International Monetary Fund

Mauritania and the IMF

Press Release:
IMF Executive Board Completes Second Review Under ECF Arrangement for Mauritania and Approves US$17.6 Million Disbursement
June 22, 2011

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Mauritania: Letter of Intent, and Technical Memorandum of Understanding

June 6, 2011

The following item is a Letter of Intent of the government of Mauritania, which describes the policies that Mauritania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Mauritania, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

ATTACHMENT I. LETTER OF INTENT

Nouakchott, June 6, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
USA

Dear Mr. Lipsky:

1. The Mauritanian Government succeeded in improving macroeconomic stability in 2010, thanks to its strong commitment to prudent policymaking and despite significant challenges posed by soaring energy and food prices. The continued implementation of prudent macroeconomic policies throughout 2010 and the increases in prices of Mauritania's export products (iron, copper, and gold) have contributed to a stable macroeconomic environment and high economic growth. The fiscal stance remains sound, monetary policy continues to be prudent, and inflation is under control, while official foreign exchange reserves have been rebuilt to a relatively comfortable level. However, unemployment remains high and the economy has had to deal with rising international commodity and petroleum prices.

2. Eradicating poverty is a strategic objective that we have prioritized in all our national policies. To ensure the consistency of our macroeconomic objectives with our poverty reduction strategy, we have revised our Poverty Reduction Strategy Paper (PRSP) and finalized its third action plan for 2011-2015 in a process that involved all stakeholders. The strategic orientations of the new PRSP action plan are consistent with the objectives of the IMF's Extended Credit Facility-supported program (ECF) and built on the following five pillars: (i) boosting growth and maintaining macroeconomic stability; (ii) making growth more inclusive; (iii) improving the potential of the Mauritanian people and their access to basic social services; (iv) enhancing governance and institutional development; and (v) improving planning, monitoring and evaluating systems.

3. We met the 2010 objectives of the ECF-supported program by meeting all continuous and quantitative performance criteria for end-December 2010 (Table 1). However, the indicative target on poverty-related spending has been missed because of a delay in the execution of the public investment program. All the structural benchmarks (Table 2a) have also been fulfilled, except for the issuance of a single taxpayer identification number to all taxpayers, which has only been completed for the subset of known registered taxpayers. The

generalization to all taxpayers has been delayed by the bidding process for selecting a consulting firm to conduct the taxpayer census, which is necessary before the structural benchmark on taxpayer identification numbers can be completed.

4. This Letter of Intent (LOI) is based on the Letter of Intent and Memorandum of Economic and Financial Policies (MEFP) approved on November 2, 2010. Our macroeconomic policy program will continue to strike a balance between focusing on macroeconomic stability and responding to the urgent challenges posed by increasing petroleum and food prices. In order to achieve the program objectives, we are committed to continue implementing prudent, appropriate, and coherent macroeconomic policies. We remain firmly bound to structural reforms, which will help accelerate economic growth and reduce poverty, in particular by reinvigorating the public enterprise sector, modernizing tax and customs administration, strengthening the financial sector, improving the business climate, and promoting good governance.

I. Recent Economic Developments

5. The second half of 2010 was characterized by a strengthening of the recovery that started in the beginning of the year, driven by buoyant external demand, a surge in commodity prices, and renewed dynamism in non-extractive activities. As a result, real GDP grew by 5.2 percent in 2010, in line with the initial projections. This was achieved in spite of a decline in oil production. Moreover, inflation remained under control at 6.1 percent on a year-on-year basis. Despite the increase in food and petroleum prices, the current account deficit improved as foreseen by the program mostly as a result of higher prices for mining products exported by Mauritania (iron ore, gold, and copper). The stock of official exchange reserves increased to US287.8 million at end-December 2010, covering 2.1 months of imports.

6. In the public finance area, the second half of 2010 was characterized by a significant increase in tax and nontax revenue resulting from the rebound in economic activity, the good performance of the mining sector, and an under-execution of public investments as well as pro-poor spending. Notwithstanding, the basic budget balance remains in deficit for 2010, amounting to UM 23 billion, compared to an initial deficit of UM 28.5 billion foreseen under the program.

7. Regarding the monetary accounts, looser monetary conditions following the Central Bank of Mauritania (CBM)'s decision to lower interest rate from 12 percent to 9 percent in November 2009 have helped stimulate the economy. Accordingly, credit to the private sector grew by 14.2 percent in 2010, compared to 3.7 percent in 2009, contributing to a moderate expansion of the money supply. The exchange rate depreciated by 5.7 percent in 2010, and the CBM continued to limit its interventions to smoothing excessive exchange rate fluctuations.

II. PROGRAM FOR 2011

8. Overall, Mauritania's economic outlook remains favorable despite the challenges posed by the surge in food and petroleum prices. In particular, real GDP is expected to grow by 5.1 percent in 2011 and the CBM's vigilance will help contain inflation to 7.5 percent. The external current account deficit is expected to improve due to higher prices for mining products, which allows for a higher foreign exchange reserves target (about 2.7 months of imports). Achieving these objectives requires the pursuit of prudent macroeconomic policies and a firm commitment to structural reforms. However, successful outcomes also depend on mobilizing external financing and the appropriate institutional capacity to manage them efficiently.

A. The macroeconomic program

Fiscal policy

9. In the context of persisting social tensions in the region, the government is seriously concerned by the significant recent rise in international food and petroleum prices. In response, we have prepared a short-term temporary emergency program ("Solidarity Program") costing about UM 40 billion that aims at: (i) giving the poor access to food products at subsidized prices in 600 shops throughout the country; (ii) maintaining the purchasing power of the population by increasing subsidies for cooking gas and electricity; (iii) improving agricultural production by subsidizing fertilizers and seeds; and (iv) developing income-generating activities. The component on subsidizing food products has already taken effect through the advance decree No 2011-090 dated March 29, 2011 authorizing spending for UM 10.4 billion. The costs of the remaining program components will be covered through an advance decree by end-June 2011 and under the amended budget law that we will adopt by end-year. To reduce costs for 2011, we raised in May 2011 for the first time in four years the price for cooking gas (a 10 percent increase in the price of a butane gas bottle).

10. The government will adopt an advance decree in early June 2011 to cover deficits incurred so far this year and for the rest of 2011 by the hydrocarbon distribution companies. These losses result from a large gap between administered fuel prices and world prices. This action takes into account savings expected from implementing the following steps by June 2011 (structural benchmark): (i) applying market prices to large consumers for their purchase of petroleum products (including mining companies); and (ii) gradually increasing fuel prices to reduce the corrective margin required to set administered prices. The government would still expect petroleum companies to reimburse the State if declines in world prices leads to profits for petroleum companies (i.e., as a consequence of above market retail prices). In the meantime, we intend to remedy the shortcomings of the current price structure of petroleum products, which is no longer suitable in an environment of persistently high oil prices. To this

end, we have requested Fund technical assistance to help us introduce a system that is more appropriate in the new international context. In the meantime, we will take stock of the arrears incurred to the petroleum distribution companies over the past years, and create a plan for clearing those arrears.

11. Nevertheless, cognizant of the high vulnerability of the Mauritanian economy to exogenous shocks, particularly to fluctuations in mineral prices, we remain committed to pursuing fiscal consolidation. Accordingly, the financing of the additional expenditure associated with the emergency program (the 2011 Solidarity Program) will be covered by supplementary mining receipts, land sales, improved tax collection, and the redeployment of some non-essential investment expenditures. Fiscal discipline will be accompanied by better streamlining of current expenditures, intensified revenue collection efforts, and an optimal management of mining resources. In this context, the 2011 target on the basic non-oil deficit will remain consistent with the initial program forecast of 1.6 percent of non-oil GDP. In the event of a revenue shortfall, we intend to cut non-essential spending, particularly goods and services and through a more accelerated phase-out of subsidies, to meet the fiscal deficit objective.

12. To meet the revenue target that we have set out (24.9 percent of non-oil GDP), we will rely heavily on mining receipts. In particular, we will establish a 25 percent dividend payout ratio on the profits of the state-owned mining company SNIM. In addition, as part of the 2011 revised budget law, we will reintroduce excises on tobacco and increase excises on vehicles, in line with recommendations of the latest IMF technical assistance mission on tax policy. On the expenditure side, the wage bill will be contained and an effort will be made to streamline nonessential current expenditures. These actions should create additional budget space for supporting growth, reducing poverty, and making progress towards the Millennium Development Goals (MDGs).

Monetary, financial, and foreign exchange policies

13. The objective of monetary policy will continue to be geared towards controlling inflation. The monetary program for 2011 aims to increase money supply by 13.3 percent, allowing credit to the private sector to rise at a pace consistent with the need to support the expected dynamism of non-extractive industries. The monetary authorities stand ready to tighten monetary policy, in particular by adjusting the key interest rate or the reserve requirement ratio if signs of accelerating core inflation start to materialize. Monetary and fiscal policies will be more closely coordinated, particular regarding the issuance of treasury bills. We will finalize in 2011, based on Fund recommendations, a strategy for strengthening the CBM's liquidity management instruments.

14. We remain convinced that greater exchange rate flexibility will foster confidence of all market participants and will contribute to easing pressures on foreign exchange reserves.

To improve the functioning of the exchange market and in keeping with Fund staff recommendations, we have recently taken the following actions: (i) served on a pro rata basis all orders submitted at the same price as the fixing, rather than on the basis of their size or their order time; and (ii) sent the statements on foreign exchange transactions executed during the auction process to primary banks on the same day as the auction itself to allow for same-day settlements. The CBM will improve the functioning of the exchange rate market by limiting bids to purchase dollars to the equivalent of 130 percent of the banks' free reserves, and by immediately providing banks with the foreign exchange purchased at auctions. The CBM will continue to refrain from any intervention that might distort the functioning of the market and will limit its interventions to smoothing excessive exchange rate fluctuations.

15. Financial sector reform will be carried out in accordance with the FSAP recommendations and the safeguard technical assistance missions of 2010 with a view to strengthening the safeguards framework and correcting weaknesses identified in this area. On banking supervision, the CBM firmly intends to strictly apply the existing prudential regulations and to gradually adopt the Basel II capital framework for banks. In order to improve financial transparency and to bring its accounting system in line with IFRS standards, the CBM has hired a consultant who will assist in the implementation of this project, together with the support of Fund staff, in particular from West AFRITAC. The CBM will continue to have its accounts, including its reserves, audited by an international auditing firm selected in an international bidding process. So far, most banks have increased their capital to UM 4.5 billion, and the CBM will ensure that the capital of the commercial banks is brought to a minimum of UM 5 billion (approximately US$18 million) by end-2011 (structural benchmark for end-December). Moreover, the audits of commercial banks' financial statements will be carried out by the agreed date (structural benchmark for end-September 2011).

External sector and debt management

16. Despite increasing prices for foodstuffs and petroleum products, the favorable outlook for gold, copper, and iron ore in 2011 are likely to generate additional revenues and reduce the current account deficit to about 7.5 percent of GDP, down from the initial projections of the program for 2011. This deficit will be financed by higher external financing and foreign direct investment in the mining and oil sectors.

17. With regard to external borrowing, the overriding principle is to finance our public investment program while preserving debt sustainability. To this end, we are committed to identify and mobilize concessional resources. However, given the limited pool of concessional resources, we estimate that we will need nonconcessional resources of US$105 million to finance a hybrid power plant (fuel and natural gas). This plant will have a capacity of 120 MW to ensure adequate electricity supply to the Mauritanian economy, at an overall cost of US$227 million. The study on the relevance and feasibility of this project was carried

out by the Arab Fund for Economic and Social Development. Moreover, to improve monitoring of external debt and enhance internal capacity for analyzing concessionality, a national public debt committee will become operational in 2011. We will continue our efforts to introduce before end-year an external debt management strategy (structural benchmark) that takes into account World Bank recommendations on debt management and medium-term debt strategy. Furthermore, agreement was reached to address the stock of external payment arrears, including Algeria (total cancellation of the debt stock) and Libya (cancellation of all interest payment and rescheduling of principal payments). We are continuing to make best efforts in reaching possible debt relief agreements with remaining creditors, particularly Kuwait where discussions are still ongoing.

B. Structural reforms

18. We pay great attention to structural reforms aimed at achieving a high rate of inclusive growth, which could contribute to poverty reduction. To this end, we have established an interministerial committee, which meets regularly to take stock of progress made in implementing economic reforms, resolve delays in their implementation, and coordinate the actions of the different institutions involved in the reform agenda. We have also broadened the discussion framework on reforms to technical and financial partners, which meet quarterly with the Technical Monitoring Committee.

Strengthening the social protection system and gradual elimination of subsidies

19. While a number of efforts were undertaken, social protection remains weak and inadequate, marked by insufficient targeting of vulnerable populations, weak organizational capacities, lack of human and logistic resources, and the absence of an appropriate mechanism to coordinate various programs and stakeholders. In this context and with support from UNICEF, the government prepared a diagnostic study of existing social programs in March 2010, highlighting priority needs to strengthen and streamline the social protection system. We will use the study's recommendations to prepare a national social protection strategy that calls for, inter alia, the generalization of pilot conditional cash transfer programs.

20. In the meantime, we will undertake an assessment of the functioning of the shops introduced in the context of the 2011 solidarity program and consider the possibility of gradually replacing these by cash transfers. This assessment will be carried out under the supervision of a Steering Committee, which is composed of representatives of the involved ministries, a representative of the Food Security Commission (CSA), a representative of the National Statistical Office (ONS), civil society representatives, a representative of the World Food Program (WFP), and a representative of UNICEF. We also intend to conduct, with WFP staff, a vulnerability and poverty survey that will be used to update the available information on vulnerable groups (structural benchmark for end-October). The survey results will also be used in drawing up an action plan for the distribution of identification "cards" to

the poor and vulnerable groups who would eventually benefit from cash transfers. The introduction of this mechanism in early 2012 would be in line with our objective to gradually transition from existing subsidies to a less costly and better targeted cash transfer mechanism.

Public finance reforms

21. Effective execution of the 2011 budget and preparation of the 2012 budget as an instrument for macroeconomic management require measures to improve revenue collection, strengthen control of budget execution, and increase transparency. These actions will be taken in accordance with the recommendations made by recent technical assistance missions from the IMF, West AFRITAC, the World Bank, and the European Union. The public finance master reform plan is currently being finalized with technical assistance from the African Development Bank, and will be introduced by end-October 2011.

Improving revenue collection

22. With respect to revenue, we have activated a committee within the CTS to steer tax reform. This committee will monitor the computerization of the General Tax Directorate (DGI) and the preparation of a plan for recovering tax arrears that will be finalized by end-June 2011 (structural benchmark). The taxpayer census has already started and will be completed as planned by end-September 2011. A progress report on this operation will be available by end-June 2011. Issuing unique identification numbers to taxpayers has already been completed for known taxpayers and will be finalized for all taxpayers by end-December 2011 (structural benchmark). To improve taxpayer compliance and increase tax receipts, we will also establish an action plan for the gradual elimination of VAT withholding-at-source, starting with large taxpayers. We also intend to take stock of all existing tax credits at end-June 2011 to activate the provisions already in place for the timely reimbursement of VAT credits by end-October 2011, in particular to the mining companies. To ensure the success of this reform, we require IMF technical assistance.

23. We will also continue to strengthen Customs Administration (DGD). All customs offices have adopted the new ASYCUDA++ system and undertook the migration to the central server. The transition to this new system will help, inter alia, improve the management of exemptions and introduce numerical archiving that will be introduced as scheduled by end-2011. To improve efforts against tax evasion, the customs modernization strategy focuses on inspecting and crosschecking import data with information provided by the SGS inspection company. To this end, we will optimize the benefits from our contract with SGS and settle its invoices as they fall due. This will enable us to create a valuation office and develop a customs value database to reconcile data and introduce an interface between customs and SGS. To enhance the synergies with the DGI and formalize exchanges of information on taxpayers, a memorandum of understanding between the DGD and the DGI

will be drawn up. The draft of the new customs code is currently being prepared and will be adopted by end-2011.

Managing public expenditure

24. Improving the decision-making framework and strengthening the instruments for cash flow management are government priorities. To this end, meetings of the coordination committee on fiscal and monetary policies will be held regularly and will produce minutes that will contain analyses of the cash flow situation and three-month rolling cash forecasts. In this context, the Ministry of Finance has started introducing a single Treasury account by end-2011 as recommended by recent missions from the IMF's Fiscal Affairs Department and the French cooperation authorities. Prior to this, the cash flow plan will be made operational and strengthened by the introduction of an automated computer link between the Central Bank and the Directorate-General of the Treasury.

25. Mindful of the need to improve budget preparation and execution, the authorities will take all necessary measures to strengthen the budget process. To this end, recourse to exceptional spending procedures will be limited in order to cut on the total volume of requests for immediate payment, transfers for the provision of cash ("*Mises a disposition")* and cash advances. In addition, and in line with the recommendations of IMF TA and the World Bank's public expenditure review, we will speed up efforts to operationalize an integrated public financial management system, enhance internal control and ex-post control capacities of public spending, and fully implement the new procurement code and its related decrees. Furthermore, the efficiency and effectiveness of public spending will also depend on: (i) improving budget preparation and execution, including through better coordination between the ministry of finance and the ministry of economic affairs and development in the preparation and execution of the budget; and (ii) developing internal capacities to conduct project selection, appraisal and budgeting.

Containing the wage bill and improving the quality of public services

26. We are committed to reactivating and accelerating civil service reforms. To this end, we will reconcile the payroll on the basis of the outcome of the census of all public workers, which will help improve payroll budgeting, execution and management. This should help contain the wage bill and free up resources for poverty reduction. A methodology for forecasting the wage bill will be developed and introduced at the Ministry of Finance, with support from West AFRITAC. In addition, as part of the civil service reform, we are committed to strengthening human and logistical capacities, modernizing tools used for work performance, and raising the quality and ethical standards among government officials and employees to reduce the temptation to mismanage public assets.

Improving public enterprise performance

27. Public enterprises put a heavy burden on the budget due to sizable transfers and subsidies. We are committed to rehabilitating and further clarifying the relations between these enterprises and the government by conducting a study on the financial situation of all major public enterprises (structural benchmark for end-December 2011). This study will be based on the findings of the audit of the public electricity company (SOMELEC) and the new financial and technical audits that will be undertaken in 2011 for MAURIPOST, SNDE, SOMAGAZ, and SONIMEX. This study will help identify problems faced by these enterprises and improve the monitoring of their performance, which will generate better management of the companies' operations and lead to further reductions in government transfers, especially through program contracts. We are also committed to regularly inspect financial conditions of public enterprises and to improve coordination between the involved departments through regular meetings between the Directorate-General of Government Property, the Directorate-General of Budget, the Directorate-General of Treasury and Public Accounting, and the supervisory ministries. Technical assistance from development partners, in particular the World Bank, is needed to improve the monitoring of public enterprises, strengthen governance, and upgrade the information system.

Reforming the electricity sector

28. A study financed by the World Bank and the French Development Agency (AFD) on the restructuring of the electricity sector and SOMELEC has been completed and validated at two evaluation workshops held in June and September 2010. We have begun implementing this study's recommendations by increasing SOMELEC's capital by UM 20 billion, followed by an additional increase of UM13 billion scheduled by end-2011 with no incidence on the budget. The Government started paying its electricity bills on time and is committed to provide SOMELEC the required subsidy for its operations at regular intervals throughout the year. This will enable the company to recover and limit its recourse to bank borrowing at prohibitive rates, which would jeopardize the progress made to date. We have clarified the financial relationship between SOMELEC and the Central Government, and will put in place an arrears settlement plan by end-December 2011 (structural benchmark). We will await finalization of the tariff study scheduled for end-2011 before moving forward with revising tariffs, particularly those applied to major consumers.

Improving the business climate and promoting the private sector

29. We are set on addressing of the investment climate weaknesses and constraints impeding promotion of the private sector. To this end, we have prepared a new investment code, which will be adopted by the Council of Ministers by end-June 2011. We are also committed to make the one-stop facility for business start-ups operational to further reduce and simplify the administrative procedures related to the creation of new companies and

investments. A national strategy for developing skills needed by the private sector will also be introduced. Along the same lines, we will simplify the tax system and promote SME access to bank loans, while building SME capacities for producing reliable financial statements.

30. As far as employment is concerned, a labor market study will be conducted by end-year to establish a reliable database on employment. In the meantime, we will continue to implement an integration program for young unemployed university graduates to help them develop their own activities and encourage them to initiate projects in the agricultural sector. Moreover, this program will be broadened to cover the fish sector. Efforts will also be made to integrate non-graduate unemployed people through the support of income-generating activities (IGAs) in rural areas (livestock, crop protection) and urban areas. Alongside the measures mentioned above, we intend to introduce, with the technical and financial support of the World Bank, a broad training and integration program focusing on the unskilled. Going forward, we will also re-orient education priorities to ensure existing curricula are aligned with private sector needs.

Strengthening governance and transparent management of public resources

31. Fighting corruption is a government priority. In this connection, we adopted in 2010 a national anti-corruption strategy aimed at ending impunity and limiting fiscal evasion, fraud, and poor management of public resources. The government is also committed to ensuring total transparency in the exploitation and use of the financial resources coming from extractive industries. To illustrate this commitment, Mauritania has become a member of the Extractive Industries Transparency Initiative (EITI) since 2005. We expect to become fully compliant with the EITI principles during 2011.

Improving economic statistics

32. The compilation of reliable statistical information is essential for designing and implementing macroeconomic policies, assessing PRSP results, and monitoring progress made towards achieving MDGs. We plan to continue improving the quality of the economic and financial statistics produced by capitalizing on recommendations made by recent IMF technical assistance missions on government finance, national accounts, and balance of payments statistics. To this end, we will establish a committee that will meet monthly to validate public finance data, strengthen reconciliation efforts with the national accounts, and introduce cross-checking with the data received by different ministries. We plan to conduct a new household survey on living conditions (EPCV), which will make it possible to update employment and poverty data in 2012. We will continue the organizational and institutional reform of the National Statistics Office (ONS) and will operationalize the statistical function in all ministerial departments to improve data collection and processing of macroeconomic

aggregates, national accounts, prices, debt, and the balance of payments. In this context, we will request technical assistance from our development partners.

C. Risks

33. Various risks may hamper achievement of the program objectives. These include: (i) the vulnerability of the Mauritian economy to exogenous shocks, such as price volatility of its principal export commodities (iron ore, copper, gold) and changes in the prices of its imports such as wheat or oil; (ii) low mobilization of external financing; and (iii) the adverse effects on agriculture and livestock farming resulting from the vagaries of the climate. The government stands ready to take appropriate measures to mitigate the effects of such risks, should they materialize. If need be, corrective measures will be taken in consultation with IMF staff.

III. Conclusion

34. Given the achievement of the main program objectives, the government requests completion of the second review under the ECF-supported program and the associated disbursement of SDR 11.04 million. In view of the improving macroeconomic outlook and the introduction of the government's emergency program, we request a modification of the 2011 end-June performance criteria related to net international reserves, net domestic assets, and the basic fiscal balance. We will maintain a close policy dialogue with the Fund and stand ready to take additional actions, if appropriate, to ensure achievement of the program objectives. We will continue to provide Fund staff with the information necessary for regular program monitoring. New performance criteria, including for the ceiling on nonconcessional loans, are being proposed for end-December 2011, as have indicative targets for end-September 2011 (Table 1). New structural benchmarks are being proposed for 2011 (Table 2b). These quantitative criteria and benchmarks are set out in the attached Technical Memorandum of Understandings. The third review is expected to be concluded by December 31, 2011, and the fourth by June 30, 2012.

Very truly yours,

Thiam Diombar /s/
Minister of Finance

Sidi Ould Tah /s/
Minister of Economic Affairs and Development

Sid Ahmed Ould Raiss /s/
Governor of the Central Bank of Mauritania

Table 1 . Mauritania: Quantitative Benchmarks and Performance Criteria for 2010-2011
(Cumulative change from end-December 2009 and from end-December 2010)

	End-Dec 2009	End-Dec. 2010			End-Mar. 2011			End-Jun. 2011	End-Sep. 2011	End-Dec. 2011
	Initial level	Performance criteria	Performance criteria adjusted	Actual	Indicative Target	Indicative Target adjusted	Actual	Revised Performance criteria	Indicative Target	Performance criteria
Quantitative targets										
Net international reserves of the CBM (floor); in millions of US dollars 2/	-47.8	34.4	-0.6	69.1	4.4	14.5	44.2	46.9	108.5	82.9
Net domestic assets of the CBM (ceiling); in billions of ouguiyas 2/	125.1	20.4	29.6	-11.6	4.7	2.0	-9.5	-8.4	-19.0	-7.5
Basic non-oil balance ; in billions of ouguiyas		-28.5	-28.5	-23.0	-8.6	-8.6	17.2	7.9	15.5	-17.0
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, CBM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling) 3/	44.0	0		0	0		0	0	105	105
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, CBM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)		0		0	0		0	0	0	0
New external arrears on non reschedulable debt (continuous quantitative performance criterion)		0		0	0		0	0	0	0
Poverty-related expenditures, in billions of ouguiyas (indicative target)		106.7		89.9	19.6		5.8	32.0	68.9	106.5
Adjustors (in millions of US dollars)										
Net international assistance	…	35.4		-9.4	6.9		30.0	24.8	31.2	32.8
Cumulative disbursements of official loans and grants in foreign currency	…	76.6		34.0	13.9		37.6	51.0	64.1	92.6
Impact of any additional debt relief	…	0		0	0		0	0	0	0
Cumulative amounts of external cash debt service payments	…	-41.2		-43.4	-7.0		-7.6	-26.2	-33.0	-59.8
FNRH contribution to the budget	65.1	47.2		47.2	13.0		0.0	22.5	22.5	34.8
Cumulative disbursements of official grants in foreign currency		46.9		34.0	13.7		2.2	15.6	15.6	24.6
Memorandum item:										
UM/$ exchange rate (program)	262				262		281	262	262	262

1/ For definitions, see Technical Memorandum of Understanding.
2/ Adjusted upward (NIR) and downward (NDA) by net international assistance and FNRH contribution to the budget.
3/ The higher ceiling for 2011 accommodates only the financing of a hybrid power plant. Ceiling for other nonconcessional borrowing is still zero.

Table 2a. Mauritania: Structural Benchmarks under the ECF Arrangement, 2010

Item	Measure	Date (End of Period)	Outcome	Comment
General				
1	Adopt the ministerial decision establishing the Technical Monitoring Committee.	March 2010	Met	
Tax administration				
2	Issue, while surveys are underway, new identification numbers to taxpayers.	December 2010	Not met; Target date moved to December 2011	Numbers have already been distributed to all known taxpayers. After the completion of the taxpayer census, numbers will also be distributed to all taxpayers by end-December 2011. A database will be sent to the Fund once compiled.
Public financial management				
3	Establish a rolling three-month cash management plan.	June 2010	Met	
Central bank transparency				
4	CBM should publish on its website audited financial statements together with audit opinion of the years ended:			
	December, 31, 2007.	March 2010	Met	
	December, 31, 2008.	March 2010	Met	
	December, 31, 2009.	June 2010	Met	
5	Audit the CBM's NIR and NDA data as of June 30, 2010	September 2010	Met	

Table 2b. Mauritania: Structural Benchmarks under the ECF Arrangement, 2011

Item	Measure	Date (End of Period)	Outcome	Comment
Tax administration				
1	Finalize a plan for recovering corporate tax arrears.	June 2011		A draft plan is already available at the Tax agency.
2	Conduct a census of all businesses, including medium size enterprises.	September 2011		Some SMEs are now also being processed by the large taxpayer unit. Census is expected to be completed on-time.
3	Fully implement and use ASYCUDA++ in major customs offices.	December 2011		ASYCUDA ++ is already installed in major customs offices. Full implementation is expected by end-year.
4	Issue, while surveys are underway, new identification numbers to taxpayers.	December 2011	Not met in December 2010	Numbers have already been distributed to all known taxpayers. After the completion of the taxpayer census, numbers will also be distributed to all taxpayers by end-December 2011. A database will be sent to the Fund once compiled.
Expenditure policy				
5	Revise petroleum price structure as defined in the TMU (TMU, paragraph 12).	June 2011		
Public financial management				
6	Introduce a Treasury Single Account.	December 2011		The selection process of the consulting firm that would need to install the interface between the CBM and Treasury was initiated with World Bank assistance.
7	Design an overall external debt management strategy.	December 2011		The World Bank has finalized a proposed external debt strategy, which is now under discussion with the government.
8	Complete a study on the financial situation of the main public enterprises, following financial audits of the following companies: SOMELEC, SOMAGAZ, SNDE, MAURIPOST and SONIMEX.	December 2011		An audit of SOMELEC was completed last year. Invitations to tender for the remaining four audits are expected to be issued by end-June. The World Bank will provide financial assistance.
9	Finalize a repayment strategy for the debt owed by the government to SOMELEC.	December 2011		
Central bank transparency				
10	Audit the CBM's NIR and NDA data as of December 31, 2010.	March 2011	Met	End-December targets were audited by end-March but a completed audit opinion was only provided by the external audit firm (Ernst and Young) after March as problems in Côte d'Ivoire impacted its regional operations.
11	Finalize the audit of the CBM's NIR and NDA target as of June 30, 2011.	September 2011		
12	CBM should publish on its website audited financial statements together with audit opinion of the year ended on December 31, 2010.	June 2011		
Financial sector				
13	Conduct an audit of commercial banks' financial statements (as of end-December 2010) by a firm hired through invitation to tender.	September 2011		Ongoing. Some audits have already been completed and the results transmitted to the CBM.
14	Increase banks' minimum capital to UM 5 billion ($18 million).	December 2011		Ongoing. All but two smaller banks already met the 2011 threshold at the end of 2010.
Social policy				
15	Conduct with the support of the World Food Program a new poverty survey.	October 2011		

ATTACHMENT II. 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 intention (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.

I. 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 (US$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/US$262.0), the SDR (US$/SDR 1.61), the Euro (Euro/US$1.49), and other non-dollar 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 = 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). 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 guaranted** by the government, the CBM, and State Owned Enterprises (excluding SNIM) is defined as debt to non-residents, 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 Foreign Debt (IMF Executive Board Decision No 6230- (79/140), Point 9, as revised on August 31, 2009, and effective December 1, 2009 (Decision No.14416-(09/91); see Annex) 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 Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-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 ten-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. This definition applies to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000; see Annex). 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 are:**

- Conduct by end-March 2011 an audit of NIR and NDA data of the CBM as of end-December 2010.
- CBM should publish on its website by end-June 2011 the CBM's audited financial statements together with audit opinion as of December 31, 2010.
- Modify, by end-June 2011, the petroleum price structure by applying market prices to large consumers (including mining companies) of petroleum products and gradually increasing fuel prices.
- Finalize by end-June 2011 a tax arrears recovery plan.
- Finalize by end-September 2011 an audit of NIR and NDA data of the CBM as of end-June 2011. Observance of this benchmark will require transmission to the IMF staff of the final audit report.
- Conduct a census of all businesses, including medium-size enterprises by end-September 2011.
- Conduct by end-September 2011 an audit of commercial banks' financial statements as of end-December 2010 by a firm hired through invitation to tender.

- Conduct by end-October 2011, with assistance from the World Food Program, a poverty study to actualize data on the neediest population.

- Complete by end-December 2011 the issuance of new taxpayer identification numbers. This benchmark aims at building a centralized taxpayers database and provide each taxpayer with a single identification number. Observance of this benchmark will require transmission to IMF staff by end-December 2011 of the database, including all taxpayers and their single identification number.

- Full implementation and use of 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.

- Increase by end-December 2011 bank minimum capital to UM 5 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.

- Complete by end-December a government arrears repayment plan for SOMELEC.

II. Program Adjustors

13. **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).

14. 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 US$35 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of US$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.

15. **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.

III. Reporting Requirements

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

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 bills 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 at 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.

- Bi-monthly table projecting foreign exchange flows and flows of monetary liquidity within one week.

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.

- A detailed monthly report on the expenditures planned in the government's emergency response program ("Solidarity Program") and to repay petroleum distributors.

- 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.

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.

Technical Monitoring Committee

17. Monthly report on program execution three (3) weeks at the latest after the expiration of the month.

18. All data will be transmitted electronically. Any revisions to previously reported data accompanied by an explanatory note shall be promptly communicated to the staff.

IV. Central Government Operations Table

19. 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 technical arrears and passive debts as defined in Paragraph 8; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

ANNEX

DEFINITION OF DEBT SET FORTH IN NO. 9 OF THE GUIDELINES

The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt reads as follows:

(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances on money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' creditors) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payments on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.