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**Report No. 15832**

**PERFORMANCE AUDIT REPORT**

**MAURITANIA**

**PUBLIC ENTERPRISE TECHNICAL ASSISTANCE AND  
REHABILITATION PROJECT (CREDIT 1567-MAU)**

**PUBLIC ENTERPRISE SECTOR ADJUSTMENT PROGRAM  
(CREDIT 2166-MAU)**

**PUBLIC ENTERPRISE SECTOR INSTITUTIONAL DEVELOPMENT AND  
TECHNICAL ASSISTANCE PROJECT (CREDIT 2167-MAU)**

**June 28, 1996**

**Operations Evaluation Department**

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## Currency Equivalents

Currency Unit = Ouguiya (UM)

### Average Exchange Rate (UM/US\$)

1985	77.1
1986	74.4
1987	73.9
1988	75.3
1989	83.1
1990	80.6
1991	81.9
1992	87.0
1993	120.8
1994	123.6
1995	129.8

## Abbreviations and Acronyms

CRSP	Cellule de réhabilitation du secteur parapublic (Parastatal Sector Rehabilitation Agency, Ministry of Plan)
DTEP	Direction de la tutelle des entreprises publiques (Supervisory Department for Public Enterprises, Ministry of Finance)
EMN	Etablissement maritime de Nouakchott (old port of Nouakchott)
EPIC	Entreprise publique industriel et commercial (Industry and trade-related public enterprise)
ICR	Implementation Completion Report
OED	Operations Evaluation Department
OPT	Office des postes et des télécommunications (Post and Telecommunications Company)
PANPA	Port autonome de Nouakchott - Port de l'amitié (Port of Nouakchott)
PAR	Performance Audit Report
PCR	Project Completion Report
PESAP	Public Enterprise Sector Adjustment Program (Cr. 2166)
PESIDTA	Public Enterprise Sector Institutional Development and Technical Assistance Project (Cr. 2167)
PETARP	Public Enterprise Technical Assistance and Rehabilitation Project (Cr. 1567)
SAR	Staff Appraisal Report
SEM	Société d'économie mixte (Mixed Economy Company)
SMCP	Société mauritanienne de commercialisation de poissons (Fish Marketing Board)
SN	Société nationale
SNIM	Société nationale industrielle et minière (Mining Company)
SONELEC	Société nationale d'eau et d'électricité (Water and Electricity Company)
SONIMEX	Société nationale d'import-export (Import-Export Company)
TA	Technical assistance

June 28, 1996

**MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT**

**SUBJECT: Performance Audit Report on Mauritania - Public Enterprise Technical Assistance and Rehabilitation Project (Credit 1567-MAU), Public Enterprise Sector Adjustment Program (Credit 2166-MAU), and Public Enterprise Sector Institutional Development and Technical Assistance Project (Credit 2167-MAU)**

Attached is the Performance Audit Report (PAR) on the Mauritania Public Enterprise Technical Assistance and Rehabilitation Project (PETARP, Cr. 1567-MAU, for US\$16.4 million equivalent, approved in FY85), the Public Enterprise Sector Adjustment Program (PESAP, Credit 2166-MAU, US\$40 million equivalent, FY90), and the Public Enterprise Sector Institutional Development and Technical Assistance Project (PESIDTA, Credit 2167-MAU, US\$10 million equivalent, FY90), prepared by the Operations Evaluation Department. The PETARP closed two years late, on December 31, 1992, and US\$1.4 million was canceled. The PESAP was fully disbursed and closed on December 31, 1994, two years behind schedule. The PESIDTA is scheduled to close December 31, 1996, one year early. Cofinancing for the PETARP was provided by France. The PESAP was cofinanced by the African Development Bank, the Arab Fund for Economic and Social Development, Japan and Germany.

The credits supported a two phase public enterprise (PE) reform program. The PETARP was to help the Government develop a medium term rehabilitation strategy for the sector; reclassify, close, or privatize PEs; reform the legal, regulatory and institutional framework; introduce performance agreements between the Government and the enterprises; and provide emergency financing and rehabilitation programs for three of the largest enterprises—SONELEC (water and electricity), EMN (port), and OPT (post and telecommunications). It comprised technical assistance and emergency support for critical physical and financial rehabilitation. The PESAP extended the reforms through further modification of the legal and institutional framework to increase public enterprise autonomy; financial restructuring of the major iron ore mining company, SNIM, and of Air Mauritania; and rationalization of the sector by eliminating government arrears, divesting loss-making PEs, and eliminating state monopolies. The PESIDTA supported the reforms with technical assistance; continued the rehabilitation of SONELEC, OPT and the port; helped liberalize some public monopolies; and provided assistance for petroleum exploration and the implementation of a household energy strategy.

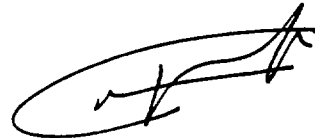
The results of the projects were mixed, but taken together, their objectives were substantially achieved. The PETARP focused heavily on the rehabilitation of SONELEC and EMN, while the broader institutional and policy goals, as well as the rehabilitation of OPT, were not met. However, as the first phase of a longer term process, it contributed to the eventual success of the reforms. The PESAP brought more balanced results. Managers of PEs have autonomy in their day-to-day operations; financial and organizational restructuring were successful in most cases; arrears were settled; monopolies eliminated; and privatization was substantial (the Government cut its majority shareholdings by over

two-thirds). Problems remain, however, including weak financial control, lack of accounting systems in some enterprises, inadequate restructuring of Air Mauritania, and an absence of competition in some of the privatized activities.

The outcome of the PETARP is rated marginally satisfactory, its sustainability uncertain, and the institutional development impact negligible. The outcomes of both the PESAP and the PESIDTA are rated satisfactory, their sustainability uncertain, and their institutional development impact moderate. These ratings agree with those of the PCR for the PETARP, except that the latter rated the institutional development impact as modest, and of the ICR for the PESAP, except for the sustainability rating, which was likely. The audit finds that although Mauritania's experience with enterprise reform in the context of performance agreements has been quite positive so far, many of the achievements are only very recent, and the absence of private sector participation in some cases could increase the possibility of policy reversals. Sustainability will depend to a large extent on continued Government commitment. Bank performance was satisfactory in all three credits.

The main lessons from these projects are that (i) the quality of management and the willingness of the Government to meet its commitments are the key factors determining the success of enterprise rehabilitation through performance agreements; (ii) public enterprise reform can be a lengthy process, but it is essential to take the time necessary to ensure government internalization of the reform; (iii) technical assistance is most successful when it has limited, clearly focused objectives; and (iv) legislation to remove public monopolies may not lead to competitive markets in the absence of an enabling regulatory framework and appropriate incentives.

The draft PAR was sent to the Government of Mauritania and to the cofinanciers for comment. Comments were received from the African Development Bank and they have been taken into account in the final text and are attached as an Annex to the report.

A handwritten signature in black ink, consisting of a large, stylized loop followed by several horizontal and vertical strokes.

**Attachment**

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This report was prepared by Alice Galenson (Task Manager), who audited the project in January 1996. Geri Wise provided administrative support. The report was issued by the Country Policy, Industry and Finance Division (Manuel Peñalver, Chief) of the Operations Evaluation Department (Francisco Aguirre-Sacasa, Director).

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## **Preface**

This is the Performance Audit Report (PAR) on the Mauritania Public Enterprise Technical Assistance and Rehabilitation Project (PETARP), for US\$16.4 million equivalent; the Mauritania Public Enterprise Sector Adjustment Program (PESAP), for US\$40 million equivalent; and the Mauritania Public Enterprise Sector Institutional Development and Technical Assistance Project (PESIDTA), for US\$10 million equivalent. The PETARP was approved on March 26, 1985 and became effective on March 28, 1986. The Closing Date was extended two years to December 31, 1992, and the last disbursement took place on July 14, 1994; US\$1.4 million was canceled. Cofinancing was provided by the French Caisse centrale de coopération économique and the Fonds d'aide et de coopération. The PESAP was approved June 26, 1990, became effective August 29, 1990 and closed August 3, 1994, 19 months behind schedule; the final disbursement was on July 18, 1994. The original credit amount of US\$40 million equivalent was increased by a total of US\$10 million equivalent through four amendments, signed November 20, 1990, November 18, 1992, January 25, 1993 and April 26, 1994. Cofinancing was provided by the African Development Bank, the Arab Fund for Economic and Social Development, Japan and Germany. The PESIDTA was approved on June 26, 1990 and became effective August 29, 1990; it has not yet closed.

The PAR is based on the Project and Implementation Completion Reports for the PETARP and the PESAP, prepared by the African Regional Office; The President's and Staff Appraisal Reports for the three projects; the loan documents; economic and sector reports; President's, Staff Appraisal and Performance Audit Reports for related projects; project files; and interviews of Bank staff, Government officials, and other donors. An OED mission visited Mauritania in January 1996 to discuss the origins, implementation and impact of the three credits with officials of the Government and the public enterprises and with other donors; their kind cooperation is gratefully acknowledged.

The ICR for the PESAP provides a good account of project experience, but the PCR of the PETARP does not provide a fully adequate basis on which to evaluate the project. No ICR has been prepared for the PESIDTA, which has not yet closed. The PAR builds on the findings of these reports, provides additional information, and explores the experience of public enterprise reform in Mauritania over the past decade.

The draft PAR was sent to the Borrower and the cofinancing agencies for comment. Comments received from the African Development Bank are reproduced as an Annex to the PAR and are also reflected in the text.





## Basic Data Sheet

### PUBLIC ENTERPRISE TECHNICAL ASSISTANCE AND REHABILITATION PROJECT (CREDIT 1567-MAU)

#### Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	29.2	--	--
Loan amount	16.4	19.9	121%
Cofinancing	3.9	3.9	100%
Other external sources	5.3	5.3	100%
Cancellation	--	1.4	--
Economic rate of return	44%	--	--

#### Cumulative Estimated and Actual Disbursements

	<i>FY86</i>	<i>FY87</i>	<i>FY88</i>	<i>FY89</i>	<i>FY90</i>	<i>FY91</i>	<i>FY92</i>
Appraisal estimate (US\$M)	2.6	6.7	11.8	15.5	16.4	16.4	16.4
Actual (US\$M) <sup>a</sup>	1.6	7.7	14.3	17.0	18.5	19.4	19.9
Actual as % of appraisal	62%	115%	121%	110%	113%	118%	121%

Date of final disbursement: July 14, 1994

a. The disbursed amount differs from the original amount of the credit in terms of US\$ because of changes in the US\$/SDR exchange rates.

#### Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal	10/83	10/17/83
Negotiations	1984	02/19/85
Board approval	1985	03/26/85
Signing	1985	05/31/85
Effectiveness	9/27/85	03/28/86
Closing date	12/31/90	12/31/92

**Staff Inputs** (staff weeks)

	<i>Total</i>
Lending (general)	57.75
Preappraisal	24.63
Appraisal	58.88
Negotiations	18.68
Supervision	156.03
Other	<u>6.85</u>
<b>Total</b>	<b>322.82</b>

**Mission Data**

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Staff days in field</i>	<i>Specializations represented</i>	<i>Performanc e rating</i>	<i>Rating trend</i>
Identification/Preparation	04/83	n.a.	n.a.	--	--	--
Appraisal	10/83	n.a.	n.a.	--	--	--
SPN I	12/86	n.a.	n.a.	--	2	--
SPN II	07/88	n.a.	n.a.	--	1	--
SPN III	7/89	2	n.a.	PSM & Water Specialists	1	
SPN IV	6/90	2	n.a.	PSM & Water Specialists	2	--
SPN V	12/90	2	n.a.	Sr. Sanitary Eng.	1	
SPN VI	7/91	n.a.	n.a.	--	1	
SPN VII	1/93	1	n.a.	P.E. Specialist	1	
SPN VIII	06/93	1	n.a.	P.E. Specialist	1	
Completion	11/93	1	n.a.	P.E. Specialist	1	

**Other Project Data**

Borrower/Executing Agency: Government of the Republic of Mauritania/Ministry of Planning,  
SONELEC, EMN, OPT

***FOLLOW-ON OPERATIONS***

<i>Operation</i>	<i>Credit no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>
Public Enterprise Sector Adjustment	2166	40.0	06/26/90
Public Enterprise Sector Institutional Devt.	2167	10.0	06/26/90
Private Sector Development Program	2726	30.0	05/23/95

## Basic Data Sheet

### PUBLIC ENTERPRISE SECTOR ADJUSTMENT PROGRAM (CREDIT 2166-MAU)

#### Key Project Data *(amounts in US\$ million)*

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	149.0	144.8	97%
Loan amount	40.0	53.2 <sup>a</sup>	133%
Cofinancing	109.0	91.6	84%
Cancellation	--	--	--
Economic rate of return	n.a.	n.a.	n.a.

a. Includes \$10 million IDA reflows.

#### Cumulative Estimated and Actual Disbursements

	<i>FY90</i>	<i>FY91</i>	<i>FY92</i>	<i>FY93</i>	<i>FY94</i>
Appraisal estimate (US\$M)	18.0	30.0	40.0	40.0	40.0
Actual (US\$M) <sup>a</sup>	19.2	19.2	19.3	32.0	42.8
Actual as % of appraisal	107%	64%	48%	80%	107%

Date of final disbursement: July 18, 1994

a. The disbursed amount differs from the original amount of the credit in terms of US\$ because of changes in the US\$/SDR exchange rates.

#### Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal	01/90	01/90
Negotiations	05/90	05/25/90
Letters of Development Policy	05/90	05/25/90
Board approval	06/90	06/26/90
Signing	06/90	07/18/90
Effectiveness	07/90	08/29/90
First tranche release	07/90	09/30/90
Second tranche release	07/91	03/31/93
Third tranche release	07/92	03/31/94
Closing date	12/31/92	12/31/94

**Staff Inputs** (staff weeks)

	<i>Total</i>
Lending (general)	0.05
Preappraisal	110.35
Appraisal	41.05
Negotiations	6.80
Supervision	96.00
Other	<u>3.03</u>
<b>Total</b>	<b>257.28</b>

**Mission Data**

	Date (mo./yr.)	No. of persons	Staff days in field	Specializations represented	Perform. rating	Rating trend	Types of problems
Through appraisal	06/88	5	4	Economist, Energy, Mining, consultants (2)	--	--	Credit 1567-MAU and preliminary discussions on PESAP operation.
	10/88	6	21	Economists (2), Petroleum, Mining, Transport, Consultant	--	--	PE sector assessment and preparation of lending operation
	11/88	5	11	Economists (2), Sanitary engineer, Financial analyst, Consultant	--	--	Electricity and water utility rehabilitation.
	06/89	5	26	Economist, Financial analyst, Mining, Consultants (2)	--	--	PESAP appraisal
	01/90	7	22	Economists (2), Lawyer, Mining, Energy, Financial analyst, Social aspects	--	--	PESAP appraisal
Appraisal to Board	--						
Board to Effectiveness	--						
SPN I	10/90	8	17	Task Manager, PE specialist, Energy, Mining, Fisheries, Lawyer, Airline, Job redeployment	--	--	Overall implementation review, social aspects, SNIM restructuring, cofinancing issues
SPN II	09/91	3	39	Task Manager, Mining, Telecom.	1	2	Implementation delays
SPN III	10/92	2	21	Task Manager, Mining	1	1	Implementation review
SPN IV	10/93	4	10	Task Manager, PE Specialist, Telecom, Mining	1	1	Implementation review, OPT performance agreement
SPN V	02/94	1	22	Task Manager	HS	HS	Implementation review
Completion	09/94	2	14	Economist, Consultant	1	1	ICR preparation

**Other Project Data**

Borrower/Executing Agency: Government of the Republic of Mauritania/Ministry of Planning and public enterprises

***FOLLOW-ON OPERATIONS***

<i>Operation</i>	<i>Credit no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>
Public Enterprise Sector Institutional Devt.	2167	10.0	06/26/90
Private Sector Development Program	2726	30.0	05/23/95

## Basic Data Sheet

### PUBLIC ENTERPRISE SECTOR INSTITUTIONAL DEVELOPMENT AND TECHNICAL ASSISTANCE PROJECT (CREDIT 2167-MAU)

#### Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	10.5	10.5	100%
Loan amount	10.0	10.0	100%
Cofinancing	0.5	0.5	100%
Cancellation	--	--	--
Economic rate of return	n.a.	n.a.	n.a.

#### Cumulative Estimated and Actual Disbursements

	<i>FY91</i>	<i>FY92</i>	<i>FY93</i>	<i>FY94</i>	<i>FY95</i>	<i>FY96</i>	<i>FY97</i>
Appraisal estimate (US\$M)	1.0	2.5	4.5	6.0	7.5	9.0	10.0
Actual (US\$M) <sup>a</sup>	2.0	4.1	6.6	8.3	9.3	9.9	--
Actual as % of appraisal	200%	164%	147%	138%	124%	110%	--

Date of final disbursement: *still disbursing*

a. The disbursed amount differs from the original amount of the credit in terms of US\$ because of changes in the US\$/SDR exchange rates.

#### Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal	--	01/90
Negotiations	05/90	05/25/90
Board approval	06/90	06/26/90
Signing	06/90	07/18/90
Effectiveness	07/90	08/29/90
Closing date	03/30/98	06/30/98

**Staff Inputs (staff weeks)**

	<i>Total</i>
Lending (general)	3.2
Preappraisal	32.53
Appraisal	1.68
Negotiations	1.28
Supervision	49.70
Other	<u>0.0</u>
<b>Total</b>	<b>88.39</b>

**Mission Data**

	Date (mo./yr.)	No. of persons	Staff days in field	Specializations represented	Perform. rating	Rating trend	Types of problems
Through appraisal	06/88	5	4	Economist, Energy, Mining, consultants (2)	--	--	Credit 1567-MAU and preliminary discussions of PESIDTA.
	10/88	6	21	Economists (2), Petroleum, Mining, Transport, Consultant	--	--	PE sector assessment and preparation of lending operation
	11/88	5	11	Economists (2), Sanitary engineer, Financial analyst, Consultant	--	--	Electricity and water utility rehabilitation.
	06/89	5	26	Economist, Financial analyst, Mining, Consultants (2)	--	--	PESAP/PESIDTA appraisal
	01/90	7	22	Economists (2), Lawyer, Mining, Energy, Financial analyst, Social aspects	--	--	PESAP/PESIDTA appraisal
Appraisal to Board	--						
Board to Effectiveness	--						
SPN I	10/90	8	17	Task Manager, PE specialist, Energy, Mining, Fisheries, Lawyer, Airline, Job redeployment	--	--	Overall implementation review, social aspects, SNIM restructuring, cofinancing issues
SPN II	09/91	3	39	Task Manager, Mining, Telecom.	1	2	Implementation delays
SPN III	10/92	2	21	Task Manager, Mining	1	1	Implementation review
SPN IV	10/93	4	10	Task Manager, PE Specialist, Telecom, Mining	1	1	Implementation review, OPT performance agreement
SPN V	02/94	1	22	Task Manager	HS	HS	Implementation review
SPN VI	07/95	2	n.a.	Economist, Consultant	HS	HS	--
SPN VII	03/96	2	n.a.	Economist, Financial Analyst	HS	HS	--

**Other Project Data**

**Borrower/Executing Agency:** Government of the Republic of Mauritania/Ministries of Planning, Finance and Commerce; Directorates of Energy, Mines and Geology; public enterprises

***FOLLOW-ON OPERATIONS***

<i>Operation</i>	<i>Credit no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>
Private Sector Development Program	2726	30.0	05/23/95

## **Evaluation Summary**

### **Background**

1. Mauritania's economy grew rapidly in the 1960s and early 1970s, fueled by increases in iron ore production. The Government invested heavily in parastatals in an effort to promote economic development, and it continued to do so in the late 1970s, as the economy deteriorated. The large public investment program, financed largely through external borrowing, lacked sound investment criteria, and resulted in overly ambitious projects with low or negative rates of return. By the mid-1980s, the public enterprise (PE) sector represented as much as a quarter of GDP and modern sector employment and over half of public debt service. Poorly managed and overstaffed, these enterprises became increasingly inefficient and accumulated large financial losses.

2. In 1982 the Government established an interministerial committee to formulate a global policy and prepare a rehabilitation program for the PE sector. The report of the committee identified the key problems as weak management, compounded by government interference; delays in government payment of bills; delayed and poorly planned price increases; inadequate accounting, billing, collection and internal control; and lack of maintenance and training. It set out conditions for improving PE performance, to be established in the framework of performance agreements between the Government and each enterprise. The Government adopted a set of emergency measures in late 1983, which led to a new PE law; creation of a central unit, the Parastatal Sector Rehabilitation Agency (CRSP), to monitor and coordinate the rehabilitation of PEs; and a start on resolving the problems of government arrears, inadequate budgeting for consumption of PE services and the interlocking debts among enterprises and the Government. The Bank supported the continuation of these reforms through a series of projects: the Public Enterprise Technical Assistance and Rehabilitation Project (PETARP, FY85), the Public Enterprise Sector Adjustment Program (PESAP, FY90) and the Public Enterprise Sector Institutional Development and Technical Assistance Project (PESIDTA, FY90).

### **Objectives and Implementation of the PETARP**

3. The PETARP, which combined investment and technical assistance, supported the first phase of PE reform by:

- helping the Government develop a medium term rehabilitation strategy for the sector;
- restructuring the sector by reclassifying, closing, privatizing, or reorganizing enterprises as appropriate;
- reforming the legal, regulatory and institutional framework for the sector;
- introducing performance agreements to establish the objectives and responsibilities of the enterprises and the Government; and

- providing emergency financing and/or rehabilitation programs for three of the most critical enterprises—SONELEC (water and electricity), EMN (port) and OPT (post and telecommunications).

4. The appraisal report justified the project primarily through its institutional objectives and the qualitative improvements expected in enterprise operations and in the sector as a whole. During implementation, however, the project was dominated by the rehabilitation of SONELEC and, to a lesser extent, EMN, and these two enterprises experienced substantial improvement. In particular, badly needed managerial and organizational reforms, along with some strategic repairs and upgrading, permitted the restoration of power services and prevented the rupture of water supply. Performance agreements were signed belatedly, with SONELEC in 1989, and with the port in 1992. These reforms would not have been sustainable, however, without further support. Moreover, the objectives for broader institutional and policy reform, as well as those for OPT, were not met, and growing financial problems of some other important enterprises, most notably the large iron ore mine, SNIM, prevented improvements in the performance of the sector as a whole. If the reform process had ended with this project, it would have to be judged as relatively unsuccessful. As the first phase of a longer term process, however, it established the foundation for more far-reaching reform.

#### **Objectives and Implementation of the PESAP and the PESIDTA**

5. By 1990, it was clear that any benefits from the PETARP reforms had been overshadowed by the problems of a few enterprises, that major weaknesses remained in the legal and institutional framework for the sector, and that more drastic measures were needed to permit the sector to function efficiently and profitably. The PESAP was a sector adjustment project designed to extend the reforms through:

- more fundamental modification of the legal and institutional framework for the sector to permit greater autonomy and facilitate privatization;
- financial rehabilitation of SNIM and Air Mauritania;
- rationalization of the sector through the divestiture of unprofitable PEs, the elimination of a number of state monopolies, the settlement of government arrears to PEs, more realistic budgeting for government consumption, and staff reductions.

6. The PESIDTA was a technical assistance project designed to accompany the PESAP and reduce the risk that the reform program might prove too demanding for the Mauritanian administration, as well as to accomplish some other objectives. It included:

- support to the CRSP, located in the Ministry of Plan, whose job was to monitor sector performance, implement the divestiture measures, carry out external audits of PEs, offer counseling and advice on labor retrenchment, and undertake studies;
- support to the Ministry of Finance in supervising PE accounting and budgetary procedures;



- continued support to the rehabilitation and reform of SONELEC, OPT and the port;
- technical assistance to promote petroleum exploration and implement a household energy strategy; and
- assistance to the Government with price liberalization and demonopolization.

7. Implementation of the PESAP was slow at first, in part because of external events and delays in establishing an acceptable macroeconomic framework, one of the conditions of tranche release. In addition, the settlement of government arrears; the provision of an adequate budget for public consumption; the conclusion of performance agreements with OPT, Air Mauritania and the port; and the divestiture of nonperforming PEs proved difficult to implement. In the end, however, the objectives of the two credits were substantially achieved. SNIM has met its financial and physical targets; performance agreements have been unusually successful in some cases; government arrears were paid, and budgeting for consumption is now more realistic; public monopolies have been eliminated; employment in PEs was reduced more than expected; and the Government has cut the number of enterprises in which it holds a majority share by more than two-thirds. Problems remain, however, including weak financial control and a lack of cost accounting systems in some enterprises, inadequate restructuring in Air Mauritania, and an absence of competition in some of the privatized activities. The PESIDTA, which is still under implementation, is helping to complete the reforms (though it is unlikely to resolve all of the problems), and is expected to close one year early, at the end of 1996. Two new credits—for a Private Sector Development Program and a Capacity Building Project for the Development of the Private Sector, both approved in FY95—support additional policy and institutional reforms needed to establish an environment conducive to the growth of the private sector.

### **Results of the Public Enterprise Reform Program**

8. With some exceptions, the projects achieved their objectives. Although many components suffered significant delays, the Government's continuing commitment to the program assured the eventual success of most of them. Many PEs have been closed or privatized, and those that remain are, for the most part, in much improved financial condition. Prices are more market oriented. Employment in PEs has fallen substantially, and, according to a 1992 survey, with little apparent hardship for the laid-off workers. The quality of services has improved, and explicit subsidies to PEs have been largely eliminated. The attitude of the Government toward its role in the economy and in the management of PEs changed significantly over the course of the three projects. It now acknowledges that productive and commercial activities are better left to the private sector and that even the "strategic" enterprises, which it is unwilling to privatize, are better off with complete autonomy in the management of their day to day affairs. Some of the performance agreements, particularly those with SONELEC, are considered among the most successful in Africa today.

### **Sustainability**

9. Despite the substantial success of the project reforms, their sustainability is still uncertain. Although the performance agreements have worked well so far in several enterprises—and the longevity of the agreements in the case of SONELEC shows considerable commitment by the Government and the enterprise—experience in other countries has shown

that, while "bad times make for good policy," once the crisis has passed, performance agreements are often not sufficient to prevent backsliding and a decline in government commitment. The failure of performance agreements in Air Mauritania illustrates their fragile and uncertain nature. Private sector participation, whether by management contract, concession, or full privatization, might help cement the gains, but the Government has not yet accepted the idea that the private sector could manage "strategic" enterprises, such as SONELEC, OPT and Air Mauritania, and ensure that public needs are met. Although it acknowledged from the beginning the need to rid the public sector of nonperforming enterprises, and it no longer believes that the state should control the economy, the Government is still not convinced of the benefits from introducing the private sector into enterprises that appear to be functioning well.

10. The quality of enterprise management has been a critical factor in the success or failure of rehabilitation efforts in Mauritania. General Managers, however, are appointed by the President, and are therefore not accountable to their Boards of Directors. As long as this is the case, the managers, who are state employees, will always be subject to government pressure, and the sustainability of good management will be at risk.

11. Financial discipline in public enterprises has been achieved in most cases, but with long delays and with considerable difficulty. Arrears and interlocking debts, targets of reform more than 10 years ago, were settled in the early years of the PESAP, but reemerged and were settled again only very recently. New analytical accounting systems that will enable enterprises to concentrate on cost reduction and improvement of productivity are still being introduced. Therefore, although progress has been significant, it is too soon to be certain of its sustainability.

### **Lessons**

12. Rehabilitation of selected public enterprises was far more successful in some cases than in others. The most notable success was SNIM, followed by SONELEC. Other cases were less successful, particularly Air Mauritania. The main factors contributing to the successful outcomes appear to be the quality of the management of the enterprises, along with a willingness of the Government to meet its commitments under the performance agreements, particularly in the areas of management autonomy and financial obligations. Financial and physical rehabilitation will not suffice to turn an enterprise around if its management does not understand the need for change or if it is not given the power to carry it out. An additional factor, of great importance in the case of SNIM, was the discipline brought about by exposure to competition in international markets and by agreements with other financiers. When none of these factors are present—in particular, when management is not interested in making the necessary institutional changes—there may be no point in lending even for technical components.

13. The length of time required to implement the PE reforms included in these three projects, from the preparation of the PETARP in the early 1980s to the present and beyond, illustrates their difficult nature, as well as the importance of sustained efforts on the part of the Bank in their support. Years can be spent in ensuring the internalization of the reforms by the Government, but without it, conditionality is unlikely to bring about lasting change. The success of the performance agreements in SONELEC and PANPA, in contrast with the experience in many other countries, is a testament to the degree with which the Mauritanian Government has accepted the need for autonomy and for the clear delineation of responsibilities between the Government and the enterprises.

14. Mauritania has had a number of technical assistance projects in addition to the ones included in this audit. The first two TA projects, designed to address a very broad spectrum of institutional weaknesses, contributed a number of useful studies, but failed to produce a sustainable impact on public administrative or economic managerial capacity. In contrast, the more recent projects, linked to public enterprise reform, made concrete and positive contributions to sector management. The experience of all these projects taken together confirms the conclusions reached previously by OED that technical assistance is most successful when it has limited, clearly focused objectives.

15. The sequence of projects covered by this audit permits a comparison between one project which combined TA, policy reform and investment for rehabilitation, and a pair of projects which provided TA and policy reform separately. In the PETARP, the urgent need for rehabilitating some major enterprises, and the associated TA, dominated the project, and the broader institutional policy reforms received less attention. The PESAP and PESIDTA combination was better targeted and was well phased, with adequate TA available through the latter to support the policy reforms of the former, but without putting pressure on all of the TA components to meet the timetable of the adjustment program.

16. Legislation to remove official monopolies, and the entry of the private sector, do not guarantee the emergence of competitive markets. Ideally the process should start with the creation of an environment conducive to the development of the private sector, through such measures as legal and regulatory reform, financial sector reform, and trade and exchange rate reform. In Mauritania, many of these reforms are only now getting seriously underway in the context of the Private Sector Development Program.

17. The Government of Mauritania was able to lay off a significant proportion of the public enterprise labor force without major trauma and with little apparent negative impact on the workers, despite the fact that the program that was to help these workers find new jobs never got off the ground. This experience demonstrates the value of providing adequate severance pay.

### Ratings

18. Based on its findings, this audit rates the three projects as follows:

	<i>PETARP</i>	<i>PESAP</i>	<i>PESIDTA</i>
Outcome	Marginally satisfactory	Satisfactory	Satisfactory
Institutional Development Impact	Negligible	Moderate	Moderate
Sustainability	Uncertain	Uncertain	Uncertain
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

These ratings agree with those of the PCR for the PETARP, except in the case of the institutional development impact, which was rated modest, and with those of the ICR for the PESAP, except for the sustainability rating, which was likely. The PESIDTA has not yet closed and has no ICR.

19. The Region still believes that sustainability is likely. It has taken steps to help ensure the sustainability of the reforms through its continuing dialogue with the Government and linkages with new operations, including the Private Sector Development Program, adopted by the

Government in 1994 and supported by a FY95 IDA credit, and a planned project in the energy sector. The continuing presence of other donors in Mauritania will also help sustain the reform program.

## 1. Background

1.1 The Mauritanian economy grew rapidly in the 1960s and early 1970s, fueled by increases in iron ore production. The Government invested heavily in parastatals as a means to promote economic development. Beginning in the mid-1970s, the economy deteriorated, due to drought and reduced world demand for iron ore, as well as to weak financial and economic management. The large public investment program continued, however, financed mainly through external borrowing. Without sound investment criteria, the result was ambitious projects with low or even negative rates of return. By the mid-1980s, the parastatal sector represented as much as a quarter of GDP and modern sector employment, and over half of public debt service. Poorly managed and overstaffed, these enterprises became increasingly inefficient and accumulated heavy financial losses: transfers and subsidies were estimated to be equivalent to about 10 percent of total government recurrent expenditures. Moreover, the Government's inability to pay for its own consumption of goods and services led to large arrears and interlocking debts.

1.2 In 1978, a team of advisers financed by IDA's First Technical Assistance Project (Cr. 665-MAU, FY77) carried out a review of the public enterprise (PE) sector. The resulting report recommended action on pricing policy, personnel reductions, managerial improvements and equipment maintenance. The Government was, however, not yet convinced of the need for fundamental reforms, and the main result of this effort was tariff increases for a handful of enterprises. The Second Technical Assistance Project (Cr. 1292-MAU, in FY83) supported the preparation of rehabilitation plans for three key enterprises (SONELEC, EMN, and OPT).

1.3 In December 1982, the Government established a high level interministerial committee to formulate a global policy and prepare a rehabilitation program for the PE sector. The committee's report, submitted in September 1983, identified the key problems. On the Government side, the problems consisted of Government interference in the day-to-day management of the enterprises; lack of monitoring of the enterprises in relation to government objectives; lack of financial controls and audits; delays in payments of bills; and belated and poorly planned increases in prices and tariffs. On the enterprise side, the problems amounted to weak management and lack of incentives to manage well; inadequate accounting, billing, collection and internal control; lack of maintenance; and an absence of policies for training. The report set out the essential conditions for improving public enterprise performance: a clear statement of enterprise objectives; enforcement of payment for services within the public sector; and explicit agreement on the responsibilities and duties of the enterprises and the Government. These elements would be part of a performance agreement between the Government and each enterprise.<sup>1</sup>

1.4 In late 1983, the Cabinet approved a set of emergency measures, endorsed by the Bank, which included the classification of all PEs according to whether they should remain in the public sector or be privatized or liquidated; adoption of a policy of cost-based pricing; the settlement of government arrears and prompt payment in the future for goods and services

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<sup>1</sup> The French term "contrat plan," or "contrat programme," as it is called in Mauritania, is often translated as "performance contract." These documents are not, however, legally enforceable contracts. This report therefore uses the term "performance agreement."

purchased from PEs; settlement of interlocking debts; a freeze on hiring of unskilled workers and a gradual reduction in their numbers; recruitment of qualified accountants and training of others; strengthening of billing and collection procedures; the requirement that enterprise investment plans be subject to feasibility studies and be in accord with economic and social development objectives; and the creation of monitoring units, including one in the Ministry of Plan to monitor and coordinate the PE recovery program. These measures progressed at different rates, and a revised plan, with a specific timetable attached, became the basis of the first PE project.

1.5 Progress through this time (early 1985) included the following actions:

- Passage of a law, in early 1984, establishing a new institutional framework for PEs, and requiring that all PEs have performance agreements with the Government;
- Settlement of interlocking debts for a number of major enterprises, and agreements for settlement in several more;
- A plan for reclassification and restructuring of 30 public enterprises;
- Establishment of realistic budget estimates for public sector consumption of services from SONELEC (water and electricity) and OPT (post and telecommunications); and
- Creation of a central unit, the Cellule de Redressement du Secteur Parapublic (CRSP), in the Ministry of Plan, to monitor and coordinate the PE rehabilitation program.

These initiatives were seen by the Bank as evidence of the Government's commitment to undertake a major reform of the PE sector and to institute sound management in those enterprises remaining in the sector.

1.6 The single most important PE in Mauritania, in terms of size, is the mining company, Société Nationale Industrielle et Minière (SNIM). Iron ore mining accounts for about 10 percent of GDP and 40 percent of exports, and employs more than 5,500 people. Prior to 1990, the Bank made two loans to SNIM, the first in 1979 to finance part of the Guelbs Iron Ore project, and the second in 1986, to increase the financial and economic viability of the company through improved management, reduced costs, and debt restructuring. The Guelbs project experienced serious technical problems and delays, and iron ore prices and production were far lower than expected; the recalculated economic rate of return at audit was negative 5 percent, compared with nearly 12 percent at appraisal. The subsequent SNIM Rehabilitation project was more successful, with a recalculated rate of return of 19 percent. Prospects for profitable operations improved with the discovery of a new high grade iron ore body, but SNIM's financial situation did not improve as much as expected, and further financial restructuring was needed.<sup>2</sup>

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<sup>2</sup> "Islamic Republic of Mauritania: Guelbs Iron Ore Project and SNIM Rehabilitation Project," Program Performance Audit Report No. 10784, June 26, 1992; and "Islamic Republic of Mauritania: Public Enterprise Sector Adjustment Program," President's Report No. P-5293, May 30, 1990.

## 2. The Public Enterprise Projects

2.1 Following the Government's 1982 report on the sector, IDA agreed to support a two-phase approach to PE reform. The first project would meet the emergency needs of a few enterprises essential to the provision of basic services, and would prepare a longer term strategy for the sector. A second project would support essential institutional and policy reforms, and would expand the rehabilitation program to additional enterprises. The appraisal report for the first project noted that "An important facet of this support will be to demonstrate the links between micro- and macro-level actions, so that the rehabilitation of physical plant and equipment does not overshadow institutional and legal issues addressed at the sectoral level."<sup>3</sup>

### **PETARP: Objectives and Instruments**

2.2 The Public Enterprise Technical Assistance and Rehabilitation Project (PETARP, Cr. 1567-MAU, US\$16.4 million equivalent<sup>4</sup>), approved in 1985, was designed to support the first phase of the PE reform program by helping the Government develop a medium-term rehabilitation strategy for the sector; restructuring the sector by reclassifying, closing, privatizing, and/or reorganizing enterprises as appropriate; reforming the legal, regulatory and institutional framework for the sector; introducing performance agreements between the Government and the enterprises; and providing emergency financing and/or rehabilitation programs for three of the largest enterprises—SONELEC, EMN (the port authority) and OPT. The appraisal report considered the project to be justified primarily by its institutional objectives and the qualitative improvements expected in enterprise operations and in the sector as a whole, but it also calculated rates of return to the rehabilitation of SONELEC and EMN. As noted above, a separate loan supported the rehabilitation of SNIM.

2.3 The *sector reform* component of the PETARP aimed at developing sector policies, coordinating the restructuring process, and strengthening the institutional context through the following:

- Technical assistance (TA) to the CRSP to help it develop PE policy, coordinate rehabilitation efforts, carry out reforms, monitor sector performance, and develop a medium term rehabilitation program for the sector; and training for staff at CRSP and at the Ministry of Finance in information systems, public sector management, finance and other areas;
- Studies leading to the development of policies and systems to overcome the constraints in the PE sector (e.g. salary policy and structure, training needs, monitoring and budgetary systems);

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<sup>3</sup> "Islamic Republic of Mauritania: Public Enterprise Technical Assistance and Rehabilitation Project," Report No. 5193-MAU, March 7, 1985.

<sup>4</sup> Total project costs were US\$29.2 million equivalent, including US\$9.2 million of cofinancing, and US\$3.6 million from the Government and enterprises.

- Assistance in restructuring the PE sector, establishing realistic budget allocations, settling interlocking debts, preparing performance agreements, and other areas as necessary;
- External audits of the three PEs and of CRSP; and
- Office equipment and operating expenses for CRSP.

Fourteen percent of project cost was devoted to this component.

2.4 The *emergency support for SONELEC component* had three parts. The first provided technical assistance and training through a twinning arrangement with two French firms, Electricité de France and Compagnie Générale des Eaux, as well as short term assistance to prepare the physical rehabilitation, develop systems and procedures, establish internal controls, assess organizational and staffing needs, and assist in the preparation of a performance agreement. A second component provided for urgent physical works and equipment for the rehabilitation of water and electricity services in Nouakchott and Nouadhibou. The third component supported organizational changes intended to improve billing and recovery, develop financial policies and systems, reduce redundant labor, ensure adequate trained staff, settle interlocking debts, and adopt tariff structures designed to restore financial self-sufficiency. Support to SONELEC amounted to two-thirds of the total project cost (55 percent of IDA's contribution), of which rehabilitation accounted for over four-fifths, with an estimated rate of return of 44 percent. France and the European Investment Bank contributed substantial sums to this component.

2.5 The *emergency support for EMN component* provided for technical assistance to improve administration, finance and accounting, maintenance and port operations through the recruitment of four experts, as well as short term advisors and training. The project included physical repairs to prevent the collapse of vital infrastructure pending completion of a new port, along with equipment, spare parts and tools that could be transferred to the new port; the rate of return was estimated to be 68 percent. Other assistance was designed to carry out organizational improvements, raise productivity (in part through staff reduction), develop a new accounting system and management information systems, and facilitate the transfer of assets and operations of the new port to EMN and of equipment to the new port. The EMN component comprised 15 percent of project costs.

2.6 The *technical assistance component to OPT*, comprising training and equipment, supported improvements in financial management and data processing and preparation of a medium-term rehabilitation plan. A major objective was to adopt an accounting system capable of separating postal and telecommunications accounts. This component was relatively small, amounting to under 6 percent of total project costs.

2.7 The main *risk* identified at appraisal was that the human and institutional resources available would not be sufficient to execute the institutional reforms. The two-phase approach was seen as providing an opportunity to learn about the sector's problems and test the performance agreement approach to reform, while developing the country's institutional capacity. Other risks, raised during project processing, but not in the appraisal report, were that the urgency of the physical rehabilitation might reduce the project's leverage for the reforms and that the project would prove to be overly complex and difficult to manage.



## **PETARP: Implementation Experience and Outcome**

2.8 The project was quite ambitious, involving three enterprises in four different sectors, as well as significant policy changes. Effectiveness was delayed six months by a number of unsatisfied conditions, including budget allocations for government purchases from SONELEC and OPT and settlement of arrears with the latter, problems that were to continue well beyond the life of this project. The closing date was extended twice, first to permit full use of the TA funds, and the second time to permit SONELEC to make use of additional allocations, but eventually US\$1.5 million was canceled. Although the appraisal report had emphasized the sector policy reform aspects of the PETARP, supervision tended to focus on the enterprise rehabilitation components. Even during the project design stage, there had been some debate in the Bank about the amount of policy conditionality to be included; the prevailing view was that neither relations between the Bank and the Government nor sector work to date were developed enough to support more than limited objectives. More ambitious efforts would have to wait for subsequent projects, and this is, in fact, what occurred. Moreover, all of the risks noted above materialized and contributed to difficulties in implementation.

2.9 *Support to SONELEC.* Technical assistance for improving management and organization was the key to rehabilitating SONELEC. Originally expected to end by 1987, the TA was extended annually, and eventually closing was extended by a year to December 1991 to permit additional disbursements for this purpose.<sup>5</sup> Delays in preparation of project investments, along with a need for additional TA, led to a significant reallocation of funds, with Bank agreement, from the former to the latter.<sup>6</sup> During the period 1984 to 1991, SONELEC received a total of 125 man years of technical assistance (not all financed by the Bank). Although it could be questioned whether such a high level of assistance was needed, it is generally agreed that it was well used. Long term consultants worked with and trained their counterparts, and today SONELEC is managed with no long term consultants at all. Strong supervision by the Bank also contributed to the relative success of this component. The managerial and organizational reforms were considered more important than the physical rehabilitation in ensuring SONELEC's ability to provide water and electricity; the appraisal report noted that the project was justified principally on its institutional objectives and the qualitative improvements to enterprise operations and the sector as a whole. This project also paved the way for a subsequent infrastructure project with important policy components. It is interesting to note, however, that although the Bank raised the possibility of partial privatization or a management contract with SONELEC as early as 1987, this idea never progressed.<sup>7</sup>

2.10 Managerial autonomy was considered to be a critical requirement for improvements in SONELEC, and it was a major feature of the performance agreement. Originally scheduled to be ready by the end of 1985 (its preparation had been financed by the Second Technical Assistance project), the performance agreement was eventually signed in March 1989. The enterprise was

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<sup>5</sup> Closing was later extended one year more for other reasons (see below).

<sup>6</sup> Actual disbursements for investment were US\$4.1 million, or US\$2.9 million lower than allocated; for TA, disbursements were US\$5.2 million, or US\$3.8 million higher. The difference came from reductions in all the other components. In the end, US\$1.5 million was canceled, because of delays in contracting out the work.

<sup>7</sup> Supervision reports during the period 1987 through late 1988 mentioned discussions with the Government of the possibility of management contracts (affermage) or private sector participation, but this issue disappeared from the record subsequently.

reorganized to ease the burden on senior management (through the creation of a management team to undertake reform) and to increase the separation of functional responsibilities between water and electricity operations. SONELEC consistently met or exceeded most of the performance indicators included in the performance agreement (improved billing, reduced costs—staff size was reduced by 10 percent, physical rehabilitation), although the Government continued to lag in meeting its commitments. Substantial improvements, though belated, did take place. A supervision report noted in late 1989 that SONELEC had been transformed from a paralyzed institution to one able to supply both water and electricity and oriented towards full cost recovery.

2.11 SONELEC's financial situation was a major issue throughout the project. Part of the delay in signing the performance agreement resulted from the realization that financial restructuring was the most urgent task; this led to the preparation of a financial restructuring plan for the period 1986-1990. The Government consistently failed to permit the tariff increases that had been agreed,<sup>8</sup> and it also took far longer than planned to repay its arrears and begin to budget adequately for its own consumption. A tariff study financed under the project was delayed. Subsequently, tariff conditionality was picked up by the Structural Adjustment Credit, as well as by an infrastructure project which also supported further investments in the water sector.<sup>9</sup>

2.12 At the beginning of the project period, the water supply system of Nouakchott was nearing collapse, and electric power blackouts were frequent and prolonged—up to 22 hours per day. In less than two decades, rural-urban migration had transformed Mauritania from a country of nomads to one in which the urban population is half the total, putting an enormous strain on urban infrastructure. The social and economic costs of a breakdown of these essential services would have been enormous, and the appraisal of the SONELEC component stressed the benefits from reducing breakdowns and improving the quality of water. The estimated rate of return was very sensitive to the assumptions about the rate of deterioration without the project and the likelihood of a complete breakdown of the water supply system; these variables can still only be guessed. Given as well the difficulty of separating the effects of different investments, and the inadequate accounting, it is not possible to recalculate with any confidence the rate of return to the investments financed under the PETARP. However, these investments were for rehabilitation, which would be expected to have a high rate of return. In the case of Mauritania,<sup>10</sup> combined with large investments financed by France, they most likely prevented a major crisis. During the years from 1984, before project start-up, to 1990, by which time most of the funds had been disbursed, production of both water and electricity nearly doubled; considering the

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<sup>8</sup> As an example of the problem, immediately after negotiations of the PETARP, SONELEC signed a contract with SNIM to provide electricity at reduced prices.

<sup>9</sup> "Mauritania: Water Supply Project," Staff Appraisal Report No. 10469-MAU, May 21, 1992.

<sup>10</sup> France financed a new, efficient diesel thermal plant, while the Bank project rehabilitated the existing plant as an interim measure and eventually to serve as a back-up. On the water side, Bank funds were used largely to fix the pumps and the major pipeline, which was cracking.

likely economic and social costs of the situation without the project, the economic rate of return was undoubtedly satisfactory.<sup>11</sup>

2.13 In late 1991, the Bank agreed to a second extension of the closing date of the PETARP and approved the allocation of the entire undisbursed balance to SONELEC to finance a badly needed expansion of the water supply of Nouadhibou. However, the procurement process for the civil works and equipment was very slow, and the lowest bid eventually turned out to be significantly above the funds available. A scaled down version would have made only marginal improvements, and SONELEC could not guarantee its technical feasibility or the completion of procurement within 1993. SONELEC then proposed an alternative project to rehabilitate the liquid waste disposal network in Nouakchott, but since this had not been appraised by the Bank, a decision was taken to close the credit on December 31, 1992, with an undisbursed balance of US\$1.5 million.

2.14 *Support to EMN.* This component was partially successful. Most of the planned activities were carried out, except for the reconditioning of the old wharf. EMN's staff was cut by 25 percent (to 280), tariffs increased by 25 percent, productivity more than doubled, and EMN showed a profit in 1987. The project funded a study to design the terms and conditions of the transfer from the old wharf to the new port, and its recommendations were to be reviewed and agreed by the Bank; EMN also agreed to limit staff to no more than 250. However, when the results of the study were delayed for about five months, the Government, without consulting the Bank, preempted its recommendations, replacing EMN with a new public enterprise, PANPA (the Port autonome de Nouakchott, Port de l'amitié), and recruiting 200 additional staff. As a result of overstaffing and inefficient cargo handling, PANPA suffered net losses in 1988 and 1989. The situation improved in 1990, when cargo handling was privatized and 250 employees were laid off. Equipment provided by the project was critical in putting the new port into service and in privatizing cargo handling. Port traffic tripled in the first five years. The performance agreement required under the project, originally scheduled to be ready in 1985, and delayed until December 1987 to accommodate the transfer of port operations, was not signed until 1992.

2.15 *Support to OPT.* This component was the weakest; it was not well prepared and had very limited objectives. At one point during preparation, a recommendation was made to drop the assistance to OPT from the project in response to investments financed by France which the Bank believed to be excessive; in the end, a small technical assistance component was included in an effort to minimize the negative impact of the investments. One of the key objectives, a system of accounting capable of separating the postal and telecommunications functions, has yet to be accomplished. The unification of the post and telecommunications functions was a model derived from the French system. France financed major investments in OPT, and the management of the enterprise, at the time, and for many years after, was not interested in reform. Given the problems with OPT even before the project started and the absence of managerial backing for reform, this component probably should not have been included in the project. From the beginning, supervision reports noted sizable obstacles to rehabilitation, including two failed

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<sup>11</sup> Increases of 74 percent for water and 50 percent for electricity were projected at the time of appraisal; the results are not comparable, however, since the appraisal estimates do not include the impact of other investments. The appraisal report for the Water Supply Project notes that water vendor rates as of 1992 were as high as ten times the SONELEC tariff; this willingness to pay high rates implies that the tariff was well below its market level and supports the hypothesis of a high economic rate of return. The financial rate of return must have been somewhat lower than the economic one, given the consistent failure of the Government to authorize price increases at the agreed rate.

attempts to remedy organizational weaknesses and a precarious financial position, and suggested that any serious attempt to deal with financial problems would have to wait for the next project. Actual expenditures under the project amounted to only two-thirds of the allocation; the rest was reallocated to SONELEC and eventually canceled.

2.16 *Sector Reform.* Achievements in the area of sector reform were disappointing; implementation was constrained by inexperience, continued weakness of the institutional and legal framework, and delays in the completion of studies. The CRSP benefited from the technical assistance, but by the end of the project it still did not have the capacity for strategic planning and advice, as well as the monitoring and implementation of the PE reform program, as envisaged in its terms of reference. A law was approved clarifying the legal status of PEs, as well as the Government's responsibilities; this law was to be used to reclassify the PEs into four categories by the end of the project, but the task was not completed. The project financed audits and studies that provided an understanding of PEs; while not acted upon in the framework of this project, they did facilitate later action. Operating subsidies to PEs were reduced and arrears to some PEs were paid, but the problems of arrears and inadequate budgeting for government consumption, initially targeted for solution by the time of effectiveness, were far from resolved; they were taken up again in the subsequent credit, the PESAP, as was the related problem of interlocking debts. Other objectives that were not satisfied included the adoption by SONELEC and OPT of reliable accounting and budget control systems, establishment of a data base on the PE sector, and provision of a training program for PE staff. Less than two years after project effectiveness, in January 1988, it was decided that the funds allocated for planning medium term rehabilitation would be used instead to prepare the second phase of the PE reform program, i.e. the next project.

2.17 *In sum,* implementation of the PETARP focused heavily on the rehabilitation of SONELEC, and, to a lesser extent, EMN, and substantial improvements were made in both enterprises. In particular, badly needed managerial and organizational improvements, along with some strategic repairs and upgrading, permitted the restoration of power services and prevented the interruption of water supply services. In neither case, however, would the reforms have been sustainable without additional support. Furthermore, the cancellation of US\$1.5 million, or 8.5 percent of the original credit, represented a lost opportunity to address additional problems in the water sector. The project had other components as well, and the objectives for broader institutional and policy reform, as well as those for OPT, were not met. Moreover, the growing financial problems of some important enterprises—most notably, SNIM—prevented improvements in the performance of the sector as a whole. If the reform process had ended with this project, it would have to be judged a failure. However, the project was intended to be only the first phase of a longer term process, and although it did not achieve all of its objectives, it launched the rehabilitation of some key enterprises and gradually built up government understanding of the need to reduce its role in productive and commercial activities. By the time the next projects became effective, the Government had undergone a significant change in its attitude toward PE reform. Thus, the PETARP established the foundation for more far-reaching reform under subsequent projects. Viewed in this light, it can be judged as marginally satisfactory.

### **The Adjustment Context**

2.18 In view of the structural imbalances that had developed in parallel with the excessive growth of the PE sector, the Government launched an economic and financial recovery program

in 1985, supported by three stand-by arrangements with the IMF and, from 1987, by an IDA structural adjustment credit (SAC).<sup>12</sup> The macroeconomic objectives of the SAC were quite modest, reflecting the severity of the situation. The more general objective of the SAC was to replace government regulation with a market-oriented economy through the reduction of the number of PEs, reform of management practices in remaining PEs, promotion of the private sector, easing of controls on prices and foreign trade, and elimination of the distortions caused by the many subsidies and exemptions. Additional major objectives included rehabilitation of the banking system, as well as reforms in the fishing, energy and agricultural sectors. While its outcome was rated satisfactory, the SAC might have contributed more had it focused at first on a few key areas, most notably the restructuring of the banking sector to provide greater support to the productive sectors. The SAC picked up some of the unmet conditionality from the PETARP, including the performance agreement with SONELEC, which was signed belatedly in February 1989, while additional PE conditionality was picked up subsequently by the PESAP.

### **PESAP and PESIDTA: Objectives and Instruments**

2.19 By 1990 it was clear that any benefits from reforms under the PETARP had been overshadowed by the problems of a few enterprises, including SNIM; that there were still major weaknesses in the legal and institutional framework for the sector; and that more drastic measures were needed to permit the sector to function efficiently and profitably. More than 60 percent of PEs had incurred losses in 1988, with aggregate losses exceeding US\$25 million. Many companies had had their equity capital eroded and had borrowed heavily to cover their expenses; the PE sector accounted for about one-third of public and publicly guaranteed external obligations, up from 10 percent in 1983, with SNIM responsible for two-thirds of the PE debt. In addition, it was becoming clear that some important public monopolies were operating inefficiently.

2.20 In response to this situation, the Government formulated the *Public Enterprise Sector Adjustment Program* (PESAP, Cr. 2166-MAU, US\$40 million equivalent).<sup>13</sup> This program extended the ongoing reform efforts through a more fundamental modification of the legal and institutional framework for the sector; financial restructuring of key enterprises; and reduction of the state role in the economy through privatization or liquidation of PEs and elimination of state monopolies. Cofinanced by Germany, Japan, the African Development Bank and the Arab Fund for Social and Economic Development, the project made available a total of US\$145 million.<sup>14</sup> Its key features are summarized in the following paragraphs.

2.21 Prior to negotiations, the *legal and institutional framework* for the sector was modified substantially, and PEs were reclassified to permit increased autonomy and to facilitate privatization. The Government agreed, as second tranche conditions, to sign performance agreements with Air Mauritania and with PANPA (the port), as well as to continue OPT's rehabilitation; signature of a performance agreement with that enterprise was a third tranche

<sup>12</sup> "Islamic Republic of Mauritania: Structural Adjustment Credit," Program Performance Audit Report No. 9682, June 20, 1991.

<sup>13</sup> President's Report No. P-5293-MAU, May 30, 1990.

<sup>14</sup> The amount at appraisal was US\$159 million equivalent (see para. 2.28). IDA's share of the eventual total was US\$53 million equivalent, including four amendments to the project.

condition. All PEs would adopt new accounting systems and budgetary procedures, to be monitored by the Ministry of Finance.

2.22 In financial terms the iron ore mining company, *SNIM*, represented three-quarters of the project. Previous rehabilitation efforts for the enterprise had focused mainly on productivity improvement and an action program for the ailing Guelbs mine.<sup>15</sup> The PESAP recognized that *SNIM*, which produced the country's second most important export (after fish), could be made internationally competitive only through financial restructuring to restore its working capital and enable it to maintain production, in part through investment in a new mine. It was feared that if *SNIM* defaulted on a large government guaranteed debt, the impact on the country's ability to obtain finance in the future, and on adjustment efforts, would be serious. Fully three-quarters of the counterpart funds from the PESAP, including the financing from other donors, were to be used to increase *SNIM*'s capital and to restructure its loans, as a supplement to direct debt relief from some creditors. Second and third tranche releases were conditional on progress in operations and financial restructuring and on attainment of financial and efficiency goals. The Government was also to attempt to sell part of its shareholdings in *SNIM* to the private sector.

2.23 The PESAP also included financial rehabilitation of *Air Mauritania*, which was burdened with debt and suffering losses. While serving an important social purpose in providing access to otherwise isolated parts of the country, *Air Mauritania* should be able to perform efficiently, in a framework of explicit subsidies for its social services. The restructuring plan included tariff increases, reduction of operating costs, and improvement of the organizational structure, management information and accounting systems.

2.24 The *sector rationalization* component included the divestiture of unprofitable enterprises,<sup>16</sup> as well as the elimination of the state monopolies in the insurance sector and in the import and distribution of sugar, tea and rice by allowing the entry of private firms. Steps would also be taken to liberalize the distribution of petroleum products and to reduce the operating costs of the state monopoly for the export of fish, Mauritania's most important export. Financial reforms would settle all major debts and arrears to PEs, using the counterpart proceeds of the first and second tranches; would ensure that the Government paid the share capital due to key enterprises and meet its other commitments; and would require adequate provisions in the public budget for payment of services provided by *SONELEC* and *OPT* and for surveillance of fishing. To reduce the burden on the budget and the costs of PEs, the Government agreed to reduce the staff of 14 enterprises (including those being divested) by a total of 1550 persons by the end of 1991.

2.25 The PE reform program was considered to be an essential element of Mauritania's structural adjustment program, consistent with the macroeconomic framework of the third year PFP, for 1989-91. Maintenance of appropriate macroeconomic policies, consistent with specific

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<sup>15</sup> *SNIM Rehabilitation Project* (Loan 2643-MAU), approved in 1986.

<sup>16</sup> One condition for second tranche disbursement was the "divestiture (liquidation or privatization) of one half of the enterprises (SEMs) that are not financially profitable," and third tranche conditionality called for divestiture of the remainder of the non-profitable enterprises. It is an indication of the change in government attitude in ensuing years that many of the people involved now believe that the conditionality called for the complete withdrawal of the state from most (non-strategic) commercial and industrial activities, that is, for the privatization of profitable PEs and the liquidation of loss-making ones.

quantitative targets as agreed in the third and subsequently in the fourth year PFPs for 1989-91 and 1990-93, was a condition of second and third tranche release.

2.26 The PESAP was expected to reduce drastically the number of enterprises in the public sector from close to 60 to no more than a dozen companies, financially healthy and operating in a competitive environment, without subsidies. At the end of the reform period, the PE sector was expected to comprise the utilities, the ports, and those industrial and commercial enterprises which had been financially rehabilitated, along with those enterprises which could operate on a profitable basis, without subsidies or privileged access to credit.

2.27 One of the risks identified during preparation of the PESAP was that the adjustment program might prove too demanding for the capabilities of the Mauritanian administration. In order to mitigate this risk, the PESAP was accompanied by the *Public Enterprise Institutional Development and Technical Assistance Project* (PESIDTA, Cr. 2167-MAU, US\$10 million equivalent).<sup>17</sup> This project supported the CRSP, whose duties included monitoring of sector performance; implementation of liquidation, privatization, and other divestiture measures; carrying out of external audits of enterprises; provision of counseling and advice on labor retrenchment; and implementation of studies of subsectors or of enterprises. Technical assistance for the Ministry of Finance supported its ability to supervise the accounting and budgetary procedures and monitor the performance of PEs. The PESIDTA also supported the continuation of rehabilitation and reforms in SONELEC, OPT, PANPA and Air Mauritania, provided technical assistance and resources for the energy sector—for seismic data processing, promotion of petroleum exploration, and implementation of a household energy strategy; and assisted the Ministry of Commerce with price liberalization, establishment of a regulatory framework for private insurance companies, and the demonopolization of SONIMEX, the national import-export company. PESIDTA provided technical assistance essential to the implementation of the PESAP, and it is impossible in many cases to separate their impact. The two projects will therefore be discussed together in the following section, with reference to the additional objectives of the PESIDTA as necessary.

### **PESAP and PESIDTA: Implementation and Outcome**

2.28 Implementation of the PESAP did not proceed smoothly—the project was caught up in events well outside its scope. The Gulf War, in 1991, created a climate that did not favor reforms. Mauritania's sympathy for Iraq led to delays in Arab contributions, as well as in supervision missions and consultant assignments. Problems emerged as well with Japanese cofinancing, which was delayed and eventually reduced as a result of Japan's disagreement with the terms of the debt forgiveness and rescheduling being discussed by the Paris Club. An increase in the German loan and the addition of funding from the African Development Bank were not enough to compensate for the reductions in funding, and the final program amounted to US\$144.76 million equivalent (of which 37 percent was from IDA), a decline of US\$14 million from the initial plan. This was, however, enough to continue with the implementation of the reform program, the payment of arrears, and, most importantly, the financial restructuring of SNIM.

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<sup>17</sup> President's Report No. P-5300-MAU, May 30, 1990.

2.29 Of the 11 conditions for the release of the second tranche, the most problematic were the settlement of 50 percent of government arrears to PEs (the rest to be settled by third tranche release); the provision of an adequate budget for government consumption of services from OPT and SONELEC and the avoidance of arrears in the future; the conclusion of performance agreements with Air Mauritania and PANPA; and the divestiture of 50 percent of the non-performing PEs (the rest to be divested for the third tranche). A major difficulty in fulfilling the latter condition was the lack of reliable information on the financial performance of the PEs; requests for proposals from international auditors had been issued with much delay, and results were not yet in. Staff reduction, on the other hand, went smoothly, with a larger reduction than required, accompanied by adequate severance payments.

2.30 Although the Government had met the bulk of the second tranche conditions by September 1991, the tranche release was further delayed by the absence of an acceptable macroeconomic framework. Originally scheduled for July 1991, the second tranche was released only in March 1993, following agreement on the Fourth Year Policy Framework Paper for the period 1992-1995. By 1992, elections, constitutional reform, and public dialogue, while dominating the Government's attention for some time, had finally resulted in significant progress. The Government's new economic team favored reform, and the dialogue improved.

2.31 The third tranche was released in March 1994, nearly two years late, but one year after the second tranche release, as originally planned. The main sources of delays were the government arrears to PEs, which were settled in late 1993, and the situation of Air Mauritania. An emergency action plan adopted by the latter in early 1994 satisfied the PESAP conditionality, but subsequently it became clear that the airline's situation had not improved. Another condition of third tranche release, the conclusion of a performance agreement with OPT, appeared at the time to be on the verge of fulfillment: a final proposal was found satisfactory by IDA in February 1994 and submitted to the Council of Ministers on March 2. Its signing was expected shortly afterwards, but in the event, the agreement was not signed until late 1995. The following paragraphs review the individual components of the PESAP.

2.32 *Reform of the Legal and Institutional Framework.* Prior to negotiations, the PE law of 1984 was modified to permit increased autonomy and provide for a reclassification of enterprises to clarify their status and facilitate privatization. PEs were granted full autonomy in day-to-day management, with no prior authorization required from their supervisory ministries except for the composition of their procurement committees and adoption of investment and medium-term plans. Further government influence was limited to representation on the boards of directors. Enterprises were classified into three categories: société nationale (SN), société d'économie mixte (SEM), and établissement public industriel et commercial (EPIC). Accounting and budgetary systems were to be in place by the end of 1990, along with enforcement of the requirements for timely submission of audited financial statements. Although this improvement took longer than expected, and is still not complete, most enterprises now produce their accounts within the legal deadline. Auditing of financial statements still needs improvement; this is being addressed in the context of the Private Sector Development Program.<sup>18</sup>

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<sup>18</sup> President's Report No. P-6574-MAU, April 26, 1995.



2.33 *Sector Rationalization.* Pending the results of an upcoming study of the macroeconomic impact of PE reform, it is not possible to quantify fully the impact of the reform program. However, a number of indicators are available that shed light on the question.

2.34 Prior to negotiations, one of the largest manufacturing companies in the country, a sugar processing enterprise employing 450 people, was liquidated, along with three enterprises in the fisheries subsector. The sugar company had been losing money, and when attempts to sell it failed, the Government took the politically difficult step of closing it down. This action provided a strong indication of commitment to the reform effort. Shortly thereafter, cargo handling at the new port was privatized, and over 250 workers laid off. The eventual staff reduction of 1,632 surpassed the expected 1,550, with adequate arrangements for severance pay (see below).

2.35 The goal of complete government disengagement from unprofitable PEs was not fully met during the implementation of the PESAP, but considerable progress has been made. In 1990, it was expected that by the end of the PESAP, the PE sector would be limited to at most 12 strategic enterprises, including the utilities, ports and SNIM. As of early 1996, the Government has reduced its participation as a majority shareholder from 40 to 12 PEs (including SNIM, OPT, SONELEC, and the ports of Nouakchott and Nouadhibou). In addition, it retains minority ownership in 5 SEMs, down from the original 17 (under the current legislation, all minority-owned PEs operate like private enterprises).<sup>19</sup> Taken together (but excluding SNIM), the enterprises with continued government participation, either majority or minority, registered a profit of UM 1.5 billion (about US\$12 million) in 1994, compared to a loss of UM 30 million (US\$345,000) in 1992.

2.36 With one exception, the privatized enterprises were sold domestically, as efforts to interest foreign investors were unsuccessful. The sales did not raise important amounts of money; for the most part the proceeds were used to pay the debts and severance pay owed by the enterprises. At the time the PESAP closed, the Government remained a majority owner of 4 loss-making SEMs. However, these enterprises were among 8 SEMs owned jointly with foreign governments, for which an unanticipated legal problem arose: while the foreign partners are not interested in buying out the Mauritanian Government's shares, for the most part, they have not agreed to sell the enterprises to the private sector. This issue had not been resolved by the time the PESAP closed, but it is being dealt with in the context of the PESIDTA. CRSP is at present following up on the divestiture of minority shares in 2 SEMs and is analyzing and advising the Government on divestiture options for three majority owned enterprises. The numbers in Table 2.1 reflect the most recent situation.

**Table 2.1: Size of the Public Enterprise Sector, 1990 and 1995<sup>20</sup>**

<i>Legal status</i>	<i>No. of PEs, 1990</i>	<i>No. of PEs, 1995</i>
Majority state-owned: SNs	0	2
EPICs	20	6
SEMs	20	4
Minority state owned SEMs	17	5
TOTAL	57	17

<sup>19</sup> Another 8 enterprises are subsidiaries of other public enterprises.

<sup>20</sup> Majority owned is defined as 51 percent or greater ownership, and minority ownership as 50 percent or less.

2.37 Government arrears to PEs, and the continuing failure of the Government to budget sufficient amounts to cover its purchase of goods and services, have been targets of reform in Mauritania for many years. One of the effectiveness conditions of the PETARP was that the Government would include in its 1985 operating budget adequate allocations for the settlement of arrears due to OPT and for the payment of services obtained from SONELEC and OPT. Periodic efforts have met with some success. In the early years of the PESAP, the balance of the interlocking debts between the PEs and the Government was paid, the majority of it with counterpart funds from the PESAP. Arrears began to build up again, however, because of continued inadequate budgetary allocations. At present, the debts have been settled once more, and the Government is budgeting reasonable (though not always sufficient and sometimes delayed) amounts, based on the previous year's consumption: budget allocations for OPT, SONELEC and Air Mauritania have risen from less than 2 percent of the total budget in 1991 to close to 6 percent for the last three years. Problems remaining with some public customers are being dealt with through a combination of improved accounting (the ability to allocate costs and hold individual customers accountable<sup>21</sup>), better equipment (i.e. for measuring consumption), and a tougher stance on cutting off services for customers who fail to pay. However, additional steps are needed to reduce consumption. Possible measures include further investment in monitoring instruments and improvements in accountability, such as holding each department within a ministry responsible for its own bills, rather than paying them centrally, as is done at present. In any case, it is still too soon to conclude that the danger of a further accumulation of arrears is over.

2.38 The monopoly of the national import-export company, SONIMEX, on the import and distribution of rice was abolished in 1990, that on tea in 1992, and that on sugar in early 1994. SOMINEX now operates side-by-side with private importers, although the result has been an oligopoly, with little real competition. Prior to effectiveness, the Government liberalized the distribution of petroleum products by modifying the law that had restricted the entry of private firms. The monopoly of the fish marketing board, SMCP, in the purchase of some fishing products was abolished; its role reoriented to providing marketing services, for a fee, to the fishing boat operators; and its operating costs reduced, in particular through the dismissal of 40 staff. Subsequent to release of the third tranche, the Government sold 65 percent of its shares in SMCP to private operators. The insurance monopoly was eliminated, and the Government is working on a new regulatory framework which should make this sector more attractive to private investors.

2.39 *Rehabilitation of SNIM.* Although SNIM absorbed the bulk of the resources in the PESAP, it did not dominate the project as had SONELEC in the PETARP. The financial restructuring of SNIM was successful; it generated a level of cash reserves sufficient to ensure an adequate level of operations, meet debt service obligations, and complete a major investment program. Despite a sharp drop in iron ore prices and a decline in sales in the early 1990s, SNIM met all of its performance targets and is operating at a profit.<sup>22</sup> Productivity improved, as output rose more than was projected and production costs fell, and financial targets were also met. All of this was achieved by SNIM's own management—unlike other enterprises, no long term

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<sup>21</sup> For example, telephone bills are now submitted for individual telephones, rather than for whole ministries as a lump sum.

<sup>22</sup> For details, see "*Islamic Republic of Mauritania: Public Enterprise Sector Adjustment Program*," Implementation Completion Report No. 13929-MAU, January 26, 1995.

consultants were provided. Recent modifications to the tax regime for SNIM are expected to increase the tax yield of 1996 substantially over that in 1995. A study has been carried out on greater financial integration of SNIM into the economy; its recommendations will be discussed shortly at a special meeting of donors, lenders, SNIM and the Government and Central Bank of Mauritania. The Government did not sell any of its shares in SNIM to the private sector (it owns three-quarters of the enterprise), nor was this issue stressed during supervision.

2.40 *SONELEC*. The rehabilitation of SONELEC has been a success. Two additional performance agreements have been concluded with the Government since the first one expired in 1991. These agreements (the last of which entered into effect in January 1996) have proven highly effective; SONELEC has consistently met or exceeded the technical and financial objectives set out in them.<sup>23</sup> From a loss of more than UM 380 million in 1989, SONELEC achieved a profit of UM 222 million in 1993, and it has remained profitable since then. The settlement of government arrears with SONELEC, which had been an issue since the first of the PE projects, finally took place in November 1995. For the most part, budgetary allocations adequately reflect consumption (see above). Payments by municipalities are still a problem, but SONELEC now has the power to cut off services to those who do not pay. SONELEC staff have participated fully in the preparation of the rehabilitation and reform plans from the very beginning. As a result, although long term consultants were used widely at the beginning, SONELEC now operates solely with its own staff. The transfer of knowledge was an important part of the projects' success.

2.41 One of SONELEC's main problems has been tariffs that often do not reflect costs. The PETARP included an agreement for periodic tariff adjustments and a study of tariff structures, and since then tariff increases have been a condition of every project, including the SAC and the Water Supply project, and of each performance agreement. This condition has been a difficult one. Even within the Bank it has been controversial: a memo on the subject written before negotiations of the PETARP noted that staff specializing in private sector development preferred a productivity increase to a tariff increase and that the energy staff would like to see a tariff structure differentiated by location and type of consumer. Nonetheless, during the period of the second performance agreement, 1992 - 1995, tariffs were increased four times, for a total of 51 percent, compared to the 57 percent called for in the agreement, and more than compensating for a 40 percent increase in costs (stemming in part from a devaluation of the currency). The recently adopted third performance agreement calls for further tariff increases of 8 percent per year, but there is a growing consensus that the focus in the future should shift to cost reductions. A major barrier to this effort in the past has been an inadequate understanding of costs, which makes it difficult to focus on cost reduction and productivity improvement. The ability to separate costs by product and cost center, which will be possible under the cost accounting system that has just been installed (three years after it was scheduled as a condition of the Water Supply project), will be critical to this effort. The PESIDTA provides a vehicle for continued support to improved cost accounting in SONELEC.

2.42 *PANPA*. The first performance agreement with PANPA ended in December 1995, and most of its objectives were met, despite the Government's failure to meet some of its financial

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<sup>23</sup> The experience in Mauritania contrasts with the much less successful experience in many other Sub-Saharan African countries, as discussed in OED, "*Lending for Electric Power in Sub-Saharan Africa*," Report No. 14961, October 16, 1995. Borrower ownership has been identified as a critical element in bringing about autonomy, tariff increases, and staff reductions and in achieving successful technical assistance.

obligations. The port is operated commercially. The company signed an infrastructure lease with the Government and pays an annual rental of UM 100 million. Cargo handling and warehousing are private operations. PANPA's financial situation has improved substantially, from a net loss of about UM 150 million in 1989 to profits ranging from UM 20 to 50 million during the period 1992 to 1994. More progress is needed, however. Computers have been purchased, but an analytical accounting system has not yet been installed, and costs are not well understood. A second performance agreement is to be signed by mid-1996.

2.43 *OPT*. The postal and telecommunications company received \$630,000 for a resident coordinator and short-term consultants under the PESIDTA, but made little progress in the early years of the PESAP; supervision reports regularly noted problems with this enterprise. Separation of the financial, postal and telecommunications accounts, an objective carried over from the PETARP, has still not been accomplished (a study for this purpose was initiated in March 1996), and the Government still has not settled all of its arrears with this enterprise. However, performance has improved with the appointment of a new general manager. Profits rose from UM 290 million in 1990 to over UM 800 million in 1994. The first performance agreement was signed recently, and an analytical accounting system is expected to be in place by mid-1996. Already, OPT is billing ministries individually for each telephone, a practice which should greatly increase accountability. Ideally, telecommunications should be opened to competition, but the Government has been opposed to private sector participation in this "strategic" sector. However, the Government has recently expressed an interest in attracting private operators to modernize the network and expand services.

2.44 *Air Mauritania*. The objectives for Air Mauritania have not been met. Financial restructuring was implemented through recapitalization, debt rescheduling, sale of the presidential aircraft, and payment of government arrears for transportation services and public service subsidies. However, in spite the US\$240,000 for consultants provided under the PESIDTA, the enterprise fell far behind schedule in its strategic recovery plan. Contrary to the case of SONELEC, the performance agreement, which commenced in January 1993, was treated more as a formality necessary for tranche release than as an important strategic document. As in the early years with OPT, lack of management commitment to change has been an important factor in the lack of progress. As a condition for release of the third tranche, an emergency plan was adopted in 1994, which included higher tariffs, elimination of some loss-making international routes, and additional cost controls, in an effort to limit the operating deficit to the amount of subsidy recorded in the budget for servicing public service routes. However, the financial situation worsened in 1995, along with technical and commercial performance. The company has acquired computers, but the necessary training and experience are not yet available. Inadequate attention has been paid to reducing costs, in part because cost accounting and control systems are not in place. Staff levels were frozen in the performance agreement, but salaries were increased in 1994, despite a nominal freeze on wages. Meanwhile, Air Mauritania has requested funding to purchase additional aircraft. The impact of the PE projects on this enterprise has been negligible.

2.45 *In sum*, many of the objectives of the PESAP and the PESIDTA were substantially achieved. SNIM has met its financial and physical targets. Performance agreements have been successful in settling arrears, restructuring several enterprises, and assuring managers autonomy in their day to day operations. Public monopolies have been eliminated, and the Government cut its majority shareholdings by more than two-thirds. Problems remain, however, including weak financial control and a lack of cost accounting systems in some enterprises, inadequate

restructuring of Air Mauritania, and an absence of competition in some of the privatized activities. Looking to the future, the PESIDTA, which is still under implementation, is helping to complete the reforms, and two new credits—for a Private Sector Development Program and a Capacity Building Project for the Development of the Private Sector, both approved in FY95—support additional policy and institutional reforms needed to strengthen the financial sector and establish an environment conducive to the growth of the private sector.

### **Additional Components of PESIDTA**

2.46 CRSP, the unit established in the Ministry of Plan to oversee PE reform, received more than US\$2.7 million for resident advisers, short-term consultants, studies, audits, training, vehicles, equipment, and operating costs under the PESIDTA. There was some concern at first that CRSP had too many staff with too little experience, but that problem has been resolved, in part through training funded by the project. CRSP tended at first to concentrate more on administrative matters, such as fulfilling the conditions for PESAP tranche release, than on developing policies and coordinating reform measures with the enterprises, but it gradually took on the broader role envisaged for it. It is viewed by the PEs as having played, and continuing to play, a very useful role, particularly in the design and monitoring of performance agreements. It has been relatively stable over the life of the three PE projects, having had only three directors since 1984. The PESIDTA also supported a unit in the Ministry of Finance, the DTEP (Direction de la Tutelle des Entreprises Publiques), which received US\$900,000 for training and short-term consultants. The DTEP is responsible for monitoring the financial performance of the enterprises and for developing and operating a management information system on the PE sector. It is expected to take over the monitoring and oversight of performance agreements at the end of the PESIDTA, although there is some debate in Mauritania about whether it has the capacity to do so. CRSP has agreed to continue its efforts to strengthen DTEP through training and improved coordination.

2.47 A major issue arose in the early stages of the PESIDTA, when the report of a supervision mission in November 1991 expressed serious concern over the management of the special account established to disburse project funds. The mission carried out a detailed audit of the special account and found excessive use of funds for foreign training and the purchase of vehicles. Moreover, CRSP was not monitoring expenditures in any detail, nor did it know what had been spent and what was left in each expenditure category. The Government agreed to repay about US\$300,000 to the special account, and the Bank established greater control through a formula which determined the amount that could be spent in any given year for each category of expenditures. More recently, there has been some concern with the physical inventory of goods procured under the project—this was a reservation of the 1994 audit of the account. This problem now appears to be under control.

2.48 The PESIDTA provided a platform for discussions of the Government's energy policy through two components. One, designed to investigate the potential for petroleum exploration, has given the Government the seismic data and processing tools necessary to attract potential investors. During project implementation, four major oil companies have invested over US\$40 million in exploration operations. A second component provided TA to help with the implementation of a household energy strategy, through the promotion of improved charcoal and kerosene stoves and the promotion of gas for household cooking. The Government is seeking bilateral support to continue promotion and training in this area.

2.49 PESIDTA has achieved most of its objectives. The project is close to completion—only about US\$150,000 has yet to be committed—and is expected to close one year ahead of schedule, in December 1996. Expenditures by category are consistent with those established in the President's Report (see Table 2.2). The project has provided essential support to the activities being implemented under the PESAP; in particular, it has built up the capacity of CRSP and DTEP to manage the reform of the PE sector and monitor its financial performance; improved financial discipline in and streamlined government relations with the PEs; and improved management and operations of some of the most important PEs. Some problems remain, including delays in the payment of government arrears to OPT; delays in the study of the separation of OPT's post, telecommunications and financial activities; and the failure of Air Mauritania to improve its performance. The latest supervision mission also raised concerns about the "divestiture" of public enterprises to other PEs, as in the case the takeover of another company by SNIM; although done through a competitive bidding process, this cannot be classified as a divestiture, since SNIM itself is still publicly owned. These issues are expected to be dealt with during the remainder of the project, although the last one is unlikely to be resolved within that time frame.

**Table 2.2: Distribution of Expenditures under the PESIDTA, Planned and Actual**

<i>Category</i>	<i>Planned Disbursement (% of total)</i>	<i>Disbursements to Date (% of total)</i>
TA and studies	55.3	61.1
Training	6.6	10.2
Vehicles and equipment	5.3	6.1
Operating costs	3.0	5.8
Refunding PPFs	12.6	11.8
Unallocated	17.2	5.0
TOTAL	100.0	100.0

### **Impact of the Public Enterprise Reform Program**

2.50 With some exceptions, the three projects reviewed here succeeded in improving the performance of the public enterprise sector and stemming its drain on the economy. Many components were significantly delayed, but the Government's continuing commitment to the program ensured that most were relatively successful in the end. A large number of public enterprises have been closed or privatized, and those that remain public are for the most part in much improved financial condition. Prices are more market oriented, employment has fallen substantially, and most enterprises are now profitable. Financial control has been greatly strengthened—the latest audits of SONELEC, PANPA and OPT were all unqualified. The quality of service has improved, and the enterprises now have the right to cut off service even to public customers who do not pay their bills. Explicit subsidies have, for the most part, been eliminated, with the major exception of Air Mauritania, although implicit subsidies remain, for example through some remaining tax exemptions.<sup>24</sup>

<sup>24</sup> SNIM, for example, was exempted from many taxes during restructuring, in order to help restore its profitability; a study has been carried out to recommend a new tax regime. SONELEC also still benefits from some tax waivers.

2.51 Despite these significant improvements, the upcoming study of the macroeconomic impact of the reform will probably show that public enterprises still represent a major force in Mauritania's economy. Macroeconomic data showing the weight of the sector in GDP, employment, debt, etc. are not yet available, but as in many other African countries, the divestiture was concentrated in smaller enterprises, whereas the largest ones—mainly public utilities—remain in the public sector. The one major difference is the level of employment in PEs, which has fallen considerably.

2.52 Taken as a whole, the three projects brought about a significant change in the Government's attitude toward its role in the economy and in the management of public enterprises. While the first of the three focused on rehabilitation of some key enterprises, it also established a dialogue and set the stage for the more fundamental reforms of the second and third projects. The original impetus for the reforms was a budgetary deficit that required drastic action, and the conditionality for the PESAP called only for loss-making PEs to be privatized or closed. Nonetheless, over time, the Government came to the conclusion that in general, productive and commercial activities are better left to the private sector. Although unwilling to privatize some key "strategic" enterprises, it did develop a series of performance agreements which are considered to be among the most successful in Africa today. In retrospect, it is impossible to know whether the Bank could have pushed successfully for private sector participation even in these areas. The possibility of private management or other private involvement was raised by the Bank early in the series of projects, but it never progressed. Today it still has little support in the Government, with the exception of possible private interventions in the post and telecommunications sector.

2.53 Mauritania does not have a large pool of potential investors, nor is the financial sector sufficiently developed to support the participation of many small investors. The country was also unable to attract any significant foreign interest. Therefore, the bulk of sales of PEs went to a small group of people who had accumulated wealth through commercial activities. While there is some resentment of this fact in the country, it is not likely that the purchase of relatively small PEs has greatly increased the economic power of this group. In any case, the main objective of the program was to free the Government from unprofitable PEs, rather than to develop the private sector; the latter goal is being pursued through the ongoing Private Sector Development Program.

2.54 Delays in the reform of the financial sector may have affected the public enterprise reform program. An attempt was made to restructure the banking sector during 1988-90 as part of the SAC, but with little success. In 1992 the Government decided to undertake a more radical reform, including full privatization of the banks; these reforms are still being consolidated in the context of the Private Sector Development Program. The absence of a well-functioning financial intermediation system probably slowed progress in the development of a flourishing private sector. In retrospect, greater attention to the financial sector earlier in the privatization process might have brought high returns.

2.55 One goal of the reforms was to eliminate state monopolies in the insurance sector, as well as in the import and distribution of sugar, tea and rice. This was done. Liberalization did not lead to the establishment of competitive markets, however, because the import monopolies were replaced essentially by oligopolies consisting of two or three main actors. It remains for the next generation of projects to improve the environment for competition in the private sector.

2.56 The fishing sector accounts for the single largest share of Mauritania's exports (50-60 percent in recent years), as well as a substantial number of jobs. The PESAP focused on enterprise and management related problems, such as the divestiture of PEs operating in the sector, and reorganization and divestiture of the fish marketing board, but it is only in the context of a strategy for development of the fishing sector, adopted in 1994, and supported by the Private Sector Development Program of 1995, that the Government is attempting to conserve resources, to ensure transparency in access to resources by private investors, to enhance surveillance capabilities and stiffen penalties for violations, and to restructure the regulatory framework, as well as to continue the disengagement of the Government from the sector. Given the importance of this sector to the Mauritanian economy, such measures should have been undertaken sooner.

### **Social Impact of the Reform Program**

2.57 The reform of the PE sector had a direct impact on certain social groups. The most immediate impact was on the workers laid off by the enterprises that were liquidated and restructured. A total of 1,632 jobs were eliminated, about 16 percent of the PE work force in 1990. Many countries have found laying off workers to be the most difficult aspect of divestiture, and in Mauritania, the situation was aggravated by the increased unemployment resulting from the repatriation of returnees from Senegal, following political tensions between the two countries in 1989. However, the process apparently went quite smoothly. The laid-off workers were given cash severance payments of six months' pay on top of whatever was legally owed to them (this varied from one enterprise to the next), funded mainly out of the PESAP counterpart. Counterpart funds were also to be used to establish a counseling program to help them obtain training and find new employment, but this activity had a low priority compared to the funds needed to restructure SNIM and other PEs, to provide severance pay, and to eliminate the government arrears to PEs, and the program was not funded. However, a 1992 survey of 1300 laid-off PE workers indicated that most of them had been absorbed into the informal sector and had not suffered significant reductions in their living standards.

2.58 The upcoming study of the macroeconomic impact of the PE reform may provide additional information on its social impact. However, the increased efficiency resulting from the reform of PEs and the demonopolization of important commodities, should have a significant positive impact on living standards. The regular availability of water and electricity, while it does not benefit many of the poorest, who live in tents on the outskirts of Nouakchott, is a major improvement for those people who do have access. The very high willingness to pay for water found in a 1992 study is an indication of the high value placed on this commodity. The impact of the demonopolization on commodity prices has been limited by the fact that the small number of private sector participants has meant a continued monopoly, or oligopoly, in some commodities. This situation should change as the environment for private sector development improves under the recently approved Private Sector Development Program. Nonetheless, annual imports of rice rose by about one-third following their liberalization, while prices remained stable, despite a devaluation of the ouguiya in 1992.



### 3. Sustainability of the Reforms and Lessons of Experience

#### Sustainability

3.1 Despite the substantial success of the project reforms, their sustainability is still uncertain.<sup>25</sup> Although the performance agreements have worked well so far in several enterprises—and the longevity of the agreements in the case of SONELEC shows considerable commitment by the Government and the enterprise—experience in other countries has shown that, while "bad times make for good policy," once the crisis has passed, performance agreements are often not sufficient to prevent backsliding and a decline in government commitment.<sup>26</sup> The failure of performance agreements in Air Mauritania illustrates their fragile and uncertain nature. Private sector participation, whether by management contract, concession, or full privatization, might help cement the gains, but the Government has not yet accepted the idea that the private sector could manage "strategic" enterprises, such as SONELEC, OPT and Air Mauritania, and ensure that public needs are met. Although it acknowledged from the beginning the need to rid the public sector of nonperforming enterprises, and it no longer believes that the state should control the economy, the Government is still not convinced of the benefits from introducing the private sector into enterprises that appear to be functioning well.

3.2 The quality of enterprise management has been a critical factor in the success or failure of rehabilitation efforts in Mauritania. General Managers, however, are appointed by the President, and are therefore not accountable to their Boards of Directors. As long as this is the case, the managers, who are state employees, will always be subject to government pressure, and the sustainability of good management will be at risk. Appointment of managers by the Board of Directors would reduce that risk.

3.3 Financial discipline in public enterprises has been achieved in most cases, but with long delays and with considerable difficulty. Arrears and interlocking debts, targets of reform more than 10 years ago, were settled in the early years of the PESAP, but reemerged and were settled again only very recently. New analytical accounting systems that will enable enterprises to concentrate on cost reduction and improvement of productivity are still being introduced. Therefore, although progress has been significant, it is too soon to be certain of its sustainability.

#### Lessons of Experience<sup>27</sup>

3.4 Rehabilitation of selected public enterprises was far more successful in some cases than in others. The most notable success was SNIM, followed by SONELEC. Other cases were less

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<sup>25</sup> The Region believes that sustainability is likely. It has taken steps to help ensure the sustainability of the reforms through its continuing dialogue with the Government and linkages with new operations, including the Private Sector Development Program, adopted by the Government in 1994 and supported by a FY95 IDA credit, and a planned project in the energy sector. The continuing presence of other donors in Mauritania will also help sustain the reform program.

<sup>26</sup> World Bank, *Private Sector Development in Low-Income Countries*, 1995, pp. 93-102.

<sup>27</sup> Some of these lessons reiterate those drawn in the PCR for the PETARP and the ICR for the PESAC.

successful, particularly Air Mauritania and, until recently, OPT. *The main factors behind the successful outcomes appear to be the quality of the management of the enterprises, along with a willingness of the Government to meet its commitments under the performance agreements, particularly in the areas of management autonomy and financial obligations. Financial and physical rehabilitation will not suffice to turn an enterprise around if its management does not understand the need for change or if it is not given the power to carry it out. An additional factor, of great importance in the case of SNIM, was the discipline brought about by exposure to competition in international markets and by agreements with other financiers. When none of these factors are present—in particular, when management is not interested in making the necessary institutional changes—there may be no point in lending even for technical components.*

3.5 *The length of time required to implement the PE reforms included in these three projects, from the preparation of the PETARP in the early 1980s to the present and beyond, illustrates their difficult nature, as well as the importance of patience and sustained efforts on the part of the Bank in their support. Years can be spent in ensuring the internalization of the reforms by the Government, but without it, conditionality is unlikely to bring about lasting change. The success of the performance agreements in SONELEC and PANPA, in contrast with the experience in many other countries, is a testament to the degree with which the Mauritanian Government has accepted the need for autonomy and for the clear delineation of responsibilities between the Government and the enterprises.*

3.6 Mauritania has had a number of technical assistance projects in addition to the ones included in this audit. The first two TA projects, designed to address a very broad spectrum of institutional weaknesses, contributed a number of useful studies, but failed to produce a sustainable impact on public administrative or economic managerial capacity.<sup>28</sup> In contrast, the more recent projects, linked to public enterprise reform, made concrete and positive contributions to sector management. *The experience of all these projects taken together confirms the conclusions reached in OED's report on "Free-Standing Technical Assistance for Institutional Development in Sub-Saharan Africa,"<sup>29</sup> that technical assistance is most successful when it has limited, clearly focused objectives.*

3.7 The sequence of projects covered by this audit permits a comparison between a project which combined TA, policy reform and investment for rehabilitation, and a pair of projects in which TA was provided separately. *In the PETARP, the urgent need for rehabilitating some major enterprises, and its accompanying TA, dominated the project, and the broader institutional policy reforms received less attention. The PESAP and PESIDTA combination was better targeted and was well phased, with adequate TA available through the latter to support the policy reforms of the former, but without putting pressure on all of the TA components to meet the timetable of the adjustment program.*

3.8 *The Government of Mauritania was able to lay off a significant proportion of the public enterprise labor force without major trauma and with little apparent negative impact, despite the fact that the program that was supposed to help these workers find new jobs never got off the ground. The reduction in the size of the PE labor force contributed substantially to the improved*

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<sup>28</sup> "Mauritania: Second Technical Assistance Project," Project Completion Report No. 11658, February 16, 1993.

<sup>29</sup> Report No. 8573, April 19, 1990.

financial condition of the sector. *This experience demonstrates the value of providing adequate severance pay.*

**3.9** *The elimination of monopolies does not guarantee the emergence of competitive markets.* Ideally the process should start with the creation of an environment conducive to the development of the private sector, through such measures as legal and regulatory reform, financial sector reform, and trade and exchange rate reform. In Mauritania, many of these reforms are only now getting underway in the context of the Private Sector Development Program.



**COMMENTS RECEIVED FROM THE AFRICAN DEVELOPMENT BANK**  
**(English translation)**

Abidjan  
Côte d'Ivoire

**Fax Message**

**To:** Mr. M. Peñalver  
Chief, Country Policy, Industry  
& Finance Division  
Operations Evaluation Department

**From:** K Bedoumra  
Chief of Division OCDN.4  
North Region

**Date:** 05 June 1996

**Subject:** MAURITANIA: Performance Audit Report  
Public Enterprise & Technical Assistance Rehabilitation  
Project (Credit 1567-MAU)  
Public Enterprise Sector Adjustment Program (Credit 2166-MAU)  
Public Enterprise Sector Institutional Development and Technical  
Assistance Project (Credit 2167-MAU)

We have received, and thank you for, the draft version of the Performance Audit Report on the three projects listed above.

Since the Bank cofinanced only the Public Enterprise Sector Adjustment Program (PESAP), our comments below are limited to that operation.<sup>1</sup>

In general terms, we confirm the Report's assertions regarding the positive outcomes of PESAP, particularly with respect to the rationalization and reordering of relationships between the Government and the public enterprises, government disengagement, the return to profitability by such strategic enterprises as SNIM, SONELEC, PANPA and OPT, reduction of the size of the public enterprise sector and the resulting significant reduction in non-optimal allocation of public resources. However, we believe it is important for the Report to emphasize the matter of tax evasion by private interests that profited from the liberalization of rice, tea and sugar.<sup>2</sup> It should also be noted that the implementation of PESAP was hampered by the Government's difficulties in disengaging itself from public enterprises in the fisheries subsector set up as joint ventures with foreign governments. Finally, various public enterprises are performing much better but still less well than they could.

In specific terms:

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<sup>1</sup> *Note by OED:* Some of the following comments have been taken into account in the revised PAR. Others are discussed in the following footnotes.

<sup>2</sup> The Government has hired the services of the Société Générale de Surveillance to help address this issue.

- Page 26, paragraph 2.2.2, line 1: The amount allocated to SNIM should be indicated. Line 13: The Government had not committed to selling part of its shareholdings in SNIM to the private sector.<sup>3</sup>
- Page 26, paragraph 2.24, line 2: Privatization of the Fish Marketing Board (SMCP, *Société mauritanienne de commercialisation du poisson*) also reflected a concern for transparency in the setting of producer prices.
- Page 27, paragraph 2.26, line 1: Because of the way PESAP was designed, there were no means of knowing how many public enterprises would remain in the government portfolio.<sup>4</sup>
- Page 28, paragraph 2.29, line 2: Achievement of the conditions for release of the third tranche was also affected by the existence of a joint ventures between Mauritania and countries such as Libya and Russia.<sup>5</sup>
- Page 29, paragraph 2.34, line 1: SOMIS (*Société mauritanienne des industries du sucre*) was not the country's largest enterprise. Line 3: Clarification is needed to the effect that every public enterprise is managed according to the rules of private law, except in the case of appointment of the managing director.
- Page 29, paragraph 2.36, line 1: It is important to specify the number of enterprises privatized. This figure, offset by the number of enterprises closed down, will give the exact number of public enterprises remaining in the government portfolio in 1995 — which, according to your indications in the Report, should be in excess of 17.
- Pages 30-31, paragraph 2.39: We believe financial indicators (e.g. debt-equity ratio, cash reserves, debt service obligations) should be included in order to show the exact extent of SNIM recovery.<sup>6</sup>
- Page 37, paragraph 3.1, line 14: The phrase "it no longer believes the state should control the economy" should be reformulated to indicate that the Government believes it should still control the economy but through regulatory, incentive and supervisory instruments.

Thank you.

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<sup>3</sup> This was not an explicit condition for tranche release, but the SAR (paragraph 48) stated that "The Government would also attempt to sell part of its shareholdings in SNIM to interested private sector operators."

<sup>4</sup> There was no conditionality on the number of enterprises that would remain public after the rationalization process.

<sup>5</sup> See paragraph 2.36.

<sup>6</sup> Financial indicators for SNIM are available in the ICR for the PESAP.



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