Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 14-Dec-2023 | Report No: PIDA35817

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Mauritania	P179263	Mauritania Fiscal Management and Resilience Stand-alone DPF with Cat DDO (P179263)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
WESTERN AND CENTRAL AFRICA	29-Feb-2024	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
ISLAMIC REPUBLIC OF MAURITANIA	MINISTRY OF ECONOMY AND SUSTAINABLE DEVELOPMENT		

Proposed Development Objective(s)

The Program Development Objective (PDO) is to strengthen the foundations for (i) a sound fiscal and debt management; and (ii) a competitive and climate-resilient economy

Financing (in US$, Millions)

SUMMARY

Total Financing	48.00

DETAILS

Total World Bank Group Financing	48.00
World Bank Lending	48.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. Mauritania faces complex development challenges, including over reliance on extractives, a narrow revenue base, recurrence of climate shocks and significant spending needs. After contracting in 2020 because of the COVID-19 pandemic, economic activity grew by 0.7 percent in 2021 and strongly accelerated in 2022, reaching 6.4 percent. Mauritania achieved a fiscal surplus of around 2 percent of Gross Domestic Product (GDP) over the period 2019-2021 reflecting higher extractive revenues and grants. Following the renegotiation of a loan from the Kingdom of Saudi Arabia and an upward revision of GDP, Mauritania's risk of debt distress moved from high to moderate, with some space to absorb shocks, according to the January 2023 Debt Sustainability Analysis (DSA). Russia's invasion of Ukraine led to inflation pressures and triggered a significant increase in subsidies to protect the most vulnerable. Consequently, the fiscal balance turned negative in 2022 for the first time since 2017. In January 2023, the Government increased wages and compensation for civil servants at an estimated cost of 0.6 percent of GDP. Such an expansionary policy is likely to continue as the country moves towards general elections and could erode hard-won fiscal space and threaten fiscal sustainability in the medium-term. Mauritania is also exposed to a set of different adverse natural events such as droughts, floods, wildfires, extreme heat, and storms that pose major challenges for the sustainability of growth. By 2050, annual GDP compared to a medium-growth baseline scenario could be reduced by between 3.4 percent under an optimistic climate scenario (i.e., SSP1-1.9) and 7.2 percent under a pessimistic climate scenario (i.e., SSP3-7.0)[1]

2. Mauritania's macroeconomic policy framework is adequate for the purpose of this operation. Despite uncertainties related to the intensified geopolitical tensions and the upcoming presidential elections, the medium-term outlook is positive. Growth is expected to be sustained, driven by a recovery in private consumption and Foreign Direct Investment (FDI) and the onset of gas production in 2024. The public debt trajectory is sustainable, with the risk of overall and external public debt distress assessed as moderate. Mauritania is under an International Monetary Fund (IMF) three-year Extended Credit Facility (ECF) and Extended Fund Facility (EFF) Arrangements program that will help strengthen macroeconomic stability. The first review of the ECF-EFF program was satisfactorily completed in October 2023. Importantly, the proposed operation is also part of the authorities' toolbox to strengthen macroeconomic stability while reducing the vulnerability to climate change.

Relationship to CPF

3. The reform agenda supported by the DPF is consistent with the objectives and proposed outcomes of the FY18-FY23 Mauritania Country Partnership Framework (CPF) and its mid-term Performance Learning Review (PLR). The DPF supports CPF Focus Area 3 on strengthening governance and private sector-led growth by strengthening debt management and transparency, building government capacity to identify, quantify and manage fiscal risks and improving tax compliance in a view to increasing tax revenues. It also supports CPF Focus Area 1 on Promoting Economic Transition for Diversified and Resilient Growth by building the foundation for a resilient growth through a robust Disaster and Risks Management framework. Further, the DPF is fully aligned with the new Bank's mission of achieving poverty reduction and shared prosperity in a livable planet.

[1] Source: G5 Sahel CCDR. This impact considers the combined effects of six impact channels (rainfed crop yields, livestock yields, heat-labor productivity, human health-productivity, flooding damages, and road and bridges damages) without adaptation measures. Losses are large enough to wipe out most or all annual growth in real GDP and GDP per capita. Importantly, they are likely to underestimate the impact of climate change on GDP because not all impact channels are included, and because they do not include the magnifying effects of climate-induced increases in conflicts, ecosystem shifts, and migration.

C. Proposed Development Objective(s)

4. The Program Development Objective (PDO) is to strengthen the foundations for (i) a sound fiscal and debt management; and (ii) a competitive and climate-resilient economy.

Key Results

5. **This reform program is expected to contribute to an enhanced debt management and higher country's competitiveness and resilience to climate shocks and disaster risks.** Measures under the first pillar are expected to improve debt management and transparency through higher number of Medium-Term Debt Management Strategies (MDTSs) and Annual Borrowing Plans (ABPs) published, a gradual reduction of the share of external debt over total debt and a better estimate of fiscal risks, including those related to climate change. The proposed measures are also expected to increase the share of State Own Enterprises that have reported their guaranteed and non-guaranteed debt to debt management entities. Finally, the tax measures will lead to an increase in tax revenues (excluding extractive) from 13.1 percent of GDP in 2022 to 15.1 percent of GDP in 2026. The second pillar is expected to increase the number of competition policy decisions taken by the competition council from 1 to 3 between 2022 and 2026. It will also ensure that 100 percent of wilayas has an Emergency Regional Committee in place and operating rules approved and published and that data and information gathered and used in post disaster assessments are disaggregated by sex, age, and disability. Finally, pillar 2 will increase the share of urban municipalities covered by planning instruments incorporating climate and disaster risk management considerations to more than 25 percent and the share of coastal areas covered by target cartography to more than 20 percent.

D. Project Description

6. The proposed DPF operation aims to reduce Mauritania's debt vulnerabilities and strengthen the country's competitiveness and resilience to climate and disaster risks. The DPF is financed in a total amount of US$48 million equivalent consisting of (i) an IDA credit in the amount of US$24 million equivalent and (ii) a US$24 million equivalent Catastrophe Deferred Drawdown Option (Cat DDO). The latter provides contingent financing in the aftermath of a natural catastrophe to help safeguard fiscal space while supporting a policy program that aims to reduce the impact of climate and disaster shocks on the most vulnerable.

7. The DPF is structured around two pillars. The first pillar lays the foundations for sound fiscal and debt management practices by institutionalizing the regular publication of a Medium Term Debt Management Strategy (MTDS); the resulting Annual Borrowing Plan (ABP) and the assessment of the MTDS implementation; the adoption of a framework for rigorous management of fiscal risks (including those related to climate shocks), the establishment of a legal framework for online tax filing, the increase of the VAT rate in the telecommunication sector and the introduction of a levy of 5 percent of the turnover of telecommunication firms, with a view of improving tax compliance and revenues. The second pillar aims to improve competitiveness and strengthen government's capacity to manage climate and disaster risks through the adoption of a new competition law with the aim of diversifying the economy, the establishment and adoption of an unified and gender-responsive Emergency Preparedness and Response (EP&R) institutional framework; the adoption of a new climate-informed urban planning law; and the establishment of a coastal observatory to monitor coastal ecosystems and inform decision-making on coastal development and protection.

E. Implementation

Institutional and Implementation Arrangements

8. A committee headed by the Ministry of Finance - MF and the Ministry of Economy and Sustainable Development (MESD) will be responsible for monitoring the implementation of reforms supported by the proposed operation. This committee will interact on a regular basis with line ministries and relevant agencies to check the status of implementation of reforms and put in place corrective measures when needed.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

9. Overall, the policy and institutional reforms supported under the proposed DPF are expected to support economic growth and have positive impacts on poverty reduction and social inclusion. Policy actions under Pillar 1 aimed at enhancing fiscal and debt management are largely expected to be neutral in the short-term, with some indirect positive poverty and social impacts over the medium to long term while additional Government revenues, due to higher tax compliance, may reduce poverty and inequality if those funds are repurposed on investments in social infrastructure and basic services delivery. Under Pillar 2, the unified Emergency Preparedness and Response System and the Coastal Observatory are expected to have positive welfare effects. The New Urban Planning Law is expected to have positive welfare effects by improving urban land use and preventing damages caused by coastal flooding.

Environmental, Forests, and Other Natural Resource Aspects

11. Reforms proposed under the DPF are not likely to have negative impact on the environment, forests, and natural resources. All the actions supported throughout the operation are policy-oriented and do not support direct investments or involve policy actions that may have significant impact on the country's environment, forests, and natural resources. This is mainly the case for actions related to debt and fiscal risk management and tax compliance.

12. Prior actions Pillar 2 – Strengthening the resilience to climate change and disaster risks will be instrumental to build resilience to climate change as they aim to limit exposure and vulnerability to climate and disaster-related risks. Consolidating and unifying Mauritania's EP&R system, strengthening its emergency response and preparedness and mainstreaming disaster and climate resilience considerations into urban development and planning will have a positive impact on environment, forests, and natural resources as it will reduce exposure and vulnerability to climate and disaster-related risks. Monitoring the evolution of coastal environment will also support the effort to protect critical coastal ecosystems and contribute to the identification of measures to reduce the human pressures from the different sectors on the most fragile ecosystems.

G. Risks and Mitigation

13. The overall risk of the operation is rated moderate. While institutional capacity for implementation and sustainability risks are assessed as substantial, the other risks are assessed as moderate. The institutional capacity for implementation and sustainability risk is substantial due to weak inter-institutional coordination and the limited availability of technical experts. Despite recent progress in institutional capacity building, the effectiveness of public agencies remains variable, which constrains the Government's ability to implement complex reforms. The reforms supported by the proposed operation span multiple ministries and departments, and the challenges involved in inter-agency coordination, coupled with human resource constraints, compound existing capacity risks. This could affect achieving the result targets under the two pillars of the program, which requires deep collaboration across line ministries and the acquisition of technical expertise. However, the established technical coordination committee co-headed by the Ministry of Finance and MESD should enable the authorities to implement its reforms effectively and comprehensively. While not all identified risks can be mitigated directly, technical assistance and capacity building supported by ongoing World Bank projects should help mitigate capacity risks.

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APPROVAL

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