PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: 43553

Project Name	MR – Private and Financial Sector Development Project
Region	AFRICA
Sector	General industry and trade sector (40%); Banking (20%); General energy sector (20%); Law and justice (20%)
Project ID	P102031
Borrower(s)	GOVERNMENT OF MAURITANIA
Implementing Agency	*Délégation Générale à la Promotion de l'Investissement Privé (DGPIP)*
Environment Category	[ ] A [ ] B [X] C [ ] FI [ ] TBD (to be determined)
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1. Country and Sector Background

1. A new Government of the Republic of Mauritania (GIRM) took office in April 2007 and is committed to an overall objective of poverty reduction through macroeconomic stabilization and the promotion of economic growth. Over the last several years, Mauritania has pursued sustained macroeconomic and sector adjustment reforms that have allowed it to lay the ground work for private sector-led growth. In 2006, economic growth reached 11.7 percent mostly due to the start of oil production. Fiscal performance has been strong, reflecting the government's revenue collection efforts. Sustained spending discipline and strict adherence to fiscal and monetary policies were instrumental in bringing the 12-month inflation rate down to an average of 6.2 percent in 2006.

2. The constraints to private sector development in Mauritania are well-known, due in part to a number of analytical and diagnostic works that have been carried out in recent years. In particular, the Investment Climate Assessment (ICA-2007) was based on a detailed survey of enterprises, the Financial Sector Assessment Program (FSAP-2006) provided an in-depth analysis of the financial sector; the Report on Justice, Inter-Ministerial Committee on Justice (2005) is a comprehensive review of the judicial reform process, and the annual publication of Doing Business Report (2008) provides a summary of Mauritania's competitiveness in comparison to other countries. These reports will help Government focus its reform efforts.

3. The Doing Business Report ranked Mauritania 157 out of 178 countries for ease of doing business. It is now widely recognized that the development of the private sector requires an improvement of the "investment climate" in order to promote stronger economic growth within a market economy and a reduction of poverty. Indeed, comparative development experiments indicate that countries having a favorable investment climate have a higher rate of investment, which enables them to achieve stronger growth. While such rankings only give an indication of

the overall enabling environment for business, it is clear that the private sector in Mauritania suffers from a heavy regulatory burden and low productivity as well as other constraints. Chart 1 below provides a summary of some of the African countries in the overall ease of doing business.

4. The economic structure presents a sharp contrast between a relatively small modern sector and traditional subsistence sectors. The Mauritanian economy remains undiversified. The formal private sector is still very small and its development is hampered, among other factors, by:

- limited access to and cost of finance. This constraint is the most commonly cited by the companies;
- a heavy regulatory framework (including heavy taxation, weak tax administration and problems with customs regulations) and a weak judicial system which has difficulties in enforcing business contracts;
- poor access to, and high costs of, key factors of production, notably electricity;
- a poorly educated workforce;
- access to land; and
- a large concentration of economic assets and weak competition in the formal economy while the informal sector thrives.

2. Project Development Objective

The overall project development objective (PDO) is to improve the financial, judicial and regulatory environment and support measures to strengthen selected key public enterprises. The key performance indicators at the outcome level are:

(i) The percentage of non performing loans is reduced from 50% to 15% at the completion of the Project;

(ii) The number of procedures to start a business will be reduced from 11 (as measured by, and published in, Doing Business 2008) to 5 by the completion of the Project;

(iii) The percentage of court decisions from commercial courts in Nouakchott and Nouadhibou, commercial chambers of regional (wilaya) courts, courts of appeal and the supreme court in the commercial and financial areas, published on the GIRM website www.mauritania.mr, or any other site or support selected in agreement with the Association (in order to ensure public access as large and sustainable as possible with a view to develop eventually a case law data base in the commercial and financial areas as complete and reliable as possible) has increased from 0 to 80% at the completion of the Project; and

(iv) Each Public Enterprise with respect to which an operational and financial audit has been carried out under this project, at mid-term review, signed a performance contract with the Recipient. At the completion of the Project, an annual monitoring and evaluation report of the implementation of each such performance contract has been produced annually by GIRM.

3. Rationale for Bank Involvement

The FSAP, ICA and Doing Business reports identified a wide range of constraints on the growth of the private and financial sectors in Mauritania. In response, the GIRM's program seeks to address some of the priority constraints through a combination of different projects, which includes mining, energy and port. There has been no substantial support for financial or private sector development by the World Bank since the previous Financial/Private Sector Capacity Building Project (FPSCBP) that closed on May 31, 2000 (Implementation Completion Report (ICR) No. 21561, December 28, 2000). As a result, some improvements were made in the legal and regulatory framework as well as in the judiciary, and some progress was achieved in creating the basis of an enabling environment for financial sector activity. In particular, they contributed to an improvement in the range and accessibility of financial services, due to the growth in the number of banks and microfinance institutions, and to an increase in private investment, particularly in the mining sector.

There is a window of opportunity for economic development. With a new democratic Government in power, the economy is opening up and the GIRM is advocating a sound and stable financial sector and a reliable, impartial and less corrupt judicial system, both of which are recognized as essential for broad-based and sustainable economic and private sector development. The private sector will be supported on several fronts by supporting Government to address some of the constraints to: (a) increase competitive forces through facilitating the entry of new institutions and strengthening the regulatory framework; (b) improve the business environment through reforms tackling five key areas affecting the ease of doing business index and strengthening the public-private sector dialogue; (c) increase intermediation capacity through investments in financial systems infrastructure (credit and accounting information, payments systems, etc.) and (e) improve contract enforcement (legal reforms and judicial institutional strengthening).

The situation in the electricity sector has become so severe that GIRM has asked the Bank to provide some assistance under this project which will help to improve the current electricity supply level to the private industrial and commercial sector as well as to enhance future private sector participation in the local power sector. The facilitation of an enhanced private sector investment in the sector will also free up budgetary resources that GIRM could use for other sectors in need and where private participation is more difficult to be attracted.

4. Project Description

Coming under a new reform-minded Government and nearly a decade after the last financial/private sector intervention, the project will be a technical assistance credit that focuses

on strengthening the building blocks of the overall business, financial and judicial environment, including support to the electricity sector.

The project will be funded by a five-year IDA-financed investment credit for US$5.0 million equivalent. The credit will be used to finance equipment and technical expertise for measures which can be taken in the short-term and studies which will provide the foundation for a wider reform program including a restructuring of key public enterprises that directly impact private sector growth.

Project components were designed on the basis of recommendations from the FSAP, ICA and Doing Business Report, which were the basis of the analytical framework. The project is comprised of two technical components and one administrative component: (a) Improving the Business Climate to Foster Private Sector Development; (b) Public Sector Reform and Productivity Enhancement; and (c) Support for Project Implementation. The first component of addresses the two primary constraints highlighted in the analytical work, namely: (i) access to finance and (ii) streamlining the regulatory environment for business, including reduction of administrative barriers and tax reform, while the second component partially addresses weak public sector enterprises and strengthening governance structures.

Component 1: Improving the Business Climate to Foster Private Sector Development

The first component supports Government's efforts to: (a) strengthen the financial sector and thus improve access to finance; (b) improve the legal and judicial framework for business and financial activities; and (c) streamline the regulatory environment for business.

Strengthening the Financial Sector

The first sub-component is underpinned by recommendations from the FSAP and supports Government efforts to develop a solid and efficient financial sector and to increase access to financial services. This will entail the provision of equipment and technical expertise to build capacity in the following areas: (a) strengthening of the regulation and supervision of financial institutions and financial markets through (i) the preparation of a draft for a proposed revision of the banking law and implementing decrees, (ii) the preparation of a draft for a microfinance law and implementing decrees, (iii) the strengthening of human resource capacity at the BCM, and (iv) the centralization of supervision of financial institutions within BCM (commercial banks and microfinance institutions); and (b) strengthening the financial institutions and developing measures to improve competition within these financial institutions.

Improving the Legal and Judicial Framework for Business and Financial Activities

The second sub-component, based on recommendations from the GIRM's Report on Justice and Judicial Reform as well as from those of the FSAP, will finance activities that support improvements to Mauritania's legal and judicial environment for business and credit-related activities. This will entail technical assistance and capacity building in the following areas: (a) improving the legal framework for business and financial activities through (i) the development of a legal framework for the creation, perfection and enforcement of security over immoveable and movable assets; (ii) the simplification of debt collection and contract enforcement mechanisms; (iii) strengthening judicial capacities with respect to commercial law, financial law

and commercial dispute resolution; (iv) strengthening of ethics in the judiciary; (v) the development of judicial statistics and indicators to monitor progress of the judiciary; and (iv) improvement of the dissemination of legal information.

Streamline the Regulatory Environment for Business

This sub-component addresses streamlining the regulatory environment for business, including through: (i) the preparation of reforms to improve the business climate such as to facilitate business start-up, simplify corporate taxation, support trading across borders; and (ii) development of a private investment promotion system

Component 2. Building Public-Private Partnerships and Productivity Enhancement

To sustain its economic performance and reduce poverty, a deeper and more ambitious public sector reform program is envisaged by Government. This component, therefore, will support several reform measures in the Mauritanian electricity sector that are envisaged by the GIRM to attract increased private sector investments and participation in the local power market. Three major activities are included under this component:

Improving Corporate Governance in Public Enterprises

The project will finance technical/functional assistance to improve corporate governance in Public Enterprises through: (i) carrying out of operational and financial audits; (ii) the preparation of restructuring plans; and (iii) the design of performance contracts and of a system for the monitoring of such performance contracts. The first five key public enterprises to receive this support are expected to be SOMELEC, SOMAGAZ, SNDE, MAURIPOST and the Port of Nouakchott.

Enhancing the long-term electricity-sector expansion planning functions

As part of GIRM's reform efforts in the utility sector, MHETIC wants to enhance its electricity sector strategic planning function that would also allow for the identification of future opportunities for private sector participation in the area of electricity generation expansion, transmission and distribution. This component will support MHETIC's efforts by financing technical assistance to help GIRM prepare a sector investment plan that will be based on future demand and supply scenarios based on assumed economic development scenarios for Mauritania.

Component 3. Support for Project Implementation

The *Délégation Générale à la Promotion de l'Investissement Privé* (DGPIP), which falls under the purview of the Presidency, was created by decree No. 130-2007 on July 5, 2007 to be responsible for coordinating private sector development and promotion private investment. It will also be responsible for overall coordination of the project and has allocated staff resources. The project will finance technical assistance, as needed, to strengthen the DGPIP capacity to ensure that all fiduciary activities are met, including but not limited to: (i) financial management according to international accounting standards (this includes payment of invoices, maintaining appropriate accounts and requesting timely reimbursements from IDA); (ii) procurement of

goods and consultant services (providing support to first-line executing agencies in the procurement process); (iii) annual reporting to IDA; (iv) monitoring and evaluation; (vi) audit; and (vi) public information, which will include a communication strategy. It is not anticipated that any salaries will be financed, but wherever necessary, technical assistance (on an "as needed" basis) will be sought (and may be financed by the project) to strengthen the team. This will enable the transfer of skills. The auditing function, to be carried out annually by independent, external auditors, will also be financed under this component.

5. Financing

Source:		($m.)
BORROWER/RECIPIENT		2.00
International Development Association (IDA)		5.00
Bilateral Agencies (unidentified)		
	Total	7.00

Institutional and Implementation Arrangements

The GIRM, on behalf of the Islamic Republic of Mauritania, will borrow US$5.0 million equivalent from IDA. The new Government has expressed its intention to take rapid reform measures so that the population will see immediately results. Thus the project will be implemented over five years. A mid-term review (MTR) will be planned for 30 months into the project. It is anticipated that the FSAP and ICA be updated and used as a reference for the MTR (the update is subject to the Government's agreement).

Project coordination will be the responsibility of DGPIP. Institutional responsibilities for coordinating and managing the project on a daily basis and providing procurement and accounting services to components will be delegated to members of DGPIP staff which was created for the promotion and development of the private sector. The team will include a project coordinator, procurement specialist, an accountant, an internal auditor and an executive assistant and be responsible for providing the necessary guidance to beneficiaries for procurement of consultants, goods and services, as well as monitoring and evaluation, and provide advice on the overall thrust of financial sector reforms, judicial reform, private sector reform and any cross-cutting issues.

A Steering Committee (SC) was created which is chaired by the Ministry of Economy and Finance (MEF) and includes high-level representatives from the beneficiaries. The SC will provide overall strategic guidance of the reform program and project oversight. The SC will be comprised of the Director-level (or higher) staff of the beneficiaries who have the authority to make strategic decisions in their agency and to make commitments to ensure that the Government's private sector reform agenda is advancing and the project continues to support these efforts.

To maintain the bottom-up approach began during preparation, it will be the responsibility of each executing agency to prepare the terms of reference (ToR) for consultants, including required qualifications of consultants and technical specifications for procurement of goods. The executing agencies will implement their respective components and report to DGPIP on a

quarterly basis, including any modifications to the procurement and/or training plans, which will be prepared and included in the Project Implementation Manual (PIM).

6. Sustainability

The Project has a good basis for sustainability, being founded on the Government's PRSP and its continued commitment to improving its business environment as well as strengthening the financial sector and improving its regulatory and judiciary environment. The Government's request for a FSAP and an ICA, followed by the development of a comprehensive program highlight its continued interest in advancing the PSD agenda. This project provides a second generation of private and financial sector technical assistance and associated institutional and policy support for a well-defined, time-bound process involving financial sector strengthening and ultimately improving Mauritania's performance on the Doing Business survey. The nature of most of these actions and the undisputed commitment of the current Government of these reforms enhances the likelihood that, once implemented, they will be sustained.

As mentioned above, the project builds on work support by the FPSCBP. The Operations Evaluation Department (OED) concluded that the FPSCBP's outcome was satisfactory. This project recorded improvements in a number of areas, in particular in increasing the capacity of the BCM to supervise the financial sector and conduct monetary policy. In addition, there was increased capacity in other departments of the BCM, as well as improvements in the legal and regulatory framework for the financial sector. A lesson drawn from OED's audit of Bank-financed projects was the importance of sequencing financial sector reforms for both financial and private sector development. The project team has built upon this lesson in project design and will continue to work with the Government on proper sequencing of reforms. Given the Government's commitment, the team is confident that actions taken under the proposed project will also be sustainable.

The project is supporting the Government's vision that Mauritania should become a "producing rather than consuming country, one which exports rather than imports". This vision is enshrined in the PRSP, around which all development assistance is now being aligned. Trade and private sector development issues have not generally been accorded a high priority in previous Government policy, and recent donor support to Mauritania has tended to focus more on social sector development and the improvement of social outcomes, rather than tackling the underlying causes of poverty - namely economic under-performance.

The Project was launched as a Government initiative, with full national ownership. Many of the constraints to PSD do not require large expenditures, merely the diagnosis of policy, legal and administrative reforms, and technical support in implementing such changes. Therefore the cost of such actions is quite low, while the impact can be high. The GRIM is committed to improving Mauritania's performance as assessed by the ICA and annual Doing Business surveys and made the results public in a workshop. Similarly, while many aspects of reducing the cost of doing business can be tackled with low-cost actions, others require resources well beyond the scope of this project. Mauritania's private sector suffers from very high transport costs for both exports and imports. Critical to the sustainability of the project is further investment in infrastructure, not just in transportation but also in power, telecommunications and the water supply. The proposed transport and energy programs, and the facilitation of public-private partnerships as

envisaged under this project will play an important role in addressing these infrastructure constraints, but additional public and private investment will be required to achieve real change.

The capacity to analyze issues and to develop and implement strategies is crucial to the success of the reform programs. Recognizing the weaknesses in base capacity across some of the beneficiaries, in addition to sequencing activities, the project explicitly includes capacity building in all of its components, and more importantly, several components focus explicitly on building the institutional capacity. This process has already begun as part of the FSAP and of the ICA as well as during preparation of the project, which was prepared jointly by the beneficiaries and the Bank team. The Minister of the DGPIP is an elite member of the private sector and is well versed in the constraints facing PSD; he currently reports directly to the President.

7. Lessons Learned from Past Operations in the Country/Sector

Special attention has been given to ensure that the project design reflects both IDA's experience in Mauritania and private sector reform projects in other countries, particularly those that have financial and judicial components. In particular, project design takes into account the challenges inherent in a sector with multiple stakeholders and interests, diverse links with the macroeconomic framework and the real sector, long lead times for reforms to take effect, and the need for significant skill and capacity-building. In particular:

- The project design is based on recommendations provided from analytical work undertaken over the past year, including the analysis and recommendations from the joint Bank/Fund FSAP, ICA and the Judicial Reform Study of Justice;

- The project recognizes the importance of sequencing reforms for both financial and private sector development and builds on success of the FPSCBP;

- The project takes into account the fact that the implementation of reforms has multiple steps and takes a significant amount of time. Therefore the project will concentrate on building the foundation for more comprehensive reforms. The project will be implemented over a period of four years and activities will support "quick win" reforms which can be accomplished in the short-term and provide studies and capacity building to enable the GIRM to implement reforms which require greater time to build consensus between public and private stakeholders that are often subject to interruptions that do not necessarily indicate lack of commitment on the part of beneficiaries;

- Ultimate responsibility for project implementation lies in a single Government ministry responsible for private sector development and promotion. DGPIP will be the principle counterpart for the project and the focal point to work with executing agencies to coordinate project implementation.

- The project does not assume that a single change can affect sustainable economic development. Instead, the PFSPD takes a holistic approach to addressing constraints to private sector development which are influenced by the health of the financial sector to provide efficient and affordable financial services and the efficiency of the judicial sector to enforce contracts for business and financial activities. Only a small part will be

financed by IDA and it is anticipated that other donors will support the GIRM to implement reforms in the microfinance, insurance sector, social security and pensions. Most importantly, the project recognizes that changes in laws and regulations are unlikely to have the desired effect without parallel technical assistance and capacity building. This cannot guarantee that the project will be successful, but it is expected that interactions among measures will have a positive impact over the long term.

8. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[ ]	[X]
Natural Habitats (OP/BP 4.04)	[ ]	[X]
Pest Management (OP 4.09)	[ ]	[X]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[ ]	[X]
Involuntary Resettlement (OP/BP 4.12)	[ ]	[X]
Indigenous Peoples (OP/BP 4.10)	[ ]	[X]
Forests (OP/BP 4.36)	[ ]	[X]
Safety of Dams (OP/BP 4.37)	[ ]	[X]
Projects in Disputed Areas (OP/BP 7.60)*	[ ]	[X]
Projects on International Waterways (OP/BP 7.50)	[ ]	[X]

9. List of Factual Technical Documents

- Investment Climate Assessment (2b007)
- Doing Business (2008)
- Financial Sector Assessment Program (2006)
- Country Financial Accountability Assessment (2006)

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* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

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