for establishing a coherent macroeconomic framework. Although the MAED possesses a partial econometric annual model, it is not a critical input for the macroeconomic projections underlying the budget—these are generally drawn up in collaboration with Mauritania's development partners. Although the PRSP provides a framework for fiscal developments over the medium term, the budget documents do not present rolling three-year projections from which the annual spending ceilings for each ministry are derived. In the absence of annual government accounts on recent budget outcomes, it is difficult to establish a solid basis for annual or medium-term budget projections.

¹² General Data Dissemination System, under which there is a commitment to publish quarterly consolidated operations of central government and at least annual debt stock data, both with a maximum lag of one quarter.

¹³ By establishing appropriate databases, the government is increasing its capacity to study the impact of poverty-reducing expenditures on poverty-related indicators. Annexes 6 and 7 the PRSP implementation report of March 2002 contain quantitative performance indicators for education and health for 2001-2004—the same time horizon as budgeted expenditures in these two sectors.

24. **A new budget classification, which is close to international standards, was adopted in 1998.** The economic classification has been used for presenting the current expenditures in the budget since 1999. However, although a functional classification was adopted, it has not been fully used. The BCI now also uses the same administrative and economic classifications as current expenditures, including those that are externally financed (initially these were classified by sector and subsector and not part of the budgetary nomenclature).

25. **The overall budget balance of central government operations is the main fiscal indicator.** Part of the resources emanating from the reduction of debt under the enhanced HIPC initiative is included as nontax revenue.¹⁴ Information on communes' budget balances is monitored by the Ministry of Interior and centralized in the Directorate of the Treasury and Government Accounting (DTCP). The financial positions of public enterprises are not included in budget documents, although they are monitored by a specialized department (*Direction de la tutelle des entreprises publiques*) of the MINFI.

26. **The budget documents do not clearly identify new policies from ongoing expenditures.** Nor are fiscal risks identified. There are risks of additional spending because of explicit contingent liabilities (e.g., those associated with government-guaranteed loans) and implicit contingent liabilities (e.g., those associated with weak balance sheets of government-owned institutions in the social insurance or financial sectors). There is also a risk that the unutilized deposits that resulted from the large amounts of revenues raised when the telecommunications sector was privatized will be used more quickly than the presently-envisaged 15-year period.¹⁵

27. **The accounting system provides for the production of detailed reports on budget execution, but it is not applied in conformity with the current regulations.** The regulations describe in detail the accounting process for revenues and expenditures, as well as for the production of summary documents such as the payment authorizing officer's administrative account (*compte administratif de l'ordonnateur*)¹⁶ and the cash accounts of the DTCP (*compte de gestion*). However, the fact that neither the administrative accounts, nor treasury balances and cash accounts, are produced on a regular basis means that, for domestically-financed transactions, there is no comprehensive information on budget execution. In addition, given the time lags involved in centralizing accounting operations, it is difficult to obtain regular and reliable information on externally-financed expenditures.

28. **Certain internal controls are redundant.** Internal control exists at two levels. First, the budget director and the financial controller exercise a priori control over expenditures at the commitment and payment order stages. The purpose of this centralized control system is to verify the availability of budget appropriations, to charge expenditures to correct budget

¹⁴ Debt relief from the IMF to the CBM and from other creditors to public enterprises (mostly SNIM) is included as nontax revenues. The remainder—direct debt to the government—appears as exceptional financing.

¹⁵ Since 2001, the government budget has included 1/15th of the revenues from the sale of cellular telephone licenses; the sale proceeds of Mauritel (\$48 million) are also planned to be gradually used over 15 years. As of 2002, no proceeds of the Mauritel sale had been used for budget spending.

¹⁶ At present the Minister of Finance is the sole authorizing officer. In 2002, the authorities decided in principle to transfer authorizing powers gradually to the spending ministries.

headings, and to ensure that ordered goods or services are actually delivered. Second, the treasury performs a similar set of checks, prior to payment.

29. **The efficacy of procedures to control expenditure is limited.** First, there are considerable delays in the processing of expenditure operations, which lead to cost overruns for the government. Certain procedures have been initiated with a view to reducing the time involved, including requests for immediate payment, imprest accounts, and expenditures without the need for prior payment orders. These expenditures avoid any a priori controls. Expenditures made using these “exceptional” procedures are provisionally recorded in the Treasury accounts; although they should be regularized in final accounts, they have often not been regularized at all. Second, externally financed expenditures fall outside the regular internal control and treasury accounting system.

30. **The internal audit institution—*Inspection générale des finances* (IGF)—is under-equipped,** in terms of both personnel and equipment. The IGF is attached to the office of the Minister of Finance and should conduct internal audits of any government agency in accordance with its annual programs. However, the IGF’s role has a limited impact insofar as inadequate resources are devoted to it. To begin addressing its weaknesses, draft new regulations reorganizing the IGF was prepared in 2002. In general, in spite of well-specified rules and procedures, the effectiveness of the internal control and audit systems is thwarted because of the many different participants involved in the system, and because of the lack of regular monitoring and appropriate sanctions.

31. **Government procurement regulations have been revamped.** Although the procurement procedures of 1993 were based on open competition, reform was found to be necessary. In order both to enhance the efficiency of procurement procedures and to decentralize institutional structures responsible for procurement, a new procurement code was adopted in November, 2001. The implementing regulations of May 15, 2002 define the thresholds for government procurement and the approval procedures for the recently created procurement boards.

32. **The Constitution requires the government to present to Parliament a half-yearly report on budget execution.** At the time of presentation of the draft budget law for the following year, Article 68 of the Constitution specifies that a statement of expenditures should be provided to Parliament. In most cases, for the November parliamentary session, summary information on the execution of cumulative authorized expenditures and revenues as at 30 September is provided. When they adopt the budget, Parliament is not provided with estimates for the expected outcome of consolidated government operations (including financing of the overall balance) for the current fiscal year.

33. **Final annual accounts have not been available for more than 30 years.** The Constitution specifies that the “final accounts of a fiscal year shall be submitted at the session that discusses the following year’s budget”. According to Article 26 of the Organic Budget Law, “the draft *loi de règlement* should be submitted to the National Assembly before the end of the year following the year of budget execution, accompanied by the statement of conformity between the accounting officers’ accounts and those of the authorizing officer, along with, as necessary, critical commentary on management.” However, final annual accounts have not been produced since 1967, nor has there been a *loi de règlement* since

then. In 2001, a law was adopted to clear the balances of certain Treasury accounts relating to some very old operations. Since this law only listed a few accounts to be cleared, it did not enable the Treasury to establish an opening balance of the accounts for 2001. Nonetheless, the government has undertaken to produce in 2002 a *loi de règlement* for 2001. In 2002, the Treasury accounting system was being computerized; it was expected that the *loi de règlement* for 2002 will be produced by the new system.

34. **A comparison of the outcomes and the objectives of budget programs is not provided to Parliament.** Concerning the efficiency of government administrations' activities, there is only an ad hoc review of a few sectors, in particular for education and public health, performed in the context of the PRSP implementation reviews.

D. Assurances of Integrity

35. **In the absence of a coherent set of final accounts it is not possible to pass judgment on the reliability of budgetary information.** Parliament is not informed of actual outcome of cash revenues and expenditures in terms of disbursements. In recent years, the difference between projections and outcomes for the major fiscal aggregates—domestic revenues and expenditures in terms of payment authorizations—appears to be small. However, the economic and financial report annexed to the annual budget does not provide in-depth analysis of these disparities. In each annual budget, a contingency reserve is provided to cover unforeseen expenditures. This reserve is administered by the MINFI. Since detailed budget outcome statements are not prepared, it is unclear exactly how unallocated appropriations have been used in recent years. Supplementary budgets are rarely used. The aim of the supplementary budget adopted in 2000 was to raise certain expenditures, following additional debt relief decided in the context of the enhanced HIPC initiative.

36. **Statements on accounting policy do not appear in the budget documentation.** However, the regulatory base of government accounting procedures are clearly defined.¹⁷ Accounts are cash based and comprehensive financial balance information should be produced by the accounting system. The accounts classification in the chart of accounts was reviewed in 2002 to take into account the classification of expenditures and revenues by type and thus to enable it to be related to the budgetary nomenclature.

37. **The process of reconciling accounts and budget information is difficult to implement.** At an aggregate level, a monthly consolidated statement of government operations (TOFE) is prepared by the Budget Department (DBC). Differences between the balance of revenues minus expenditures (derived from data held in treasury accounting ledgers) and changes in balances of government bank accounts are currently not systematically identified or analyzed. At the micro level, the position of the main Treasury account held at the BCM is reviewed daily, but reconciliation of this account and treasury ledgers is not formalized. It is not possible to assess the amount of unregularized expenditures in the accounts. As the treasury's summary account (*compte de gestion*) is not produced, there is no systematic reconciliation of accounting data with bank accounts.

¹⁷ Ordinance 89-012 of January 23, 1989 specifies government accounting regulations, Decree 91-98 of December 24, 1998 contains the statutes for government accountants, and the Order of July 25, 2002 modifies the chart of accounts.

Similarly, the administrative account (*compte administratif*), for which the budget director is responsible, is not reconciled with the *compte de gestion*.

38. **The external Audit Office is not fully independent of the Executive.** Article 68 of the Constitution specifies that the Audit Office (*la Cour des Comptes*) assists both the government and Parliament in reviewing budget execution. The duties of the Audit Office are enumerated in Law 93-19 of January 19, 1993 on the Audit Office, supplemented by Decree 96-041 of May 30, 1996. In addition to its traditional powers and responsibilities, the Audit Office has jurisdiction in matters of sanctions for management errors. The President of the Audit Office is appointed by Decree of the President of the Republic and he is relieved of his duties in the same manner. His term in office is revocable. The annual program of the Audit Office requires the approval of the President of the Republic. The Audit Office's annual general report and summary reports are addressed to the President of the Republic, but are not published in the Official Gazette.

39. **Due to the absence of annual accounts, the Audit Office cannot prepare its annual report on government finances.** Since its creation in 1993, the Audit Office has never prepared a public report on the overall situation of government finances, a result of never receiving annual accounts and a draft *loi de règlement*.¹⁸ The Audit Office is also empowered to audit the accounts and management of the 216 communes, the EPAs, the EPICs, the national companies and public corporations. However, to date, the Audit Office has not reviewed the accounts of any communes or EPAs, as the MINFI has not taken the necessary administrative steps to launch the formal review.

40. **Parliament's capacity to analyze budgets is extremely limited.** Whereas the Audit Office has benefited from significant technical assistance since its creation, the same cannot be said for the public finance committees (*Commissions des Finances*) of Parliament. Although such committees exist for both the lower and upper houses, they have very limited resources to examine critically the annual budget as proposed by the executive branch.

41. **External observers cannot perform analyses of the macroeconomic assumptions underlying the budget.** The main problem arises from the lack of quality data and adequate analysis of the rationale for the annual budget. However, the Mauritanian Center for Policy Analysis was established in 2002 with the aim of contributing to the development and the improvement of skills in forecasting and policy analysis, including training of parliamentarians.

42. **The National Statistics Office has financial autonomy, although its independence is not enshrined in law.** The ONS, which was created by Decree 90.026/P/CMSN of February 4, 1990, is responsible for the system of collecting and processing statistics. Administratively it is an EPA, under the aegis of the MAED; it has independence in its day to day activities. Its mandates are specified on its website at <http://www.ons.mr/>. A new law governing statistics, which guarantees the adoption of international standards was under consideration, was under consideration in 2002. The draft law provides a statement of fundamental principles to be applied to statistics: privacy of statistics, transparency,

¹⁸ The timetable and the methods of presentation of the *loi de règlement* are specified in Articles 38 to 45 of Decree 96-041 of May 30, 1996 implementing the Law 93-19 concerning the Audit Office.

compliance with periodicity and agreed publication intervals, and harmonization with internationally recognized standards and concepts. Once adopted, the law will provide a clear overview of responsibilities and standards and a National Statistics Council will be established.

III. IMF STAFF COMMENTARY

43. **In recent years, Mauritania has made significant improvements in fiscal transparency**, in particular by adopting a sustained policy of state withdrawal from economic activity, clarifying the government's relationship with the private sector, and modernizing government administration. The government's statement on good governance, made in 1999, is an indication of the authorities' desire to take steps to define the responsibilities of government more clearly, to review the legal framework, to improve the capacity for audit and management of public resources, and to strengthen the role of Parliament in fiscal matters.

44. **The government's fiscal management framework has been enhanced in several areas. Effective implementation is now required.** The intervention of the authorities in public enterprises and the EPICs is now relatively limited. Privatizations appear to have been transparent. The central bank is autonomous in its financial transactions and the government has largely withdrawn from intervening in the banking sector. The new regulations for government procurement should improve transparency in this area. The external Audit Office, which is a relatively new institution, has been strengthened with external assistance. In general, the laws and regulations governing fiscal operations provide an adequate framework for the proper functioning of government agencies. Although some laws are in need of improvement, major efforts should be directed towards ensuring that existing laws are fully implemented.

45. **The tax and customs regimes have been simplified and although controls have been strengthened, further progress is needed.** The simplification of various taxes and the customs duty structure has helped improve fiscal transparency. Tax privileges have been diminished, thereby reducing the budget cost of tax concessions. Also, there have been a number of improvements in tax and customs administration. Nevertheless, these actions need to be supplemented with measures that would reduce further the possibilities for negotiating the amounts to be paid for certain taxes, duties, or tax fines, particularly for small and medium-sized enterprises. Also, tax expenditures should be identified in the budget documents.

46. **The presentation and comprehensiveness of the annual budget are improving progressively.** The new budgetary nomenclature adopted in 1998, even though it is not used in its entirety, provides a clearer presentation of budgetary operations. MTEFs have been prepared in the five priority sectors. The BCI currently encompasses almost all investment projects, thereby increasing the breadth and depth of coverage of this budget.

47. **Despite efforts to improve fiscal transparency, there are several areas in which further improvements are required.** Priority should be given to the following:

- Rehabilitating the accounting system, beginning with the preparation of annual accounts and improved quality of monthly fiscal reports;
- Improving the dissemination of information to Parliament and the general public;
- Preparing annual audit reports on budget execution and enhancing the independence of the external Audit Office;
- Strengthening capacity at Parliament for budget analysis;
- Reinvigorating internal audit and simplifying internal controls; and
- Improving budget preparation.

48. **Top priority should be placed on addressing the longstanding weaknesses of the accounting system.** The authorities are aware that the absence of final accounts—the *compte de gestion* and the *compte administratif*—needs to be addressed urgently. The planned preparation of a draft *loi de règlement* for 2001 is an important step forward, as it will enable the Audit Office to prepare its first-ever report on budget execution. The achievement of the urgently-needed improvements in the government accounting system and the quality of the documents to be produced depend largely on the ability of the Treasury to complete all required tasks laid out in the public accounting regulations.

49. **Measures should also be taken to improve the quality of monthly fiscal reports.** The Treasurer General is responsible for recording all revenue and expenditure transactions in the central government ledger. After reconciliation with the movements of the government's accounts held at the BCM, the Treasury should provide comprehensive, reliable and timely monthly data to the Budget Department, which is responsible for preparing the monthly TOFE. All cash revenues and domestically-financed expenditures should be included. It is important that the Treasury ensures that monthly treasury balances are prepared and that the periods for regularizing suspense and other accounts are shortened. With regard to foreign-financed expenditures, it is appropriate to shorten the periods for collection and centralization of the information on the execution of the BCI, so that the Budget Department is in a position to prepare a comprehensive and reliable TOFE.

50. **The completion of accounting reforms and computerization projects is needed** for increasing the quality and timeliness of fiscal information.

- The introduction of a chart of accounts linking budget classification by economic and functional types with accounting classification is indispensable.
- Existing information systems are fragmented. Various computer systems should be integrated in order to improve budget execution. In this context, the authorities are advancing on a project to computerize non-wage, non-debt expenditures. It is essential that this project is fully integrated with the separate project to computerize treasury operations.

51. **The dissemination of fiscal information to the public on central government operations should be improved, both during the course of and after the close of the fiscal year.** This is needed so that government officials are held accountable to Parliament and civil society. Besides the urgent need to publish annual accounts, in-year fiscal reports should be published too. In the first instance, efforts should concentrate on publication of quarterly information on central government operations (TOFE and public debt), in line with GDDS standards.

52. **The regulatory deadlines for preparing the annual accounts should be scrupulously observed so that the Audit Office can submit its annual report during the time the new *loi de finances* is being discussed.** Existing laws and regulations require the Treasury to forward the government accounts to the Minister of Finance before October 31, for transmission to the Audit Office. Parliament meets in regular session in the first two weeks of November. The submission deadlines should be adhered to so that the Audit Office can issue its certificate of conformity and transmit its annual report on budget execution to Parliament in November. Appropriate deadlines should be set by the Treasury for closing its accounts and producing comprehensive accounts in order to meet these deadlines.

53. **The independence of the Audit Office should be more firmly assured.** The Audit Office reports should be distributed in full to Parliament at the same time as their transmission to the Office of the President of the Republic. Moreover, it would be desirable for Parliament to participate in the appointment of the President of the Audit Office, who should hold a fixed term of office.

54. **The Public Finance Committees of Parliament should be strengthened.** At present, they are not in a position to carry out fully their mandates—the Committees' resources need to be strengthened. The MOF could facilitate the Public Finance Committees' tasks by improving the presentation and understandability of budget documentation, in particular by providing more analysis of the rationale for the annual budget.

55. **Internal audit needs to be strengthened and internal controls should be simplified.** The IGF has neither the human nor material resources to conduct its audit responsibilities. The IGF should become more involved in ensuring that prescribed procedures have been properly applied. It is also important that there are guarantees that the recommendations of IGF inspection reports are followed up. There should also be certain guarantees with regard to recruitment and a code of conduct. With respect to internal control, the necessity for maintaining so many a priori controls should be reexamined. Given the intention to introduce greater deconcentration and/or decentralization of expenditures, it will be necessary to review the role of Financial Controllers, currently administratively under the Presidency. With payment authorization planned to be transferred from the Budget Department of MINFI to spending ministries, it may be appropriate to also increase spending ministries' responsibilities for internal control.

56. **Budget preparation should be improved.** The assumptions underlying the budget estimates, as well as the main uncertainties and risks in achieving the budget projections, should be clearly presented in the budget document. The planned extension of the MTEF to all sectors must take into consideration a coherent macroeconomic framework, particularly total resources available, debt relief, medium term budget balance targets, and the

government's sectoral priorities as already announced in the PRSP. In the medium term, a rolling three-year MTEF should be updated at key stages of the budget cycle. This would enable formal links to be established between the MTEF and the annual budget: spending ceilings of the budget circular should be derived from the first-year estimates of the MTEF. Given that the MTEF is to serve as a guide to policy choices sector by sector, the implementation of the classifications adopted in 1998 must be uniform for current and investment purposes. As budget programs of the sectoral MTEFs are refined, it will be necessary to introduce a program classification of expenditures in order to monitor budgetized programs at the execution stages.

57. Achieving increased transparency requires a strengthening of capacities.

Requirements in terms of human resource management and training continue to be significant. Improvement of transparency requires a change in the working conditions and motivation of government officials. The already announced national program for strengthening resources should incorporate these needs.