International Monetary Fund

Islamic Republic of Mauritania and the IMF

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December 12, 2011

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Islamic Republic of Mauritania : Letter of Intent, and Technical Memorandum of Understanding

November 19, 2011

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

LETTER OF INTENT

Nouakchott, November 19, 2011

Madame Christine Lagarde
Managing Director
International Monetary Fund
700, 19th Street, NW
Washington, DC 20431
USA

Dear Madam Managing Director:

1. The government's efforts have continued to strengthen the macroeconomic fundamentals of Mauritania, enabling the country to register positive growth for a second consecutive year. Prudent policymaking and rising metals prices have helped foster an environment of macroeconomic stability, in spite of the sharp increases in energy prices. However, the economy remains vulnerable to exogenous shocks and faces a severe rain shortage this year, which could lead to a serious food crisis, comparable to the drought years Mauritania experienced in 200–03. The drought is likely to further impoverish rural areas that are already characterized by high rates of unemployment and poverty. The targeted short-term emergency program, which we intend to finance with our own budgetary resources, should mitigate the effects of the drought and help us react promptly to food insecurity risks.

2. To further entrench political pluralism and consolidate democracy, the government has embarked on a process of inclusive dialogue with the opposition parties, which led to a consensus on a number of political reforms. These reforms include modifying certain provisions of the constitution to rebalance the relationship between the executive and legislative branches and to ensure greater transparency of elections, notably through the creation of an independent structure in charge of organizing elections.

3. We have achieved the June 2011 objectives of the three-year ECF-supported arrangement. More precisely, we have met all the quantitative performance criteria for end-June 2011 (Table 1). In addition, the structural benchmarks (Table 2a) for end-June and September were all met, but with a slight delay for the publication of the decree on large industrial oil and gas consumers and the audits of commercial banks' financial statements. Concerning the end-October structural benchmark on the poverty and vulnerability survey, the preparations were completed on time, but the execution of the survey had to be postponed because of logistical difficulties and the overlap with the civil status survey. We expect to complete the poverty and vulnerability survey for Nouakchott by the end of the year and cover the rest of the country in 2012.

4. This Letter of Intent (LOI) is based on the previous LOI and Memorandum of Economic and Financial Policies (MEFP) approved by the IMF's Executive Board on June 22, 2011. Our macroeconomic policy program will continue to balance our efforts to consolidate macroeconomic stability on the one hand, and the need to respond appropriately to the drought and elevated food prices on the other hand. We will also pursue our goals of bringing down unemployment and improving general living conditions. In order to achieve the objectives under the ECF-supported program, we are committed to continue implementing prudent, appropriate, and consistent macroeconomic policies. Furthermore, we have succeeded in mobilizing US$2 billion in donor assistance, corresponding to over 64 percent of the total commitments made at the Brussels Round Table in 2010. As warranted by developments in food insecurity risks, we intend to call on the assistance of our bilateral and multilateral partners in an effort to mobilize the necessary additional assistance, particularly through emergency grants.

I. Recent Trends in the Economy and the Program for 2011

5. The economic recovery that started in 2010 gained momentum in 2011, reflecting continuing dynamism of the non-extractive industries (the production index of these industries was up by 16 percent year-on-year in the first six months of the year) and services. A prudent monetary policy stance helped contain inflation to 5.4 percent year-on-year at end-June despite rising international food prices. The current account deficit narrowed considerably as a result of rising export prices and strong external demand. Consequently, official reserves significantly exceeded the program target and stood at US$426 million at end-June, the equivalent of 3.6 months of imports.

6. The most notable developments in the area of public finances in the first half of 2011 were the considerable increases in mining revenue, important improvements in tax collection, and the nonpayment of energy subsidies related to the delayed adoption of an advance decree. As a result, the net government surplus rose by 1.4 percentage points of GDP at end-June, notwithstanding the expenditures linked to the short-term temporary emergency program ("Programme de Solidarité"). The government's cash surplus reduced the need to issue T-bills.

7. Money supply rose by 25 percent year-on-year in the twelve months to June 2011. This increase was higher than anticipated by the program and is essentially attributable to a more substantial accumulation of foreign reserves. In contrast, private-sector credit growth was in line with program projections even after adjusting for the recapitalization of SOMELEC, the public electricity company, which was accompanied by a marked reduction in its bank loans. Banks saw their free reserves increase to very high levels. After appreciating at the beginning of the year, the ouguiya depreciated. The Central Bank of Mauritania (CBM) limited its interventions to smoothing excessive volatility in the exchange rate.

8. The macroeconomic projections for the remainder of 2011are broadly consistent with program objectives. Real GDP growth is expected to be 4.8 percent in 2011, slightly below program projections, due to the drought-related downturn of the agricultural sector. Inflation is set to increase to about 6.7 percent year-on-year at end-December, reflecting a gradual liberalization of several administered prices. Official foreign exchange reserves, which attained a record level of US$522 million at end-September 2011, are expected to stand at US$445 million at the end of the year, following several interventions to provide resources to the foreign exchange market.

9. Maturing T-bills, the recent increase in the minimum wage, and the acceleration of investment and subsidy payments in the last two months of the year are not expected to significantly affect the Treasury's cash position. In fact, due to its comfortable cash reserves, the Treasury reduced its reliance on bank financing, resulting in a pronounced drop in T-bill rates to 2.75 percent at end-October and excess liquidity in the banking sector. However, banks' liquidity surplus has not translated into undue private-sector credit growth. The CBM remains vigilant and stands ready to act if a sharp increase in credit to the economy should generate inflationary pressures.

II. PROGRAM FOR 2012

10. Mauritania's overall economic outlook remains favorable for 2012, although significant challenges remain. GDP growth in 2012 is expected to be 5.5 percent thanks to the improved performance of the mining sector (particularly gold). On the other hand, cereal production is projected to decline by about 50 percent during the 2011/2012 agricultural season. The authorities' determination to react to any inflationary pressures should limit inflation to 6.8 percent in 2012. Increased production and high metals prices should help to offset to some extent the anticipated increase in food imports, limiting the deterioration in the current account deficit. The Mauritanian economy's capacity to withstand exogenous shocks will be strengthened by accumulating official reserves (which will reach the equivalent of 4.2 months of imports at end-2012) and saving a share of additional mining revenues.

A. The macroeconomic program

Fiscal policy

11. Fiscal policy in 2012 will aim at strengthening investment and social expenditure, implementing an emergency program to address the immediate impact of the drought, increasing non-mining tax revenue, and gradually phasing out non-targeted subsidies. The recently approved 43 percent increase in the minimum wage will affect only 4,000 employees in the public sector and will not have a significant impact on the budget. Consequently, the basic non-oil deficit is projected at approximately 0.7 percent of non-oil GDP in 2012, corresponding to a 0.3 percent of non-oil GDP improvement compared to this year. However, the overall deficit is deteriorating and remains high at 3.4 percent of non-oil

GDP. Financing requirements will be largely met through nonbank financing and concessional budgetary assistance.

12. The revenue target has been set at 25.6 percent of non-oil GDP. Mining receipts account for a large share of all revenue, with a dividend pay-out ratio from SNIM set to at least 30 percent. The improvement in tax revenue will, among other things, accrue from restoring excises on tobacco (20 percent). In collaboration with an IMF TA mission scheduled for early 2012, we intend to review mining taxation and set up a mining fund.

13. In the 2012 budget, total government expenditure will be contained at UM 384 billion (30.2 percent of GDP). Planned expenditures incorporate a package of measures to ease the impact of the drought on the general public (distribution of free food, subsidies for essential goods, cash transfer mechanisms, and providing farmers and stockbreeders with animal feed and agricultural inputs at reduced prices). Current expenditure will be reduced to 20.3 percent of non-oil GDP through control of the wage bill and anticipated gains due to: (i) the exclusion of large industrial consumers from the administered petroleum product pricing structure and the elimination of the corrective margin with effect from January 2012; (ii) the increase in electricity prices for industrial consumers, which will be based on the findings of a study on electricity tariffs (see below); and (iii) the reduction in gas subsidies. Given our enhanced capacity to implement capital spending plans, we intend to substantially raise investment expenditure. As of 2012, we also plan to begin repay domestic arrears, including those related to tax credits. If fiscal revenue turns out to be weaker than expected, we stand ready to make necessary adjustment on the spending side, particularly to non-essential expenditure on goods and services.

Monetary, financial, and foreign exchange policies

14. The conduct of monetary policy will remain prudent and primarily focused on controlling inflation. The monetary objective is to increase broad money by 13.2 percent in 2012, which will support efforts to strengthen the private sector and meet financing needs of the non-extractive activities. However, the monetary authorities stand ready to react to any sign of inflationary pressures by tightening monetary policy, which includes raising reserve requirements if excess liquidity in the banking sector reveals itself to be structural in nature.

15. The CBM's independence will be reinforced by clearly identifying the amount of T-bills that need to be issued for monetary purposes. T-bills for monetary operations will be used to manage liquidity on a short-term basis, and the associated costs will be fully borne by the CBM. We also plan to improve liquidity management by organizing weekly meetings of the budget and monetary policy coordination committee, which will analyze the Treasury's cash position and make three-month rolling cash management forecasts. In an effort to develop flexible monetary policy instruments on a more permanent basis, we will benefit from the recommendations of the TA mission by the IMF's Monetary and Capital Markets Department (MCM) scheduled for early 2012.

16. With respect to foreign exchange policy, the measure to limit bids for foreign exchange to 130 percent of the banks' free reserves has proven effective at reducing the amount of leveraged bids. Building on this success, we will ensure that the exchange rate market continues to be transparently and efficiently managed, including through conducting sales of foreign exchange solely through regular market sessions. The foreign exchange purchased at the auctions organized by the CBM will be delivered to the purchasing commercial bank by no later than the next day. 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 volatility.

17. The reform of the financial system will be accelerated with a view to deepening financial intermediation, strengthening safeguards, and addressing the constraints identified by Fund TA missions. The financial sector study that is currently being prepared by the World Bank will help us to set strategic priorities, including priorities for the microfinance sector. Most commercial banks already comply with the regulation that sets a floor of UM 5 billion for bank capital, and this floor will be raised to UM 6 billion in 2012. Our actions will focus on the following:

- *Development of long-term savings.* We will shortly adopt an instruction to lower the regulatory interest rate floor for a certain class of savings products, which will better enable banks to attract long-term deposits and reduce the maturity mismatch for long-term loans.

- *Monitoring of risks*. We are aware that the decline in T-bill rates will contribute to a reduction in banks' profitability. We intend to monitor banks' remedial strategies closely and develop an action plan for addressing financial sector instability if it should materialize. We will also allocate further resources to the credit bureau of the central bank [*centrale des risques*]. As a result, the credit bureau will have an adequate IT infrastructure, improve its capacity to maintain an individualized identification number for each borrower, provide timely information, and begin creating a database on borrowers in arrears. We are currently analyzing results of the recently completed audits of commercial banks (structural benchmark for end-September 2011) and we plan to complement these findings with an international audit of all banks, funded by the World Bank, to be completed by end-June 2012.

- *Strengthening of banking system regulations and supervision*. The CBM, together with TA by AFRITAC West, will pursue their ongoing efforts to phase in a new capital adequacy framework (Basel II) and review the banking law in priority areas (appealing against CBM's penalties and money laundering). In the short term, the CBM will ensure that the banking supervision department has sufficient financial resources and can operate free of interference, while monitoring banks' compliance with existing prudential rules and regulations. Penalties for breach of reserve requirements, concentration limits, and foreign exchange exposure limits will be strictly applied. At the same time, the banking supervision department will ensure that on-site supervision is well organized and professionally run, with a strict and uniform application of the existing regulatory framework, notably through risk-based supervisory assessments. World Bank technical assistance will help support us in this area. We will also review the rules on connected lending practices, and begin our analysis by calculating the impact on the banking system of tightening the definition of connected parties (structural benchmark for end-March 2012).

- *IFRS*. The CBM will continue to make the necessary efforts, with technical assistance, to complete the remaining steps for IFRS adoption by end-2012. In the meantime, the CBM, with the assistance of an international audit firm, will quantify the differences between the CBM's 2010 financial statements prepared under Mauritanian accounting standards and IFRS by end-March 2012 (structural benchmark).

- *Transparency.* In June 2011, we published the CBM's 2010 financial statements and the auditors' opinion. The detailed and consolidated survey of the banking system will be published quarterly on the CBM's website in order to allow interested parties to review the status of the banking system. The CBM will continue to have its financial statements—including its reserves position—audited by an international auditing firm selected through an international bidding process.

External sector and debt management

18. Given the favorable outlook for production and metals prices (iron ore, gold, and copper), the current account deficit will be around 7 percent of GDP in 2012, with the increase relative to the preceding year caused by rising food imports and substantial investments in the energy sector. The deficit will be financed through higher external financing as well as through FDI in the mining and oil sectors.

19. To ensure external debt sustainability, we will mobilize concessional financing to finance our public investment program. A committee has been set up to prepare an external indebtedness strategy for end-December 2011 (structural benchmark), which will benefit from the assistance of an international expert and will take account of IMF and World Bank recommendations. The decree pertaining to this committee will be published by end-2011. We will actively pursue our best efforts to complete debt relief agreements with bilateral creditors, in particular with Kuwait. The goal is to reach an outcome for the treatment of this debt in the coming months that is comparable to agreements reached with Algeria and Libya

B. Structural reforms

20. We attach great importance to structural reforms that contribute to high growth, create jobs for young people, and reduce poverty. We have broadened the dialogue on these reforms. Technical and financial partners are now invited to meet with the Technical

Monitoring Committee (CTS) on a quarterly basis to ensure better coordination on structural reforms.

Strengthening the social protection system and gradual removal of subsidies

21. To unify and strengthen the social protection system, while enabling it to play an effective role in supporting the poor and vulnerable, the government, with UNICEF support, has used the recommendations of the assessment study of existing social protection programs to develop a social protection strategy. Together with technical and financial partners, this strategy will be confirmed at the regional level and adopted by the government by end-2011.

22. Our policy focus is on gradually phasing out poorly-targeted subsidies, particularly in the energy sector. Similarly, the urgent need to prevent a worsening of food insecurity calls for an expeditious assessment of existing subsidy systems, the implementation of a reliable system for targeting at-risk populations, and a robust pricing mechanism for energy products. In this context, we have recently adopted a strategy on food security and will continue our information campaign to educate the public about the high budgetary cost of subsidies and explain our future strategy, which has the following features:

- Implement an automatic fuel pricing mechanism, which smoothes fluctuations in international prices, while reducing existing subsidy margins and simplifying the existing fuel price formula.

- Evaluate the dedicated shops of the emergency program (*boutiques de solidarité*) under the supervision of a steering committee which will be strengthened by including representatives from the Food Security Commission (CSA), the National Statistical Office, civil society, the World Food Program, and UNICEF, in addition to representatives of the ministries concerned. The findings of this evaluation will help analyze the impact of the solidarity program on the poor, ensure more effective geographic distribution of the dedicated shops, and reduce the list of subsidized products.

- Finalize the vulnerability and poverty survey for Nouakchott before the end of the year, and extending it to the entire country in 2012 (structural benchmark end-April 2012). We also plan to use the results of the World Food Program-CSA survey scheduled for December 2011 to identify communities that are likely to experience food insecurity. These communities could benefit from the free food distributions program in 2012, which will be financed by the budget.

- Implement targeted cash transfer schemes that build on pilot programs with proven effectiveness that have already been implemented on a small scale by technical and financial partners. Resources freed up by the energy price adjustments will allow for greater use of conditional transfer programs, such as school meal programs, food-for-work initiatives and support for pregnant women.

Public finance reforms

23. The strategic public finance plan, which was prepared with assistance from the technical and financial partners (in particular the IMF and EU), will lead to an operational action plan and a timetable for implementation by end-2011. This plan will cover all reforms related to budget preparation, execution, supervision, and transparency.

Improving revenue collection

24. Enhanced off-site monitoring and improved capacity to cross-check data at the General Tax Directorate (DGI) has helped identify new taxpayers and generated substantial additional revenue. We will continue our efforts in this area by drawing on our plan to collect tax arrears, which was finalized at end-June (structural benchmark). The census of all taxpayers has already started and will be completed as planned by end-December. Once completed, the survey will facilitate the issuance of unique identification numbers to all taxpayers, including those not managed by the DGI (structural benchmark). We have set up a joint commission to address the issue of how to refund VAT credits, and we will prepare an action plan for the gradual elimination of the withholding-at-source practice for VAT. An IMF TA mission scheduled for early January will help us design a comprehensive framework for addressing these issues. Repayment of VAT refunds will start in 2012.

25. Customs reform is making steady progress and is on track for full adoption of the ASYCUDA++ system and the migration to the central server by end-2011 (structural benchmark). The transition to the new system will improve the management of exemptions and introduce digital archiving. To guard against tax evasion, the customs modernization strategy focuses on inspection and cross-checking of customs data against the data provided by SGS. We will strive to optimize our contract with SGS and streamline audits. Furthermore, we will install the SGS-Customs interface, provided that our capacities increase as planned, and monitor the implementation of a valuations database. To enhance synergies with the DGI and formalize information exchanges on taxpayers, a memorandum of understanding between the DGD and the DGI will be drawn up by December 2012. The draft of the new customs code is progressing well, and will be ready for submission to the Council of Ministers by end-January 2012 with the view to having it adopted by June 2012.

Managing public expenditure

26. Improving decision making and active cash flow management are priorities for the government. The implementation of the Single Treasury Account, initially scheduled for end-2011 (structural benchmark), has been largely completed after closing the Treasury's dispersed sub-accounts. All related measures, in particular the acceptance of the Treasury as a fully-fledged member of the clearing house, will be put into practice by November 2011. The Treasury/CBM interface began operating in August 2011 and will be fully functioning by March 2012.

27. With respect to budget preparation and execution, we started to use the functional classification of public expenditure and itemized all subsidy expenditures previously included under the heading "common expenditures" (*dépenses communes*) in the 2012 budget. Mindful of the need to improve budget preparation and execution, the authorities will take all steps necessary to rehabilitate the budget process. We have regularized extrabudgetary expenditures of UM 16 billion, and we agree to resort to one-off spending procedures and cash advances and transfers only in cases of extreme urgency. We will ensure that the budget clearly specifies and spells out all transfers to public enterprises as well as any new tax levered on private companies. To evaluate the financial position of the government, we will produce a comprehensive inventory of domestic debt and government liabilities to public and private entities, including commercial banks (structural benchmark for end-March 2012). This inventory will be published and serve as a basis for settling the identified arrears.

28. In line with IMF TA and World Bank recommendations regarding the public expenditure review, we will step up our efforts to launch an integrated public financial management system, strengthen capacities for the internal and external review of public expenditure, and ensure that the new procurement code is fully implemented.

Containing the wage bill and improving the quality of public services

29. We will accelerate the civil service reform, which has been lagging considerably. In this context, we will use the current census of civil servants as a basis for the payroll (structural benchmark for end-June 2012). The public sector will continue to ban any recruitment that is not governed by civil service regulations. In the short term, we also plan to put in place an effective and permanent mechanism that controls for the presence of civil servants in their offices. To strengthen human resources management, we plan, with World Bank TA, to conduct an organizational audit, beginning with the Ministries of Education, Finance, and Health. Furthermore, a methodology for forecasting the wage bill will be designed and implemented at the Ministry of Finance with assistance from AFRITAC West. In particular, we intend to make the tracking of personnel expenditure more effective, and introduce forward-looking management of staffing levels. Allowances will be made for replacing departing personnel with a controlled number of new recruits, reflecting the qualitative needs of government.

Improving public enterprise performance

30. The government is committed to easing the budgetary burden associated with subsidy payments to public enterprises. To manage these transfers more effectively, we will carry out a technical and financial audit of MAURIPOST, SNDE, SOMAGAZ, and SONIMEX, which should be completed by end-2011 (structural benchmark). These audits, funded by the World Bank, should help prepare the process of mending these companies' financial position. Performance contracts will also help make their management more effective. We will also organize regular financial audits of public enterprises and improve coordination between the

various ministries concerned. To improve the monitoring of the wage bill of public enterprises, we intend to carry out a personnel census, produce a centralized database at the level of the Directorate-General of Government Property, and review the government's wage payments to public enterprises more closely.

Reforming the electricity sector

31. Following the study on the restructuring of the electricity sector and SOMELEC, we recapitalized SOMELEC to the order of UM 20 billion. An additional capital increase of UM 13 billion will be paid by end-December 2011, with no impact on the government budget. At the same time, the government has begun paying its electricity bills to SOMELEC on time, and has paid SOMELEC a substantial part of the company's operating subsidy. This has enabled SOMELEC to limit its recourse to bank borrowing at high interest rates.

32. In an effort not to jeopardize the restructuring of SOMELEC, we will ensure that the electricity bills of all government agencies and public enterprises are paid regularly. We have clarified the net financial position between SOMELEC and the government, and envisage settling the associated arrears over a period of three years. A formal plan will be presented by end-December 2011 (structural benchmark). Furthermore, the tenders for the electricity tariff study have been received and processed, and the contract has been awarded. This study will review existing tariffs, in particular those applied to large industrial consumers, which will be revised upward as of July 2012 (structural benchmark). Such action will be part of the ongoing reform plan aimed at reducing technical and non technical losses, as well as reducing costs by moving to gas-powered facilities by 2014–15.

Improving the business climate and promoting the private sector

33. We are committed to remedy the weaknesses in the investment climate and lifting the constraints on private-sector development. To this end, a new investment code has been prepared and is expected to be submitted to the Council of Ministers for approval in the near future. The new code provides for a one-stop facility that will simplify administrative procedures related to new investments. A national strategy for developing private-sector skills will also be introduced. The authorities have put additional emphasis on the measures aiming to modernize the education system such as vocational training programs for young graduates and the unemployed. We will also align existing curricula with private-sector needs. Moreover, we will mobilize additional resources to increase agricultural output—which remains below potential—through subsidization of fertilizers and seeds, the development of new irrigated fields, and the upgrading of infrastructure projects, such as dams.

34. Regarding measures to boost employment, we plan to start an employment study in January 2012 that will contribute to establish a reliable database on labor market conditions. In the meantime, we will implement an integration program for young unemployed university graduates. The goal is to help them develop their own businesses, especially in the

agricultural sector. Moreover, this program will be extended to the fishing sector. Efforts will also be made to move the unemployed without an education into permanent jobs through income-generating activities (IGAs) in rural and urban areas. At the same time, with the technical and financial support of the World Bank, we intend to introduce a broad training and integration program focusing on unskilled workers.

Strengthening governance and transparent management of public resources

35. Fighting corruption is a government priority. We adopted a national anti-corruption strategy (SNLC) in 2010, aiming at ending impunity and limiting fiscal evasion, fraud, and poor management of public resources. The government is also committed to total transparency in the management of financial resources originating from the mining industries. To illustrate this commitment, Mauritania has been a member of the Extractive Industries Transparency Initiative (EITI) since 2005. A mission evaluating Mauritania's progress towards EITI principles visited Nouakchott in October, and we expect to become fully compliant by the end of this year. We have organized seminars on good governance in the extractive industries. Importantly, we propose to broaden the scope of this initiative to encompass new sectors, specifically fishing and the entire value chain of the extractive industries.

Improving economic statistics

36. We are mindful of the crucial role of reliable statistical information in the preparation, monitoring, and assessment of macroeconomic policies, PRSP implementation, and progress towards the MDGs. A committee will meet each month as of January 2012 to validate government finance data, strengthen reconciliation with national accounts, and carry out cross-checking with data received by the various line ministries. We intend to begin a survey that will eventually lead to a comprehensive reform of the CPI index (IHPC) in 2012, financed by our own budgetary resources. The price index will then cover the entire national territory. A new survey on household living conditions (EPCV) will make it possible to update employment and poverty data in 2012. We will continue with the organizational and institutional reform of the ONS. In the same vein, we will launch statistical functions in ministerial departments to improve data collection and processing for macroeconomic aggregates, national accounts, prices, and debt.

C. Risks

37. Although the Mauritanian economy is performing well, various risks may interfere with program objectives, including: (i) a greater-than-anticipated impact of the drought on the agriculture/stockbreeding sector; (ii) the return of large volatility in export prices (iron ore, copper, and gold) and erratic fluctuations in import prices (wheat, rice, and oil); and (iii) shortfalls in concessional external financing. The government stands ready to take appropriate measures to mitigate these risks, should they materialize. Any such corrective measures will be taken in consultation with IMF staff.

III. Conclusion

38. As the main objectives of the program for the first half of 2011 have been achieved (Tables 1 and 2a), the government requests approval of the third review of the program supported by an arrangement under the ECF as well as the disbursement of SDR 11.04 million. While we do not seek modification of the end-December 2011 performance criteria, we believe that the more ambitious targets incorporated in the new macroeconomic framework are realistic and achievable. We have agreed to new performance criteria for end-June 2012 and indicative targets for end-December 2012.

39. We will maintain a close policy dialogue with the IMF and are prepared to take additional actions, if necessary, to achieve program objectives. We will continue to provide IMF staff with the information necessary for continuous program monitoring. New structural benchmarks have been set for end-2011 and 2012 (Table 2b). The fourth review under the program is scheduled to be concluded by June 1, 2012, and the fifth review by November 30, 2012.

Very truly yours,

/s/
Thiam Diombar
Minister of Finance

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

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

Table 1. Mauritania: Quantitative Benchmarks and Performance Criteria for 2011 and 2012

the First Annual Program under the ECF Arrangement 1/

(Cumulative change from end-December 2010 and from end-December 2011) 1/

	End-Mar. 2011			End-Jun. 2011			End-Sep. 2011	End-Dec. 2011	End-Mar. 2012	End-Jun. 2012	End-Sep. 2012	End-Dec. 2012
	Indicative Target	Indicative Target adjusted	Actual	Performance criteria Rev.	Performance criteria adjusted	Actual	Indicative Target	Performance criteria	Indicative Target	Performance criteria	Indicative Target	Indicative Target
Quantitative targets												
Net international reserves of the BCM (floor); in million of US$ 2/	4.4	14.3	33.4	46.9	29.5	100.8	233.0	82.9	-6.9	41.8	76.1	37.7
Net domestic assets of the BCM (ceiling); in billions of ouguiyas 2/	4.7	2.1	-7.8	-8.4	-3.8	-9.6	-7.9	-7.5	-3.1	-13.6	-14.9	-0.8
Basic non-oil balance; in billions of ouguiya	-8.6	-8.6	18.1	7.9	7.9	14.0	15.5	-17.0	-1.7	15.7	16.7	-8.4
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling) 3/	0		0	0		0	105	105	0	0	0	0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)	0		0	0		0	0	0	0	0	0	0
New external arrears on non reschedulable debt (continuous quantitative performance criterion)	0		0	0		0	0	0	0	0	0	0
Poverty-related expenditures; in billions of ouguiyas (indicative target)	19.6		5.8	32		42.6	68.9	106.5	24.3	56.4	87.1	115.7
Adjustors (in millions of US$)												
Net international assistance	6.9		29.8	24.8		10.0	31.1	32.8	-7.2	-39.0	-41.5	-50.0
Cumulative disbursements of official loans and grants in foreign currency	13.9		37.9	51		38.3	64.1	92.6	0.0	0.0	4.7	28.1
Impact of any additional debt relief	0		0	0		0	0	0	0	0	0	0
Cumulative amounts of external cash debt service payments	-7.0		-8.1	-26.2		-28.3	-33.0	-59.8	-7.2	-39.0	-46.2	-78.2
FNRH contribution to the budget	13.0		0.0	22.5		19.9	22.5	34.8	0.0	0.0	0.0	50.6
Cumulative disbursements of official grants in foreign currency	13.7		2.2	15.6		2.5	15.6	24.6	0.0	0.0	4.7	14.0
Memorandum item:												
UM/$ exchange rate (program)	262							262				262

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

Table 2a. Mauritania. Structural Benchmarks, 2011

Item	Measures	Date (end-of-period)	Outcome	Comment
Tax administration				
1	Finalize a plan for recovering tax arrears.	June 2011	Met	A draft plan is already available and being used at the tax agency.
2	Conduct a census of all businesses, including SMEs.	September 2011	Met	Some SMEs are now also being processed by the large taxpayer unit. The Census has been completed.
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		Numbers have already been distributed to all known taxpayers. After the completion of the taxpayer census, numbers will also be distributed to all taxpayers. A database will be sent to the Fund once compiled.
Expenditure policy				
5	Modify petroleum price structure as defined in the TMU (TMU, paragraph 12).	June 2011	Met with slight delay	Decree issued July 4, 2011.
Public financial management				
6	Introduce a Treasury Single Account.	December 2011		Sub-accounts have been closed down. Accompanying measures should be in place by November 2011.
7	Design an overall external debt management strategy.	December 2011		An ad hoc committee has been set up to prepare a strategy with the aid of an international consultant.
8	Complete a study on the financial situation of the main public enterprises, following financial audits of the following enterprises: SOMELEC, SOMAGAZ, SNDE, MAURIPOST, and SONIMEX.	December 2011		An audit of SOMELEC was completed in 2010. The terms of reference for the remaining four audits have been approved.The bids are currently being processed. The World Bank is providing financial assistance.
9	By end-December 2011, finalize a repayment strategy for the debt owed by the government to SOMELEC over a period of three years.	December 2011		The amount of the cross-debt has been determined. A general plan for repayment of arrears will be prepared by end-2011.
Central bank transparency				
10	Audit the CBM's NIR and NDA data as of: end-December 2010.	March 2011	Met	End-December targets were audited by end-March. The completed audit report was not provided until April 2011.
	end-June 2011	September 2011	Met	The audit has been completed and the preliminary audit report has been submitted on time.
11	The CBM should publish on its website audited financial statements together with audit opinion for the year ended on December 31, 2010.	June 2011	Met	
Financial sector				
12	Conduct an audit of commercial banks' financial statements (as of end-December 2010) by a firm hired through invitation to tender.	September 2011	Met, with delay	Staff received most audits on time, and the final two were sent via mail in early November.
13	Increase banks' minimum capital to UM 5 billion (US$18 million).	December 2011		Ongoing. All but two banks already met the 2011 threshold at the end of 2010.
Social policy				
14	Conduct with the support of the World Food Program a vulnerability and poverty survey.	October 2011	Deferred to 2012	The poverty survey will be conducted in two phases. The Nouakchott phase will be carried out before end-year, while the survey for the rest of the country has been deferred until early 2012.

Table 2b. Mauritania: New Structural Benchmarks under the ECF, 2011-12.

Item	Measure	Date (end-of-period)	Objective
Expenditure policy			
1	Update the payroll file with actual results from the census of employees.	June 2012	Control public wage bill.
2	Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study.	July 2012	Phase-out poorly targeted subsidies.
Public financial management			
3	Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears.	March 2012	Enhance transparency of government financial operations.
Central bank transparency			
4	Complete the report on the quantification of differences between the CBM's 2010 financial statements prepared under national accounting principles and under IFRS, prepared with the assistance of an international audit firm.	March 2012	Enhance central bank transparency.
5	The CBM should publish on its website audited financial statements together with audit opinion for the year ended on December 31, 2011.	June 2012	
6	Audit the CBM's NIR and NDA data as of end-December 2011.	March 2012	
Financial sector			
7	Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties.	March 2012	Safeguard financial sector stability.
Social Policy			
8	Assess effectiveness of the dedicated shops used in the solidarity program.	December 2011	Improve targeting of next emergency program to better protect the vulnerable and poor.
9	Conduct with the support of the World Food Program a vulnerability and poverty survey.	April 2012	The poverty survey will be conducted in two phases. The Nouakchott phase will be carried out before end-year, while the survey for the rest of the country has been deferred until early 2012.

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 guaranteed** 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 non-concessional 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:**

- 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 2011 a government arrears repayment plan for SOMELEC.
- Assess effectiveness of the dedicated shops used in the solidarity program by end-December 2011.

13. **Structural benchmarks for the 2012 tranche of the program are:**

- Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears by end-March 2012.
- Audit the CBM's NIR and NDA data as of end-December 2011 by end-March 2012.

- Complete by end-March 2012 the report quantifying the differences between the CBM's 2010 financial statements under national accounting principles with those under IFRS, prepared with the assistance of an international audit firm.
- Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties by end-March 2012.
- Conduct by end-April 2012, with assistance from the World Food Program, a poverty and vulnerability survey.
- Publish on the CBM's website the audited financial statements together with audit opinion for the year ended on December 31, 2011 by end-June 2012.
- Update the payroll file with actual results from the census of employees by end-June 2012.
- Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study by end-July 2012.

II. PROGRAM ADJUSTORS

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

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

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

III. REPORTING REQUIREMENTS

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

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.
- 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**

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

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

IV. Central Government Operations Table

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

- **Grants** are defined as a sum of foreign project grants (grants used in the execution of the foreign-financed investment projects included in the central government and the *EPA* parts of the consolidated investment budget and (*parties BE et BA*)); and foreign program grants for budget support including the multilateral HIPC debt relief on the government external debt budget and HIPC debt relief on the external debt of CBM and SNIM (including the part of the AFD/BFD debt relief on Cologne terms).

- **Domestic bank financing** of the government deficit is defined as a change in the net credit to the government from the banking system, defined as claims on the government minus deposits of the government with the banking system (including the HIPC account but excluding the deposits of public establishments and other administrative units (*EPA*) with the CBM).

- **Domestic nonbank financing** of the government deficit is defined as a net change in holdings of Treasury bills by nonbanks.

- **Domestic arrears** are defined as a net change in the Treasury float and in the stock of domestic claims (beyond a period of three months) on government acknowledged by the Ministry of Finance (including but not limited to accumulated payment arrears to public enterprises (utilities), international organizations, procurement contracts, and court orders).

- **External financing** is defined as the sum of the net outflows from (i.e., the opposite of the change in the balance of the FNRH's offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of 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.