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

June 12, 2012

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

Date: June 12, 2012

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

Dear Madam Managing Director:

1. The government successfully addressed the challenges of consolidating growth and macroeconomic stability at a time of a severe drought, considerably higher food and energy prices, and volatile metals prices, particularly for iron ore, at the end of last year. In addition, the large influx of refugees from Mali has had a major humanitarian impact. By implementing appropriate economic policies, consistent with the priorities set in our Poverty Reduction Strategy Paper (PRSP), we have been able to foster an environment of macroeconomic resilience and maintain price stability, while renewing our efforts to improve the living conditions of our most vulnerable people. Although considerable efforts have been made to strengthen its ability to withstand exogenous shocks, the Mauritanian economy continues to face high unemployment and poverty rates, especially in rural areas.

2. Despite these difficult circumstances, we have met all the quantitative performance criteria for end-December 2011 (Table 1), with the exception of the criterion on nonconcessional external debt. This target was missed because of the busy schedule of the Parliament, which took until January 2012 to approve the nonconcessional loan for the electricity plant that already figured in the program targets for 2011. As a result, the government requests a waiver for the nonobservance of this performance criterion. Moreover, all structural benchmarks (Tables 2a and 2b) were met except for three whose implementation depends on coordination with donors and other private institutions. Concretely, these three structural benchmarks include the audit of public enterprises, the external debt strategy, and the quantification of differences between IFRS and local accounting standards in the CBM’s financial statement.

3. This Letter of Intent (LOI) is based on the previous LOI approved by the IMF’s Executive Board on December 12, 2011. Our macroeconomic policy program will continue to balance our efforts to consolidate economic stability with the need to respond effectively to the immediate challenges posed by the drought and high food prices. We are also determined to fight unemployment and poverty. To achieve the program’s objectives, we are committed to implement prudent, appropriate, and consistent macroeconomic policies, while making growth more inclusive.

I. Recent economic developments and the program for 2011

4. The Mauritanian economy successfully withstood several exogenous shocks in 2011. Annual economic growth was 4 percent. This was lower than forecast, but still one of the highest rates in the Sahel subregion that was hit by the drought. Dynamic activity in the fisheries, construction and public sectors, as well as in the services industry, partly offset the large drop in cereal production (35 percent y-o-y). Despite higher international food and oil prices, inflation was contained at 5.7 percent in 2011 (y-o-y) thanks to lower than expected credit growth and a smaller pass-through from international prices. Higher costs for oil and food imports were offset by rising export prices, which considerably reduced the current account deficit. However, the decline in the current account deficit was less than expected, owing to a drop in iron ore prices in the final quarter of 2011.

5. Our performance under the program was satisfactory despite the difficult national and international environment. All quantitative performance criteria for end-December 2011 were met except for the one on nonconcessional borrowing:

- The basic non-oil deficit, which stood at 0.2% of non-oil GDP, was better than expected (the program target was 1.6 percent of non-oil GDP). This over-performance was due to higher mining revenues and ongoing tax collection efforts, which more than offset additional expenditure linked to rising subsidies for petroleum products and an emergency program for the vulnerable. The government's cash surplus reduced the need to issue T-bills to the banking sector, sharply bringing down T-bill rates to just below 3 percent.

- We have focused on the execution of poverty-related spending, which we consider a priority; thus, the indicative target on pro-poor spending was met by a wide margin for the second consecutive time.

- Net international reserves well exceeded the program target due to high iron ore prices and our desire to build external buffers that are sufficiently high. Official reserves doubled in 2011, reaching an unprecedented $501.6 million, corresponding to 3.6 months of imports.

- Broad money grew by 20 percent y-o-y, in line with the program objectives. This enabled us to meet the program target for net domestic assets.

- Regarding the continuous performance criterion on nonconcessional external debt, a slight delay in our Parliament's timetable held up approval of the nonconcessional loan from the IsDB for the construction of an electricity plant that was part of the program for 2011. As a result, the loan did not become effective until January 2012, with a delay of only three weeks.

6. We made significant progress on a number of structural reforms. We achieved all the structural benchmarks (Tables 2a and 2b) included in the program up to end-April 2012, except for three: (i) the audit of public enterprises, which experienced some delays due to donor approval procedures for the recruitment of auditors; the delays have been resolved and the audits of the five companies will be completed by end-2012; (ii) the external debt strategy; a first draft has already been prepared but we are counting on technical assistance from the Fund and the World Bank, scheduled for early June 2012, to improve it and complete a full medium-term debt strategy, which will be submitted to the Council of Ministers for approval; and (iii) the quantification of differences in the CBM's financial statements between the IFRS and local accounting standards, which will be prepared together with a new auditor by September 2012. As planned, we also completed the poverty and vulnerability survey in Nouakchott at end-April, and we expect to extend it to the rest of the country starting in June 2012.

II. PROGRAM FOR 2012

7. In spite of the challenging outlook for the world economy, the Mauritanian economy is forecast to recover strongly in 2012. Led by a strong recovery in agricultural production, which will benefit from a normal rainy season, and the expected dynamism in the construction sector, real GDP growth is expected to be 5.7 percent. This forecast already reflects the slowdown in external demand from Europe and delays in the execution of investment projects in the gold mining sector. Inflation will remain contained at 6 percent (y-o-y), reflecting a consistent monetary policy stance and lower food and energy prices in international markets. The current account deficit will worsen considerably due to the combined effect of falling exports and sharply rising imports, resulting from the import needs for the emergency program 2012 (EMEL), the construction of the new electricity plant, and the new airport. That said, the Mauritanian economy will continue to increase its ability to withstand exogenous shocks through the accumulation of official reserves (equivalent to 3.8 months of imports at end-2012).

A. The Macroeconomic Program

Fiscal policy

8. Our fiscal policy for 2012 is based on the need to create additional fiscal space for emergency spending while maintaining debt sustainability in the short and medium term. For this reason, the 2012 budget as adopted by the Parliament established EMEL program to respond effectively to the drought, improve non-mining tax revenue, and phase-out nontargeted subsidies. Nevertheless, an amendment to the budget will be necessary to meet a number of pressing needs:

- **Emergency program for the most vulnerable.** The EMEL program, operational since February 2012, has doubled the number of dedicated food shops in rural areas (areas at a high risk of food insecurity), distributed livestock feed at subsidized prices, and begun distribution of free food. The total cost of the program was initially estimated at UM 43 billion, of which UM 23 billion was included in the 2012 budget law. Donors were able to commit about UM 12 billion, of which less than half has been disbursed, to be used mainly to supplement the free food distribution program and new cereal banks. Until additional donor support is fully mobilized, there is an immediate need for emergency spending of about UM 10 billion to cover deficits, in particular for the program of replenishing village cereal banks (SAVS). The costs related to the Malian refugees (currently more than 60,000) are borne entirely by development partners (HCR, WFP and UNICEF).

- **Hydrocarbon subsidies**. Despite our unwavering efforts to raise fuel prices, it will not be possible to bring domestic prices to international levels before the end of 2012 owing to soaring international prices (see below). Additional expenditure of at least 1 percent of non-oil GDP for fuel subsidies is therefore necessary. In addition, we plan to pay the subsidies associated with the last three quarters of 2011, which were delayed due to the approval and payment procedures of the Ministries of Energy and Finance. The new petroleum price structure, which came into effect in May 2012, immediately reduces the corrective margin by one-third, thereby driving it to about 10 percent of the full pass-through price. (See section on subsidies below.)

- **Clearance of arrears**: We have drawn up a plan for the clearance of domestic arrears payable to service providers and petroleum distributers. These payments are scheduled in 2012 though not initially included in the budget and amount to 0.7 percent of non-oil GDP. This amount also takes into account the early repayment of arrears for tax credits, including those of mining companies.

9. With regard to fiscal revenue, we intend to meet the target set in the 2012 budget, despite the uncertainty over the renewal of fisheries partnership agreement with the European Union that is currently being negotiated. In the spirit of prudence, and bearing in mind the higher than expected record profits of the national mining company (SNIM), its board of directors approved a dividend ratio of 25 percent. In addition, the company will make a special one-off dividend payment of 7.5 percent of net profits to support the government's needs, which would generate additional revenues of 1.3 percent of non-oil GDP. The granting of free fishing licenses (0.6 percent of non-oil GDP), ongoing tax collection efforts, which have led to a significant increase in taxpayers' declarations, and the increase in excise duties on tobacco will help meet the revenue target, which will be 29.4 percent of non-oil GDP. To simplify our tax system, we also intend to study the impact of eliminating the general tax on income (IGR) with a view to removing it in the 2013 budget law.

10. Taking all of the above developments into account, the fiscal position should register a slight deterioration. Thus, the basic budget deficit should reach 1 percent of non-oil GDP, compared with the programmed objective of 0.7 percent. The overall balance is also bound to deteriorate and should reach 3.5 percent of non-oil GDP in 2012, compared to 1.5 percent in

2011. The worsening of the overall balance in 2012 is temporary, driven by the need to address the urgent needs of the vulnerable in crisis year, and moderate compared to previous crisis responses. Financing requirements will be largely met through nonbank financing and concessional borrowing.

11. Moreover, to ensure medium-term fiscal sustainability, we will continue to control current expenditure through a number of actions, including by: (i) stabilizing the wage bill at 8 percent of non-oil GDP in 2012 (see below); (ii) increasing medium-voltage electricity tariffs following the tariff study planned in July 2012 (tariffs paid by the service sector already rose in January 2012); and (iii) reducing the corrective margin for LPG. In case of a revenue shortfall or the need to increase EMEL-related expenditure (which in any case is temporary), we are committed to make cuts in nonpriority spending, particularly goods and services.

12. The construction of a new international airport in Nouakchott will not entail any expenditure for the government, apart from the transfer of land and some minor expenditure related to the operation of the airport. The decision to build the airport, which the PRSP originally envisaged as a public-private partnership, was driven by the vision to create a modern aviation hub that allows Mauritania to play a leadership role in the region. The financing of this project (total cost are estimated at $200–300 million) will have no impact on the public treasury, since the government's payment consisted of a land transfer (including part of the location of the old airport) to a private consortium. The government has not provided and will not provide any guarantee or tax concessions to the consortium and the land transfer will take place gradually as the project progresses. An international firm specializing in airport construction is responsible for inspecting and certifying the construction works. When the work is complete, the government will pay around $25 million for navigation systems and the installation of public utilities. The private operator will not be able to sell any of the old airport land (including forward transactions) to third parties until the new airport is finished. Imports linked to this project (approximately $200 million over two years) and other related transactions are all subject to the standard tax system.

Monetary, fiscal, and exchange rate policies

13. Monetary policy will seek to ensure price stability and anchor inflation expectations. The banking system continues to have abundant liquidity (mainly stemming from the good performance of the export sector), but this has not been accompanied by a strong acceleration in credit that would generate inflationary pressures. For 2012, monetary policy will remain prudent, targeting a growth of money supply of 13 percent. This target accommodates a modest pickup in credit linked to the construction of the new airport. The monetary authorities are prepared to tighten monetary policy to contain any inflationary pressures by using indirect instruments such as reserve requirements or T-bill issuances.

14. We will work to strengthen the independence of the Central Bank of Mauritania (CBM) by creating the preconditions for endowing it with a flexible and autonomous

monetary policy instrument. For this purpose, and in accordance with the recommendations of the Fund technical assistance mission, we will introduce a new T-bill maturity (one week) solely destined to sterilize excessive excess liquidity. The legal framework will be such that the cost associated with the issuance of this instrument will be borne by the Ministry of Finance. To make this new framework operational, a memorandum of understanding between the Ministry of Finance and the CBM will be signed by June 2012 (new structural benchmark). The CBM will conduct an information campaign for commercial banks to explain the functioning of the new liquidity management framework. We also intend to improve central bank operations by:

- resuming the weekly meeting of the Coordination Committee between the CBM and the Treasury. The committee will play a crucial role in the coordination of monetary and fiscal policy;

- improving liquidity forecasts by systematically integrating the cash flows forecasts of the government and SNIM;

- renegotiate the terms of the government debt owed to the CBM with a view to recapitalize the CBM and provide it with substantial resources for the conduct of its monetary policy. An agreement between the Ministry of Finance and the CBM will be presented to Parliament during its next session.

15. As regards exchange rate policy, we will endeavor to consolidate the recent achievement that improved the functioning of the foreign exchange market. We are committed to the swift execution of foreign exchange transactions of commercial banks in accordance with regulatory time limits. Moreover, we adopted a new instruction aimed at improving foreign exchange repatriations by the fisheries sector, which improves the traceability of such transactions. In line with its mandate, the CBM will also continue its efforts in enhancing the functioning of the foreign exchange market as well as the transparency of its operations. In this context, it will continue to supply foreign exchange to the market by regularly selling a portion of the repatriated mining revenues. Sales of foreign exchange will take place during market sessions and off-market sales will be limited to exceptional urgent transactions. A detailed summary of the transactions made in the foreign exchange market will be published, together with a list of all foreign exchange operations undertaken by the CBM.

16. The reform of the financial system will be accelerated with a view to deepen financial intermediation, safeguard financial stability, and address the weaknesses identified by IMF technical assistance. Moreover, the recommendations of the comprehensive financial sector reform strategy, prepared in collaboration with the World Bank and currently being validated, will help us to decide on the priorities and sequencing of reforms. The minimum capital requirement for banks, which was UM 5 billion in 2011, has been raised to

UM 6 billion by the end of 2012, including for the two new Islamic banks that have received banking licenses by the CBM. Our focus will be on:

- ***Development of long-term saving.*** To allow banks to mobilize stable resources, we adopted a draft instruction aimed at removing the interest rate floor on savings accounts for all accounts exceeding UM 5 million. Similarly, the instruction foresees reducing the interest rate ceiling for small savers, which will now be linked to the T-bill rate.

- ***Continuous monitoring of risks*****.** With the assistance of the World Bank, we have launched the computerization of the credit bureau and initiated the setting up of a database on default payments. The international audit of commercial banks, financed by the World Bank, will be available during 2012 and will serve to monitor developments in the nonperforming loan portfolio.

- ***Related-party lending*****.** In March 2012, we issued a new instruction, approved by the Monetary Policy Council, on related-party lending (structural benchmark) and assessed its impact on the banking system. In accordance with the instruction, the three banks in breach with the new regulation will have until 2014 to bring themselves into compliance.

- ***Strengthening of banking system regulations and supervision*****.** In collaboration with the West AFRITAC technical assistance, the CBM has implemented a new instruction to phase in a new capital adequacy framework consistent with Basel II. In addition, a draft revision of the Banking Law in priority areas (in particular reinforcing the independence of the CBM) is currently in preparation. In the short term, the BCM will continue to strengthen the financial and human resources of the banking supervision department and ensure that all banks respect the existing prudential rules and regulations. Penalties for breaching thresholds on foreign exchange positions will be increased if they turn out not to be stringent enough. With the support of AFRITAC West, we will initiate a training program for our inspectors responsible for on-site supervision.

- ***Introduction of IFRS accounting.*** We have asked an audit firm to assist commercial banks during the transition to IFRS accounting. The final report of this project will be submitted at end-September 2012. As regards the quantification of the differences between the CBM's 201 financial statements under Mauritanian and IFRS accounting standards, it did not take place as planned at end-March 2012 because of difficulties in recruiting the auditor. However, we intend to ask the firm that is auditing commercial banks to perform this exercise or, if not possible, another international qualified audit firm, with the aim of having the audit finalized in the shortest possible timeframe (new structural benchmark).

- ***Enhancement of transparency***. The detailed and consolidated survey of the banking system is being posted on the CBM's website on a quarterly basis to keep the interested public informed about the situation of the banking system. In June 2012, we will publish the CBM's 2011 financial statements as well as the auditors' opinion. The CBM will continue to have its accounts—including its reserves—audited by an international audit firm selected through an international bidding process.

External sector and debt management

17. The current account balance should widen to approximately 20 percent of non-oil GDP in 2012, compared to 7 percent in 2011. This marked deterioration is due to a sharp increase in imports as a result of the 2012 EMEL program, investment in the energy and mining sectors, and the new airport, as well as the expected fall in iron ore exports. The deficit will be mainly financed by higher external financing as well as by significant foreign direct investment in the mining and oil sectors.

18. We are committed to protect external debt sustainability and we are ensuring that it stays at sustainable levels. To do this, we are committed to stepping up efforts to mobilize sources of concessional financing for our public investment program, and we have been able to mobilize two-thirds of the pledges at the Brussels round table in June 2010. We will take into account the recommendations of the joint IMF and World Bank mission when adopting a new medium-term external debt strategy by end-September 2012 (new structural benchmark). We will also work to strengthen the National Debt Management Committee, which will work in cooperation with other institutions (CBM, MAED, and MF) to coordinate a strategy for managing domestic and external debt. We will continue to actively deploy our best efforts to complete relief agreements with bilateral creditors. In this regard, we have moved forward in the discussions with the Kuwaiti authorities to achieve an acceptable treatment of the bilateral debt. With the support of international development partners, we hope to conclude these discussions in the coming months.

B. Structural Reforms

19. We attach considerable importance to structural reforms because of their positive effect on improving the business climate, promoting growth, creating jobs, and reducing poverty.

Strengthening the social protection system and gradually eliminating subsidies

20. Our social protection strategy, designed in collaboration with UNICEF, is being finalized. It has been validated at the regional level and will be adopted by the government by end-June 2012. The launching of the strategy's action plan will improve social security coverage and better protect poor and vulnerable groups. Moreover, due to the negative effects of the drought on the food insecurity, we adopted a national food security strategy as well as an associated public investment program for the period 2015 to 2030 in March 2012.

We hope to obtain the support of our technical and financial partners (TFPs) for this strategy and have requested financial contributions.

21. Our policy of phasing out subsidies that are generally poorly targeted continues. For this purpose, we have developed a new fuel price structure reflecting our goal of eliminating fuel subsidies. The simplified structure includes: distribution margins set on a specific basis and not linked to international prices, the exclusion of the minimum tax from the price structure, shorter maturities for letters of credit (from 180 to 90 days), an automatic price change every two weeks, and a pump price-smoothing mechanism. The Council of Ministers adopted this new price structure on May 9, 2012. Full pass-through of international prices will be applied to all large consumers by July 2012, and the corrective margin will be eliminated by the end of the year. To ensure that the pricing formula can automatically be applied if international prices increase sharply, a new instruction will establish a cap of 3 percent in the smoothing formula. In the same vein, to mitigate the impact of rising prices on the vulnerable, we have undertaken a number of additional initiatives:

- The evaluation of the 2011 food subsidy program (structural benchmark) allowed us to improve the design and implementation of the EMEL program 2012, which is currently in effect, including by reducing logistics costs and improving targeting in rural areas.

- We have also successfully completed the vulnerability and poverty survey among vulnerable groups in Nouakchott led by the Food Security Commission (CSA) in collaboration with World Food Program (WFP). We plan to extend this survey to the whole country before end-2012. We have started with help of WFP to exploit the results of this survey to initiate a cash transfer scheme for the 10,000 households identified in Nouakchott. Another cash transfer mechanism will be introduced in June 2012 in rural areas (which WFP staff judge to be high risk areas for food insecurity), pending the completion of the vulnerability survey for the rest of the country, which will further improve the targeting mechanism.

- We will strengthen, with help of developmental partners, existing conditional transfer programs, such as programs on school cafeterias, food for work, and in support for pregnant women.

Reform of government finances

22. In February 2012, we finalized and approved the strategic public finance plan that was prepared with the support of the development partners, including the IMF and the EU. We will put in place all the resources necessary to implement this plan, including the creation of the technical steering committee by end-June 2012.

Management of natural resources and mining taxation policy

23. The government is committed to ensuring total transparency in the exploitation and use of the financial resources originating from the mining industries. Our ultimate goal is to maximize the positive impact of mining revenues on our people and to make growth much more inclusive. Mauritania's membership of the Extractive Industries Transparency Initiative (EITI) since 2005 resulted in full compliance status in February 2012. We propose to increase awareness about EITI in the wider public to improve accountability. We also intend to further improve the quality of the documents produced and broaden the coverage of the initiative to new sectors, such as fisheries, and to issues related to the environment, which are of interest to local people. In the near term, we plan to publish on a monthly basis tax and nontax revenue from the mining sector (SNIM, TASIAST, and MCM) on the website of the Ministry of Finance, as is currently done for the oil sector.

24. The government will start discussing ways to further optimize the resources originating from the mining sector. The Fund technical assistance mission concluded that the Mauritanian mining sector remains under-taxed despite recent legislation introducing progressive royalty rates. Thus, the government has decided to evaluate the prospects of renegotiating the tax incentives in the mining sector with investors who so wish, while maintaining the stability of the business climate. The priority for now is to:

- Create an interministerial committee to improve coordination between the different government agencies involved in the mining sector (Ministry of Finance, Ministry of Mines and Petroleum, Ministry of Economic Affairs and Development, the national hydrocarbons commission, and the BCM).

- Stop giving tax and customs advantages in new agreement with foreign investors, and instead apply the current mining code. This would make tax and other granted advantages more transparent and help us eliminate the asymmetry of the stability clause that allows mine operators to benefit from any change in the legal framework that is favorable to them.

- Reimburse VAT credits due to mining companies. Thus, we intend to reimburse UM 2 billion this year, establish an escrow account to reimburse VAT credits monthly, and simplify our procedures by identifying two or three locally acquired assets that could be exceptionally exempt from VAT.

- Fill existing gaps in our tax code in order to tax capital gains as a result of transfers of ownership of assets in Mauritania.

- Create a mining fund by the end-2012, modeled on the example of the existing oil fund. The idea is release saved resources in the event of exogenous shocks to finance urgent development projects. An IMF mission scheduled in October 2012 will help us to put this mechanism in place.

Improving revenue collection

25. We are committed to improving tax collection. Thus, the tax department at the Ministry of Finance (DGI) has made considerable progress in: (i) adopting the principle of a Large Taxpayer Unit (LTU) with national jurisdiction; (ii) significantly increasing tax audits; and (iii) completing the census of approximately 20,000 potential taxpayers in Nouakchott. In 2012, we intend to extend the Tax Identification Number (TIN) to all taxpayers identified, increase the number of DGI staff and enhance their training, and improve the effectiveness of the DGE by increasing its jurisdiction threshold to at least UM 300 million by September 2012. While stepping up our tax audit efforts, we will modernize our collection and appeal procedures by November 2012 by creating independent joint committees to manage appeal procedures.

26. We will accelerate customs reform to strengthen its role in revenue collection, facilitate trade operations, and combat fraud. In this regard, we intend to establish a valuation office by end-2012 and, with French development assistance, operationalize the customs intelligence office. Furthermore, to make best use of ASYCUDA++, a system of selective inspection parameters will be established by end-June 2012, which should make customs control more effective. To strengthen performance-based management, we intend to introduce performance indicators for Customs staff (new taxpayers, recovery of arrears, customs clearance times, and number of seizures). Synergies with the DGI will be developed through a memorandum of understanding between the customs Department (DGD) and DGI by December 2012 to formalize exchanges of information on taxpayers. Work on the draft of the new Customs Code is at an advanced stage, which will allow the new code to be submitted to the Council of Ministers by September 2012. The vocational training center that became operational in 2011 will allow us to build human capacity at the DGD.

Managing public expenditure

27. After closing all sub-accounts, we have placed their balances in the Treasury Single Account, which became operational since end-2011. We have also taken, in consultation with the CBM, all necessary steps for the Treasury to be admitted to the clearing house as a full member. The Treasury/CBM computerized interface is close to fully functioning.

28. With regard to budget preparation and execution, we have started to use functional expenditure classification and itemized all subsidies included under the heading “common expenditures” (*dépenses communes*) in the 2012 budget law. We will continue to ensure that the budget clearly spells out all transfers to public enterprises (including public transport enterprises) as well as any new tax leveled on private companies. We will continue to avoid using exceptional spending procedures (*procédures dérogatoires*) and cash advance procedures, except in cases of extreme urgency. To this end, an inventory of existing imprest accounts *(régies d’avance)* will be made by end-June 2012 and we will ensure that the status of the General directorate of Treasury auditors will be adopted before end-September 2012.

We also intend to prepare a new organic budget law in 2013 with the help of IMF technical assistance.

29. To evaluate and solidify the financial situation of the government, we produced, as planned, a report on the government's pending payment disputes with private- and public-sector entities in March 2012. The conclusion of the report is that the government owes a sum of UM 6 billion, and a plan to settle these arrears over 2012–14 has been prepared. The lists of beneficiaries and the action plan will be published in July 2012. The rejection of applications for payments will be clearly explained to those concerned. Similarly, the inventories of government guarantees and the repayment schedule for the subset of activated guarantees will be established in 2012.

30. A new public procurement code came into force in 2012. The relevant decrees have all been adopted and implemented in early February 2012. Going forward, the code’s provisions will be applied without exception to all contracts awarded by the public sector. Awarding contracts through private negotiation will remain exceptional and continue to be overseen by the monitoring committee set up by the new code. To encourage private-sector involvement in major projects, we intend to prepare a draft law on public-private partnerships.

Containing the wage bill and improving the quality of public services

31. We have made a considerable effort to make up the delay in implementing the civil service reform. We have reconciled the civil service database with the payroll file and cross-checked the entries that were the same in these two databases against the validated civil service census. This led either to the removal from the payroll or to the regularization in the civil service database. In the light of these results, we plan to have a payroll with a single database aligned with the census by June 2012 (structural benchmark). This database will feed into the forthcoming integrated system of human resources management that should promote a decentralized system at line ministries level.

32. We continue to ban any recruitment that is not governed by the civil service regulations. In the short term, we are working to put in place effective and permanent mechanism that controls the presence of civil servants and government employees in their offices. To strengthen human resource management, we plan, with World Bank technical assistance, to initiate an organizational audit of line ministries, 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 plan to make the tracking of personnel expenditure more effective and introduce forward-looking management of staffing levels. This will allow controlling the replacements of departing personnel with new recruits to reflecting actual government needs.

Improving public enterprise performance

33. To strengthen and improve the management of public enterprises, we are committed to conduct, together with the World Bank, a technical and financial audit of public enterprises. Unfortunately, these audits have not been carried out as planned in the program due to delays in procurement procedures. Nevertheless, the audit reports must ready by end-2012 so that we can start mending their financial positions and ensure that they are more effectively managed, notably through performance contracts. We will pay special attention to the new public transportation company to ensure that any budget impact remains minimal. We also intend to monitor more closely the government's wage payments to public institutions and enterprises by carrying out a personnel census and producing a centralized database of staff at the Department of Government Property. We will also organize regular financial audits of public enterprises and improve coordination between the various departments concerned.

Reforming the electricity sector

34. The electricity sector is one of the government's major concerns. After recapitalizing SOMELEC to the order of UM 20 billion in 2010, we formally adopted a restructuring plan in 2011 and recapitalized SOMELEC a second time for an additional UM 13.6 billion. We have adopted a plan for the repayment of government arrears to SOMELEC over two years in four installments. At the same time, the government has begun paying its electricity bills to SOMELEC on time and has paid a substantial proportion of the company's operating subsidy. The government has also made a commitment that the utility bills of all government agencies will be paid regularly. We will support SOMELEC's efforts to recover unpaid debt from other public entities. Furthermore, electricity tariffs for the service sector have been aligned with the tariffs for medium-voltage electricity since early 2012. This has enabled the company to limits its recourse to bank borrowing at high interest rates, which were a drain on its finances.

35. Additional measures will further improve SOMELEC's situation in 2012. In particular, the new short-term credit line granted by the IsDB will considerably reduce the company's procurement cost of fuel and ease its financing costs. A tariff study, conducted by an international firm, has been launched and the forthcoming report will probably lead to a revision of electricity tariffs, particularly of those paid by large consumers, which may increase as early as July 2012 (structural benchmark). Moreover, we have called on a consulting firm to implement a performance contract between SOMELEC and the government.

Promoting the private sector and employment

36. We are determined to significantly improve the investment climate and to identify constraints that hinder private-sector development, helping us to master the challenge of creating employment for our young people. The approval of the new investment code in June

2012, later than expected, and the implementation of the one-stop shop will further simply and shorten administrative procedures for new investments. The framework for coordinating government and the private-sector investment activities will be further strengthened through improved communication links.

37. We will continue to rely on a multi-pronged strategy to promote employment. We plan to introduce a national strategy for developing private-sector skills. This will accompany our efforts to modernize vocational training programs for the young and enhance labor-market integration of unemployed young graduates. Steps undertaken in the agricultural sector (such as the development of new irrigation areas) and a new strategic study of the telecommunications sector will help create new jobs. To truly understand labor market conditions and trends, we will complete studies on nationwide employment and the informal sector in Mauritania in 2012. Our technical and financial partners (ILO and UNDP) will assist us in the preparation of these studies.

Strengthening governance

38. Fighting corruption remains a government priority. After adopting a national anti-corruption strategy (SNLCC) in 2010, we organized a high-level meeting on combating corruption in March 2012, with many experts from neighboring countries and international institutions participating. In the meeting's concluding declaration, we reiterated our commitment to finalize, in collaboration with the UNDP, the SNLCC action plan by June 2012 that will take account of Mauritania's international obligations, in particular with regard to the United Nations and African Union conventions on preventing and combating corruption. To operationalize the SNLCC, we plan to present a draft law by end-2012 to define the contours of the authorities' action against corruption. In addition, amongst other actions, we intend to create a technical commission by end-2012 that will make recommendations on streamlining the government's control and computer system.

Improving economic statistics

39. 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. Accordingly, we intend to launch a number of surveys in 2012: a complete revision of the CPI, an update of the directory of industrial companies, an employment survey (see above), and the fourth general census of household living conditions (EPCV). We have requested World Bank support to build statistical capacity by pressing ahead with the organizational and institutional reform of the national statistical office (ONS). Also in this context, we intend to launch statistical functions in ministerial departments and introduce training schemes.

C. Risks

40. The rebound in economic activity augurs well for our performance under the program in 2012. However, various risks may jeopardize our attainment of program objectives: (i) another rainfall deficit in 2012; (ii) an acceleration of the cyclical downturn in external demand and export prices (iron ore, copper, and gold) and volatility of import prices for wheat, rice, and oil; and (iii) shortfalls in concessional external financing. The government stands ready to take appropriate measures to mitigate the effects of such risks, should they materialize. Any such corrective measures will be taken in consultation with Fund staff.

III. Conclusion

41. As the principal objectives of the program for 2011 have been achieved (Tables 1 and 2a), the government requests approval of the fourth review of the program supported by an arrangement under the ECF as well as the disbursement of SDR 11.04 million. To reflect the better than expected program performance in 2011, the new external environment, and the EMEL emergency program, the government requests modification of the end-June 2012 performance criteria relating to net international reserves, net domestic assets, and the non-oil basic balance.

42. We believe that the policies set forth herein are adequate to achieve the objectives of the program, but stand ready to take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained herein, in accordance with the Fund's policies on such consultation. We will remain in close consultation with Fund staff and provide timely information necessary for monitoring economic developments and implementation of policies under the ECF-supported program. New performance criteria have been proposed for end-December 2012 (Table 1). New structural benchmarks have been proposed for 2012 (Table 2b). These quantitative criteria and structural benchmarks are described in the attached Technical Memorandum of Understanding. The fifth and sixth review under the program are expected to be completed on or after November 30, 2012 and on or after March 13, 2013, respectively.

Very truly yours,

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

Thiam Diombar /s/
Minister of Finance

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

ATTACHMENT I. 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 ($1,127 per oz.) and the U.S. dollar value of reserves assets (other than gold) and foreign exchange liabilities will be calculated using **program exchange rates, namely**, the November 30, 2009 exchange rates between the U.S. dollar and the ouguiya (UM/$262.0), the SDR ($/SDR 1.61), the euro (Euro/$1.49), and other nondollar currencies as published in the IFS.

4. **Net domestic assets** (NDA) of the CBM are defined as reserve money minus net foreign assets (NFA) of the CBM. **Reserve money** comprises: (a) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (b) deposits of commercial banks at the CBM. NFA are defined as gross foreign assets of the CBM, including the external assets not included in the reserve assets, minus all foreign liabilities of the CBM (i.e., NDA = 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 nonresidents, with maturities of one year or longer, contracted or guaranteed by the government or the CBM with a grant element (defined as 1 minus the NPV-to-face value ratio, and estimated on the basis of the currency and maturity specific discount rates reported by the OECD (commercial interest reference rates) of less than 35 percent. This definition applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to 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 were:**

- 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.
- 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 **(differed to end-September 2012)**.
- Increase by end-December 2011 bank minimum capital to UM 5 billion ($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 **(differed to end-December 2012)**.
- Complete by end-December 2011 a government arrears repayment plan for SOMELEC.
- Assess effectiveness of the dedicated shops used in the solidarity program by end-December 2011.

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

- Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears by end-March 2012.
- Audit the CBM's NIR and NDA data as of end-December 2011 by end-March 2012.
- Complete by end-September 2012 (original test date was March 2012), the report quantifying the differences between the CBM's 2010 financial statements under national accounting principles with those under IFRS, prepared with the assistance of an international audit firm.
- Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties by end-March 2012.
- Sign by end-June 2012 a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.
- Conduct by end-April 2012, with assistance from the World Food Program, a poverty and vulnerability survey.
- Publish on the CBM's website the audited financial statements together with audit opinion for the year ended on December 31, 2011 by end-June 2012.
- 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 $35 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of $35 million at program exchange rates. In case the contribution of the FNRH to the budget exceeds the amounts projected in Table 1, the floor for NIR will be adjusted upward and the ceiling on NDA will be adjusted downward by an amount equivalent to the difference between the actual levels and the projected levels.

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

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.

Table 1. Mauritania: Quantitative Benchmarks and Performance Criteria for 2010, 2011, and 2012

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

	End-Dec. 2010			End-Dec. 2011			End-Mar. 2012			End-Jun. 2012		End-Sep. 2012		End-Dec. 2012	
	Performance criteria	Performance criteria adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Indicative target	Indicative target adjusted	Actual	Performance criteria	Proposed performance criteria	Indicative target	Proposed indicative target	Indicative target	Proposed performance criteria
Quantitative targets															
Net international reserves of the BCM (floor); in million of U.S. dollars 2/	34.4	53.2	68.6	82.9	47.9	201.4	-6.9	22.5	-17.8	41.8	8.3	76.1	-4.0	37.7	-16.1
Net domestic assets of the BCM (ceiling); in billions of ouguiyas 3/	20.4	15.5	-11.4	-7.5	1.7	-1.9	-3.1	-10.8	-1.2	-13.6	4.0	-14.9	13.5	-0.8	19.8
Basic non-oil balance; in billions of ouguiya	-28.5	-28.5	-23.0	-17.0	-17.0	-2.4	-1.7	-1.7	13.3	15.7	29.3	16.7	10.4	-8.4	-11.2
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling) 4/	0		0	105.0		0.0	0.0		105.0	0.0	0.0	0.0	0.0	0.0	0.0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)	0		0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
New external arrears on non reschedulable debt (continuous quantitative	0		0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Poverty-related expenditures; in billions of ouguiyas (indicative target)	106.7		89.9	106.5		107.9	24.3		24.9	56.4	68.2	87.1	107.3	115.7	133.8
Adjustors (in millions of U.S. dollars)															
Net international assistance	35.4		-9.4	32.8		-6.9	-7.2		23.1	-39.0	2.1		34.7	-50.0	8.1
Cumulative disbursements of official loans and grants in foreign	76.6		34.0	92.6		58.2	0.0		30.9	0.0	40.5	4.7	80.0	28.1	84.4
Impact of any additional debt relief	0		0	0.0		0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0
Cumulative amounts of external cash debt service payments	-41.2		-43.4	-59.8		-65.1	-7.2		-7.8	-39.0	-38.4	-46.2	-45.3	-78.2	-76.3
FNRH contribution to the budget	47.2		110.7	34.8		33.5	0.0		29.4	0.0	29.4	0.0	29.4	50.6	56.8
Cumulative disbursements of official grants in foreign currency	46.9		34.0	24.6		3.5	0.0		0.0	0.0	9.6	4.7	21.8	14.0	26.3
Memorandum item:															
UM/US$ exchange rate (program)		262.0		262.0			262.0				262.0		262.0		262.0

1/ For definitions, see Technical Memorandum of Understanding. Quantitative targets correspond to cumulative changes from the beginning of the relevant year.
2/ Adjusted upward by FNRH contribution to the budget and downward by net international assistance and FNRH contribution to the budget (see TMU).
3/ Adjusted upward by net international assistance and FNRH contribution to the budget (see TMU).
4/ 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	Met	ASYCUDA++ is already installed in all customs offices. Some minor technical problems occur from time to time but are resolved as soon as they show up.
4	Issue, while surveys are underway, new identification numbers to taxpayers.	December 2011	Met, with delay	1788 tax payer identification numbers have already been distributed to taxpayers, of which 744 are new taxpayers. Taxpayer identification numbers will continue to be issued as results of the just completed census are being exploited. 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 delay	Decree issued July 4, 2011.
Public financial management				
6	Introduce a Treasury Single Account.	December 2011	Met	The TSA is operational since October 2011 as sub-accounts have been closed down. Treasury and Central bank paying procedures have been coordinated. Some additional accompanying measures will be in place by end-March 2012.
7	Design an overall external debt management strategy.	December 2011	Not met	An interministerial national debt management committee has been created. It approved an external debt strategy in December 2011, which still needs to be improved according to IMF and WB recommendations. A new joint WB/IMF mission visited Nouakchott in June to help in the establishment of a debt strategy.
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	Not met	The ToRs for the public enterprise audits had to be resubmitted and go through the WB procurement procedures. Audits are now expected to be completed by end-2012.
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	Met	The amount of unsettled obligations has been determined. A two-year repayment plan for arrears has been prepared, and the first payment will be executed before end-June.
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	Met, with delay	The only bank that had not met the new threshold at end-2011 completed a capital increase following shareholders' approval in the annual meeting in June 2012.
Social policy				
14	Conduct with the support of the World Food Program a vulnerability and poverty survey.	October 2011	Not met	As agreed at the time of the 3rd review, the poverty survey will be conducted in two phases. The Nouakchott phase was completed in April 2012, while the survey for the rest of the country has been deferred to June 2012.
15	Assess effectiveness of the dedicated shops used in the solidarity program.	December 2011	Met	A full report was prepared and submitted to staff on time.

Table 2b. Mauritania: Structural Benchmarks, 2012

Item	Measure	Date (end-of-period)	Outcome	Objective	Comment
Expenditure policy					
1	Update the payroll file with actual results from the census of employees.	June 2012		Control public wage bill.	The payroll database has been reconciled with the census.
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.	The consulting firm has been selected and the contract signed. The study itself started in April.
Public financial management					
3	Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears.	March 2012	Met		A report on domestic arrears—and the action plan to settle these arrears—has been prepared.
4	Design an overall external debt management strategy.	September 2012		Safeguard fiscal and external sustainability.	
5	Complete a study on the financial situation of the main public enterprises, following financial audits of the following enterprises: SOMELEC, SOMAGAZ, SNDE, MAURIPOST, and SONIMEX.	December 2012		Ensure efficient use of public resources.	
Central bank transparency					
6	Complete the report on the quantification of differences between the CBM's 2010 financial statements prepared under national accounting principles and under IFRS, prepared with the assistance of an international audit firm.	March 2012	Not met	Enhance central bank transparency.	The contract with current external auditor was not secured in advance. Negotiations have been initiated with other audit firms, and the authorities expect to submit the report to the Fund by end-September 2012.
7	Audit the CBM's NIR and NDA data as of end-December 2011.	March 2012	Met		The audit has been completed, and the authorities have submitted the final auditor report to the Fund.
8	The CBM should publish on its website audited financial statements together with audit opinion for the year ended on December 31, 2011.	June 2012		Enhance central bank transparency.	
9	Sign a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.	June 2012		Improve monetary policy effectiveness.	
Financial sector					
10	Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties.	March 2012	Met		The regulation on connected lending has been approved in early March by the Monetary Policy Council and signed by the governor on March 26, 2012. An assessment of the impact of the new instruction has been prepared with help from Fund TA.
Social Policy					
11	Conduct with the support of the World Food Program a vulnerability and poverty survey.	April 2012	Met		As agreed at the time of the 3rd review, the poverty survey will be conducted in two phases. The Nouakchott phase was completed in April 2012, while the survey for the rest of the country has been deferred to June 2012.