Mauritania
Improving Budget Management to Promote Sustainable Development and Reduce Poverty
Public Expenditure Review Update

December 2007

PREM 4
Africa Region
CURRENCY EQUIVALENTS

Currency unit = Mauritian Ouguiya (UM)
USD 1.00 = 268.0 UM

Fiscal Year
January 1 – December 31

ACRONYMS AND ABBREVIATIONS

ANEPA  National Drinking Water and Sanitation Agency
APAWS  Agency for the Promotion of Universal Access to Basic Services
BCI  Consolidated Investment Budget
BCM  Central Bank of Mauritania
BGH  General Investment Budget
CCM  Central Procurement Commission
Cdc  Cour des Comptes (Supreme Audit Court)
CDHLCPI  Poverty Commissariat
CDM  Departmental Procurement Commissions
CEM  Country Economic Memorandum
CFAA  Country Financial Accountability Assessment
CMAP  Mauritian Center for Policy Analysis
CPC  Public Procurement Code
CNSS  National Social Security Fund
CPAR  Country Procurement Assessment Report
CSA  Food Security Commission
DAPBI  Initial Annual Budget Planning Document
DBC  Directorate of Budget and Accounts
DHS  Demographic and Health Survey
DPE  Directorate for Planning and Studies
DGTCP  Directorate General of Treasury and Public Accounting
EFA  Education for All (Initiative)
EITI  Extractive Industries Transparency Initiative
EPA  Administrative Public Entity
EPICs  Industrial and Commercial Public Enterprises
EPCV  National Household Survey
ESDP  Education Sector Development Program
EU  European Union
EUROSTAT  European Union Statistical Office
FC  Financial Controller
FCO  Financial Controller’s Office
GDP  Gross Domestic Product
GFS  Government Financial Statistics
GRM  Government of the Islamic Republic of Mauritania
GTZ  German Agency for Technical Cooperation
HIPC-AAP  HIPC Assessment and Action Plan
HIPC-CP  Heavily Indebted Poor Country Initiative Completion Point
IFC  International Finance Corporation
HSDP  Health Sector Development Program
ICT  Information and communication technologies
IFMS  Integrated Financial Management System
IGF  General Inspectorate of Finance
IGE  General Inspectorate of the State
IMF  International Monetary Fund
ITD  Information Technology Directorate
LdF  State Budget Law
LdR  Budget Execution Law
MAED  Ministry of Economic Affairs and Development
MDGs  Millennium Development Goals
MDRE  Ministry of Rural Development and Environment
MEFS  Ministry of Basic and Secondary Education
MF  Ministry of Finance
MMI  Ministry of Mining and Industry
MPEM  Ministry of Fishing and Maritime Economy
MOHSA  Ministry of Health and Social Action
MTEF  Medium-term Expenditure Framework
OECD  Organization for Economic Cooperation and Development
ONS  National Statistical Office
PAP  Priority Actions Plan
PASEP  Public Enterprise Adjustment Program
PE  Public Enterprise
PER  Public Expenditure Review
PIP  Public Investment Program
PRECASp  Public Sector Capacity Building Project
PRGF  Poverty Reduction and Growth Facility
PRSC  Poverty Reduction Support Credit
PRSP  Poverty Reduction Strategy Paper
PSIA  Poverty and Social Impact Analysis
REER  Real effective exchange rate
ROSC  Report on Observance of Standards and Codes
RPRP  Regional poverty reduction programs
SIP  Sector Investment Program
SNDE  National Water Company
SNIM  National Industrial and Mining Company
SOMELEC  National Electricity Company
SONELEC  National Electricity and Water Company
TOFE  Monthly table of government financial operations

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PREFACE

This Public Expenditure Review (PER) update is a follow-up to a PER that was carried out in 2004 but remained unpublished because the official statistical data on which it had been based was inaccurate. The new PER draws upon corrected macroeconomic figures published by the authorities for the period 1992-2004, and was drafted once the Government made a commitment to regularize public financial management and to lay the foundations for achieving macro-budgetary balance.

The review addresses the following main questions:

- What were the effects of macro-budgetary slippages on priority sectors and poverty reduction expenditures?
- Have investment expenditures, designed to help to achieve the key Poverty Reduction Strategy Paper (PRSP) objectives, been planned and executed in line with the Priority Action Plan (PAP)? What were the results achieved?
- Are the conclusions and recommendations of the 2004 PER still relevant in light of the new statistical data?

The first part of the report, “context and public expenditure analysis,” presents an analysis of the new economic data, particularly of the statistics on budgetary execution for 1995-2004. This part provides answers to the first two questions. The second part, “evaluation of public finance management,” addresses the third question.

The PER has provided a basis for analysis and action under the Public Sector Capacity Building Program (PRECASP), one of whose components is related to the improvement of public finance management and is expected to support the implementation of the measures proposed in this document.

The present review takes into consideration three analytical studies being undertaken in parallel with the PER update: the Financial Sector Assessment Program (FSAP); the Country Economic Memorandum (CEM) presenting an analysis of the challenges related to oil revenue management; and an exercise aimed at costing the achievement of the Millennium Development Goals (MDGs). These analyses deal with issues closely related to this review, including (i) the problems faced by the financial sector and their impact on public finances; (ii) the issue of transparency with regards to the management of oil revenues, and (iii) medium-term and long-term macroeconomic projections that determine the prospects for growth and for achieving the MDGs.

Regarding the analysis of public expenditures within each priority sector, a review of rural sector expenditures is being completed under the guidance of the national authorities. Its objectives are to identify ways to improve public financial management in the sector and to alleviate the constraints on agricultural development, with a view to increasing productivity and reducing poverty in rural areas. Moreover, the PRECASP will finance expenditure reviews in priority sectors.

These studies are complementary and shall provide critical insights into the respective areas, as well as recommendations that will assist the Government in making optimal use of the available natural and human resources, lay the foundations for sustainable economic growth, and reduce poverty and inequality.
EXECUTIVE SUMMARY

1. While it had earlier appeared as though Mauritania's economic performance had been rather favorable, the data now reveals significant shortcomings since the early 1990s. An expansionist budget policy, supported by unrestrained monetary policies, turned out to be the main instrument of economic management. The economic authorities gave priority to satisfying short-term political demands outside of the regulatory framework, without linkages to macroeconomic planning, and without assessing the impact of the measures on the economy as a whole and on the development objectives specified in the Poverty Reduction Strategy Paper (PRSP). The results achieved in terms of growth and poverty reduction fell short of program targets.

2. Oil revenues, which began flowing in 2006, will progressively ease revenue constraints for approximately the next 20 years. This temporary alleviation of the financing constraints will not be beneficial unless Mauritania establishes adequate mechanisms for effective, efficient and transparent management of public resources, including oil revenue. On the verge of becoming an oil exporting country, Mauritania faces the following major tasks: (i) establishing transparent macroeconomic management, budgetary and accounting procedures to ensure long-term macroeconomic stability and transparency; (ii) diversifying its productive base to reduce its economic vulnerability and develop its non-oil sectors; and (iii) implementing public policies conducive to the achievement of the MDGs through accelerated poverty reduction.

3. In light of the situation, the new government that took office in August 2005 started to put in place the basis for sound and transparent macroeconomic management. The new authorities have already ended off-budget spending by eliminating direct financing by the Central Bank of Mauritania and stopping the use of treasury resources without preliminary budget credit clearance and necessary justification for the associated spending. It is recommended to further strengthen these measures to limit the negative impact of past practices as the country enters into the oil era. In many countries that benefit from natural resource revenues a part of total revenues and expenditures remain outside of the regular budget cycle. One of the consequences of such practices is that the growth in revenues does not translate into diversification of the non-oil sectors of the economy, and that it does not contribute to the alleviation of poverty and inequality. Preventing a similar situation from developing in Mauritania requires government efforts to improve the efficiency and transparency in the use of these resources.

4. As for the analysis of past expenditures in Mauritania, the lack of information makes it difficult to measure the impact of off-budget expenditures on spending in priority sectors between 1992 and 2004. Indeed, while the new data presents trends in the overall volume of expenditures, it does not allow for a breakdown by economic and functional classification. While keeping in mind these limitations, one notices the growth in unproductive expenditures related to military and security at the expense of productive sectors such as agriculture and transport. The latter two received a lower amount of resources while they represent important sectors for the creation of sustainable economic growth and poverty reduction due to their positive externalities. It also becomes clear that the social sectors have benefited from larger resource allocations, while the absorptive capacity remains limited. Without an in-depth review of intra-sectoral spending allocations, the expenditure analysis does not permit a detailed

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1 See Annex for a brief survey of the sector and CEM 2006 for more information.
2 The expenditure analysis is related to the economic situation over the period 1992-2004 as detailed in the data presented by the Mauritanian authorities in May 2006.
evaluation of the impact of public spending and of the constraints to the achievements of the expected results.

5. Military spending must be controlled to channel potential savings toward productive sectors. As a complement to this analysis, it is recommended to conduct reviews of public expenditures in some priority sectors such as education and health, as well as productive sectors such as rural development and transport. The review by sectors would provide an understanding of internal allocations and help identify the constraints that hold back the achievement of the expected results. In the context of an increase in revenues thanks to oil production, such analyses could help find ways to improve the alignment of budgetary allocations with sectoral policies. Moreover, they could identify solutions that strengthen the absorptive capacity of the relevant sectors. Such an approach would also assist in the creation of sectoral Medium-Term Expenditure Framework (MTEF) in line with the overall MTEF. Finally, the alignment would improve financing mechanisms and partnerships for the sustainable development of these sectors.

6. The Priority Action Plan (PAP) of the Poverty Reduction Strategy for 2002-2004 did not serve as the basis for the planning and execution of public investments. On the other hand, many actions that were not included in the PAP and did not contribute directly to the achievement of the PRSP objectives were implemented. This deviation in the implementation of the PAP was due to (i) various weaknesses that marred the preparation of the PAP, which is in fact a compilation of needs identified by the sectors without a direct link to sectoral objectives; (ii) the fact that a share of investment expenditures were executed off budget; and (iii) the weak planning capacity of the administration.

7. To ensure that the PAP serves as the basis for budgetary planning and execution, and in order for strategic objectives of economic and social development to be achieved in a coherent manner, it is important that (i) the PAP identifies and integrates all the actions needed to deal with the key constraints of economic and social development in line with the sectoral strategies and MTEFs; (ii) the estimation of the costs of implementing the PAP calculates investments and recurrent costs based on an evaluation of executed programs and unit costs; (iii) flexibility is provided in the preparation and implementation process in order to take into account lessons learned and permit the addition of new priority activities along the way; (iv) the exercise distributes the priority actions among regions in a way that addresses the specific critical constraints of each wilaya; (v) the PRSPS and the PAP are used as the principal source of budget planning of the BCI and of the recurrent budget.

8. The evaluation of Mauritania’s public financial management system shows that various improvements have recently been implemented. However, major constraints remain in terms of capacity building and modernization, in order to sustain the progress made during a short period.

9. Since the last trimester of 2005, efforts have been made to strengthen the comprehensiveness of the budget, thanks to (i) the adoption of a revised budget that has made it possible to regularize off-budget spending for the year 2005; (ii) the preparation of a budget for 2006 that is more comprehensive and realistic; and (iii) the reclassification of the 2006 budget on a functional basis in May 2006 to ensure the continued monitoring of expenditure execution in priority sectors and other poverty-reducing activities. Despite these improvements, the existence of separate budgets has still not been addressed, making it impossible to get a global view of public expenditure. A 2007-2009 MTEF has been completed and is to be used in the 2007 budget preparation. However, there still is no clear calendar for the different stages of the budget process, and the level of involvement of sectoral departments remains limited. Considering the recent improvements, the main recommendations of this review are to consolidate the recent

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3 A review of the expenditure of the rural sector is under development. It is expected that the PRECASP finances the realization of the reviews of expenditure for certain priorities.

4 Public-private, beneficiary implications, etc.
achievements by continuing the formulation of a comprehensive budget based on the MTEF, ensuring a better involvement of the sectors in the budget preparation process, continuing enriching the presentation of the budget with a breakdown according to the functional classification, and moving toward the integration of both budgets (Finance Law and BCI). It is necessary to put in place a clear calendar for the budget planning process that identifies the different stages and responsibilities.

10. When it comes to the execution of expenditures, the main recommendation of the 2004 PER was related to a gradual deconcentration of budget execution from the Ministry of Finance (MF) to line ministries and finally to the regions to ensure the acceleration of the expenditure cycle. This is the only recommendation that was implemented in 2005, but with considerable difficulties due to (i) a delayed deployment of the necessary RACHAD software; (ii) the existence of two types of financial controllers (contrôleurs financiers); and (iii) the weak capacity at the line ministry level. This reform of the assignment of budget execution should be consolidated at the level of the pilot ministries by strengthening sectoral capacities, determining where the line ministries' Financial Controllers (FC) should be anchored, and generalizing the use of the RACHAD system. Gradually, the system should be extended to other ministries before being rolled out to the regional levels. The PRECASP will provide technical and financial support for this roll out.

11. Since January 2006, treasury balances have been prepared on a monthly basis. In addition, accounting information from the treasury is reconciled with that from the Central Bank (BCM) on a weekly basis. These two actions represent important improvements and indicate that better public accounting practices are now in place. It is important to institutionalize these new initiatives in order to avoid discontinuity in the event of leadership changes in the MF and BCM. The improvement of public accounting capacities also represents an important element.

12. The preparation of comprehensive management accounts (comptes de gestion) has not been implemented yet due to the limitations posed by current accounting methods and practices not in line with regulations. The lack of a dedicated unit exclusively responsible for the production of management accounts and of evaluation reports means that these documents are not prepared on a regular basis. The progress made, including the preparation of the treasury balance and the closure of account within the mandated timeline, should contribute to the timely preparation of management accounts in the future.

13. A reorganization of the DGTCM to break up the different functions of the treasury as recommended by the 2004 PER should be implemented. In the short term, it is recommended to create a main accounting entity in charge of expenditures. A complete reorganization could be envisaged to establish (i) a department of the treasury and public accounting responsible for managing the state treasury and for producing accounts and summary statements; and (ii) for external Treasury offices, a network of government accountants subordinated to the central department.

14. Regarding budgetary control, while the rules and procedures are quite clear, the PER update revealed deficiencies in the internal system of control and verification due to the multiple parties involved in the process, and the lack of regular supervision and appropriate sanctions. The PER update also showed that the capacity of the control entities is limited. Strengthening capacity of certain control entities has been recommended and implemented, partly with the assistance of the German and French development cooperation agencies. With the recent creation of the General Inspectorate of the State (IGE), there now is a third control entity. It is highly desirable that the different control units consult before finalizing their annual programs so as to avoid overlap. In addition, better consultation would allow a wider coverage and a better use of the limited resources. In many cases, simple revision of underlying texts and procedures could reduce considerably the possibilities for misuse and corruption.
15. The government has initiated a reform of the procurement system to break up the functions of the Central Procurement Commission (CCM) (regulation, selection, control and appeal) in line with the 2004 PER and the Country Procurement Assessment Report (CPAR). In order to succeed, it is important to involve all relevant parties in the different stages of the revision of the procurement code in order to ensure ownership on the part of those in charge of applying the code. The rules to be defined must be such that they can be executed impartially, in order to contribute to a stable and well regulated environment, to foster competition, to prevent corruption, and to promote transparency and accountability in the management of public resources.

16. In view of the transitional nature\(^5\) of the current Government, the authorities did not seem ready to formulate a medium-term strategy for reforms in the public financial management system. Defining the different stages and responsibilities of such reform program would be strategically important. A Public Expenditure and Financial Accountability (PEFA) assessment should be scheduled after the transition period with a view to complement this public expenditure review to assess progress and lay the foundations for a reform strategy.

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## Summary of Main Recommendations

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<th>Areas</th>
<th>Recommendations</th>
<th>WB Assistance</th>
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<td><strong>1. Budgetary Policies</strong></td>
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| Implement budget policies in line with development priorities of the PRSP | - Reign in military expenditure for the benefit of priority productive sectors  
- Include all staff expenditures under the salary line item  
- Conduct PERA for priority productive sectors  
- Improve the preparation of the PAP to include current expenditures | |
| **2. Budget presentation & planning** | | PRECASP |
| Improve budget presentation | - Apply the functional classification of 2006 for next years budget presentation  
- Integrate the BCI and Finance Law | |
| Improve budget planning | - Put together and implement a budget calendar that outlines the main stages and the responsibilities of the different actors  
- Prepare State Budget (LDF) on the basis of the overall MTEF  
- Emphasize the involvement of the sectoral departments during the entire budget preparation process | |
| **3. Budget Execution** | | PRECASP |
| Improve budget execution | - Consolidate the deconcentration of budget execution in the pilot ministries  
- Identify the FC limitations at the MF level  
- Make RACHAD fully operational in pilot ministries and the FM  
- Continue the deconcentration process gradually  
- Strengthen budget management capacity at line ministries | |
| **4. Public Accounting** | | PRECASP |
| Strengthen preparation of accounts | - Institutionalize the monthly production of the treasury balance  
- Finalize the comprehensive management account (compte de gestion) within timeline  
- Strengthen public accounting capacities  
- Extend double-entry accounting system to all levels | |
| Ensure accuracy of accounting data | - Institutionalize regular reconciliation of treasury and BCM accounts | |
| Reorganize DGTCP | - Break up the various functions of the treasury  
- Create a new entity responsible for the production of management accounts (compte de gestion) | |
| **5. Budgetary control** | | PRECASP |
| Improve internal and external control | - Improve the coordination between the various control institutions  
- Strengthen the capacity in the areas of control and audit  
- Revise the texts to clarify the responsibilities of each control entity | |
| Revisit the procurement code | - Revise the procurement code in order to separate the regulation, selection, control and appeal functions of the CCM  
- Involve all actors in the reform of the code  
- Strengthen procurement capacity | IDF |
PART I

CONTEXT AND PUBLIC EXPENDITURE ANALYSIS
1. RECENT ECONOMIC DEVELOPMENTS AND THEIR IMPACT

1.1. This chapter provides an overview of Mauritania’s public financial management. After a general description of the context, the chapter briefly discusses the country’s economic performance for the past few years after the discovery of the macro-budgetary slippages. The chapter ends with an analysis of the evolution of the main poverty indicators following the implementation of the PRSP action plan.

A. CONTEXT

1.2. Mauritania is a West African country covering 1,030,700 km² and home to 2.8 millions people. Over 65 percent of the population lives in urban settings, of which 600,000 in the capital Nouakchott. The relative political stability that had prevailed in Mauritania since 1990 deteriorated progressively, resulting in attempted coups d'états between 2003 and 2005. After a coup d'état in August 2005, a Military Council for Justice and Democracy (CMJD) was set up to ensure a 19-month transition towards the re-establishment of democratic institutions.

1.3. In the 1990s, the Mauritanian economy changed significantly as a result of reforms in the context of adjustment programs. The period was characterized by the privatization of most public enterprises, the beginning of the diversification of irrigation-based agriculture, an improvement in certain aspects of competitiveness, and a boost in the service sector. However, some structural weaknesses which already existed in that period still persist today, on the eve of the country’s becoming an oil exporter. The relative progress achieved in the 1990s was undermined by considerable slippages as a result of opaque macroeconomic management in the period 1992-2005. As a result, the country’s economic performance has been very irregular and fallen short of the targets. The implementation of the PRSP, prepared in 2001, took place in the context of an expansionist spending policy which was partly carried out off-budget and which led to an increase in money supply and inflation, chronic budget deficits, and deterioration in the balance of payments.

1.4. Annual growth in the period 2000-2004 was on average 3.3 percent, below the initial target of 7 percent but higher than the average for Sub-Saharan Africa. Growth reached its lowest point with 1.1 percent in 2002. The services sector contributed significantly to growth, especially thanks to the boom in telecommunications. Apart from the services sector, the construction sector also contributed to growth, despite the limited execution capacity of the sector. The jigsaw pattern of the primary sector’s contribution to growth was due to the vulnerability of Mauritania’s agriculture to exogenous shocks, weather conditions, and scourges, several of which (in particular, cold rains that decimated the livestock, drought, and migratory locusts) ravaged the agricultural areas between 2001 and 2004, adversely affecting agricultural output. The contribution of the mining sector strongly depends on international demand and prices for iron ore, which are determined by the international market. Despite favorable market conditions, the contribution of the mining sector has been weak because of capacity problems affecting the production of the SNIM. The other strong contributor to economic growth, the fishing sector, is facing significant problems due to overexploitation, lack of proper infrastructure for unloading, treatment and processing of fish. The private sector, which is considered a crucial factor for growth, faces problems related to regulation and operates in a generally unfavorable environment.

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6 More than 80% of the country area is occupied by the desert: only the southern end has sufficient precipitation to allow the growth of vegetation.

7 A new President was elected on March 2007 through fair and open elections.

8 The contribution of the mining sector to the growth has experienced some declines in 2001 & 2002.
1.5. The scarcity of resources, which has affected the economy since its independence and made it dependent on external financing is expected to abate progressively, thanks to the windfall revenues from oil production. In fact, in the Chinguetti off-shore oil field extraction began in February 2006; however, production forecasts are less than the expected 75,000 barrels/day. Oil-related research, promotion and exploration activities are being intensified and are expected to lead to the exploitation of additional fields in the short term. Exploitation of other off-shore reserves is expected to start in the next few years. The largest oil field, Thiof, should be operational by 2010. As a result of oil revenues, per capita GNP is expected to double. However, the country has joined the group of oil producing countries unprepared and in particular without a strategic vision regarding the oil sector. Building national capacity in the relevant areas (exploration, negotiation and monitoring of production-sharing contracts, etc.), preparing national enterprises for the market opportunities that are opening up, and formulating a strategy for using the expected additional state revenue are areas that have not received adequate attention. The oil sector and its impact on the Mauritanian economy are reviewed in a country economic memorandum (CEM) that has recently been completed.

B. MACROECONOMIC SLIPPAGES

1.6. Mauritania’s economic authorities implemented expansionist budgetary policies without taking into account the sustainability of expenditures and their impact on the economy as a whole and living conditions. The main question is whether they had comprehensive information that would have allowed them to assess the effects of their decisions. The likely answer is no, as on the one hand, the practices used certainly precluded the availability of timely and comprehensive information that could have informed the decision makers. On the other hand, decision makers changed frequently in the period 1992-2004. Furthermore, there were deliberate attempts to shelter public financial management from all public scrutiny and to respond to short-term political priorities, without transparency and an assessment of the effects on the macroeconomic balance. Finally, it is obvious that this management was not based on any short- and medium-term macroeconomic planning.

Evaluation of the main macroeconomic aggregates

1.7. The latest economic statistics\(^9\) show that the Mauritanian authorities followed procedures that led to major deviations from policies aimed at macro-budgetary stability, which the government was – in theory – committed to through the PRSP and its earlier public policies. Several macroeconomic aggregates began to gradually deteriorate in 1992, culminating—in 2003 and 2004—in the significant acceleration of inflation, successive budget deficits, and a gradual deterioration of the external position.

\(^9\) Publicly disclosed by the Mauritanian authorities in May 2006.
Box 1.1: Crisis of Confidence between the Donor Community and Mauritania

In 2003-2005 a crisis of confidence affected relations between Mauritania and the Bretton Woods Institutions in view of macroeconomic slippages and misreporting. In November 2004, the Mauritanian authorities requested the cancellation of the Poverty Reduction and Growth Facility (PRGF) concluded with the IMF. In 2004, the World Bank suspended the preparation of the first Poverty Reduction Support Credit (PRSC). That situation prevented other donors, in particular the African Development Bank (AfDB) and the European Commission (EC), from providing budget support for Mauritania.

The new authorities agreed to revise the economic statistics for the period 1992-2004, to have the BCM’s financial statement examined by independent auditors as of the end of 2003, and to make available the information required for determining actual official reserves. These measures allowed a staff monitored program (SMP) to be concluded between Mauritania and the IMF for the first semester of 2006. The implementation of the SMP was successfully reviewed for the first time in April 2006. A three-year arrangement under the PRGF has been agreed in December 2007 between Mauritanian and the IMF. These contribute to a revival of donor confidence in the new Government’s economic management.

1.8. As a result of heavy off-budget spending, the budget (excluding grants) ran successive annual deficits averaging 11 percent of GDP between 2000 and 2004, reaching a peak in 2003 with a deficit of 16.4 percent of GDP. These deficits were financed mainly by the BCM through monetary emissions. Official reserves fell to the equivalent (according to present estimations) to half a month’s imports at the end of 2004. The budget deficit in the period 2000-2004 was financed by up to 4 percent of GDP through access to exceptional external financing. Traditional budget support gradually declined, while reducing the pressure on the balance of payments and financing a significant part of imports. Internal financing amounted to an average annual of 4 percent of GDP during the same period. One result of the slippages was the accumulation of payment arrears, which the new authorities are in the process of absorbing.

1.9. Despite the macroeconomic slippages, Mauritania has continued to ensure the sustainability of its foreign debt. The ratio of external public debt to GDP was estimated at 181.4 percent in 2001, falling to 109.1 percent in 2005. Mauritania was one of the countries benefiting from High Indebted Poor Country (HIPC) debt relief initiative, as well as the Multilateral Debt Relief Initiative (MDRI). Various issues continue to affect external debt management in Mauritania such as a lack of coordination between the parties involved, the lack of a computerized and unified management system and poor technical capacity.

1.10. Extensive spending, financed through money creation, had a negative impact on prices. They rose significantly, notwithstanding projections in the PRSP which aimed to contain inflation in order to reduce poverty and inequality. In fact, inflation during the period accelerated from 3.3 percent in 2000 to 10.4 percent in 2004 and 12.2 percent in 2005. Apart from monetary expansion and the depreciation of the ouguiya (UM) against the Euro, the above trend was also due to the poor harvest in 2001 and the worldwide increase in oil prices. The external position (excluding imports) also experienced a shock and was in deficit throughout the period. The current account (excluding imports related to oil exploitation) was in continuous deficit, peaking at 34.6 percent of GDP in 2004.

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10 The PRGF was concluded in July 2003.
11 The Country Assistance Strategy (CAS) provided for a series of three PRSCs but the World Bank extended no budget support to the country in the period 2002-2005.
12 It was the year of the emergency implementation plan.
13 Mauritania reached the HIPC Completion Point in June 2002, which allowed Mauritania to reduce its debt service from 23 percent of the exports in 2000 to 9 percent in 2004.
14 Various issues continue to affect external debt management in Mauritania such as a lack of coordination between the parties involved, the lack of a computerized and unified management system and poor technical capacity.
15 Installation of the software “Système de gestion automatisée de la dette extérieure” (SYGADE) at the BCM and MF level is envisaged in the short term.
16 Based on the assumption of a 2.4 percent inflation rate in 2004.
17 Half of Mauritania’s imports originate in the euro area.
Between 2000 and 2004, the money supply increased by 23.3 percent. Internal credit also increased: government borrowing soared from UM 31.4 billion to UM 129.9 billion during the same period. The measures taken, namely, the establishment of a monetary committee at the BCM and the use of indirect monetary instruments, failed to lead to prudent monetary management. The instruments designed to strengthen exchange rate policy have not come into effect. In fact, the planned creation of the Extended Exchange Market (MCE) proved unable to reduce the premium in the parallel exchange market, thereby reflecting dwindling confidence in the national currency. The latter steadily depreciated against the Euro starting at mid-2001, following the movements in the Euro/dollar exchange rate. The ouguiya, on the other hand, remained relatively stable vis-à-vis the dollar between 2003 and 2004, moving between UM 255 and 270 for US$1.

**Box 1.2: Current Monetary and Exchange Rate Policy Measures**

The current government is committed to redressing the macroeconomic situation through corrective measures aimed at sustainable growth and the optimized use of oil revenue. Tight monetary policy measures have been adopted and the BCM—with a view to containing inflation and boosting the accumulation of official exchange reserves—has pledged to abstain from direct financing of the budget deficit. In line with these objectives, the BCM continues to rely on the obligatory reserve rate, to intervene in the foreign exchange market in order to contain the real effective exchange rate (REER), and to make use of the reference rate, which has been raised twice (in February and October 2005).

**Evolution of public finances**

A significant increase in revenue has partly offset the negative effects of expansionist budget policies. In the period 2000-2004, as a percentage of GDP, government revenue as a whole (excluding grants) soared from 21.8 to 29.7 percent. This increase was partially due to an increase in tax revenues, which rose from 13.7 to 14.9 percent of GDP. As the table below shows, Mauritania’s tax revenues largely exceeded the average for low-income countries, although they lagged behind the tax revenues of more developed economies, such as Tunisia and South Africa. Lower tax rates and simpler procedures were among the factors responsible for the increase in tax revenue. The tax measures taken are described in Annex 2. In particular, the tax base was broadened and collection clearly improved, particularly from the domestic value-added tax (VAT), income from the National Industrial and Mining Company (SNIM), custom duties, and the real estate tax.

**Table 1.1: Tax Revenues (in percentage of GDP)**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mauritania</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>South Africa</td>
<td>24</td>
<td>26</td>
</tr>
<tr>
<td>Tunisia</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Low income countries</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: WDI

17 Interest rate management (determination by the BCM of a scale of rates depending on loan duration and use) was gradually abandoned. Currently rates are fully liberalized and subject only to a ceiling equal to the reference rate, which is established by the BCM as a function of the spread between purchase-and-resale contracts and government bonds. Set at 11 percent in October 2001, it is currently at 14 percent, subsequent to recent raises decided by the BCM and approved by the Monetary and Exchange Policy Committee (CPMC), plus ten percentage points (10 percent) and an 8 percent minimum rate on savings deposits.
1.13. Despite increased revenue, tax administration still faces significant challenges. The tax base remains limited because of tax evasion by many firms and especially with regard to the informal sector. This situation is mainly a result of human and material inadequacies in the General Tax Directorate (DGI), the chronic weakness of the taxpayer information system, the inadequate monitoring of firms not subject to real profit taxation, and the weak yield on real estate taxation. Customs performance is constrained by the system of exemptions, the complexity of procedures, and the inadequacy of anti-fraud resources. Taxation of oil companies is expected to be an additional challenge.

1.14. In the period 2000-2004, non-tax revenue doubled, exceeding 14 percent of GDP in 2004 particularly as a result of payments (€ 86 million per year) received under a fishing agreement between Mauritania and the European Union (EU). However, part of this revenue (on average, 25 percent per year in the period 2002-2004) is off-budget. Off-budget non-tax revenue reached 2.7 percent of GDP per year in the same period and was used partly to finance off-budget expenditures. However, the 2005 budget comprises the full amount received under the above fishing agreement.

1.15. As a percentage of GDP, off-budget expenditures increased from 24.2 percent in 1995 to approximately 30.7 percent in 2000 and 47.2 percent in 2003, before falling to 37.7 percent in 2004. Recurrent expenditures were mainly boosted by spending on goods and services, while investment expenditures increased less than expected. Public expenditures are analyzed in greater detail in Chapters 2 and 3.

C. POVERTY AND SOCIAL INDICATORS

1.16. In the period 2000-2004, rising public expenditures—in a context of opaque budget execution practices characterized by overspending—failed to contribute significantly to poverty reduction and improvement of the living conditions of the vulnerable sections of the population. As the analysis below shows, save for the education sector, government policies in the period under consideration did not lead to the achievement of the development objectives presented in the PRSP.

Figure 1.1: Evolution of Poverty Incidence, 2000-2004

1.17. The revised economic statistics reveal inflation rates higher than those previously published. The poverty line criteria used in household surveys were adjusted accordingly. Based on the new data, the percentage of the population living below the poverty line was 46.7 in 2004, compared to 51 percent in 2000. Extreme poverty diminished more rapidly than poverty (27.9 percent of the population in 2004 compared to 34.1 percent in 2000). Based on the Gini coefficient, inequality increased slightly (from 39 percent to 39.3 percent) but that does not diminish the relative improvement observed in terms of poverty depth (-18 percent) and severity (-29 percent). In 2004, although still a mainly rural phenomenon (59 percent incidence), poverty increased in the urban areas (28.9 percent incidence). As the map in Annex 3 shows, poverty incidence, according to the 2004 National Household Survey (EPCV), exceeded 50 percent in 7 wilayas out of 13.

Poverty incidence receded by 3.3 percentage points in Nouakchott but increased in the other towns.
1.18. Poverty reduction was weaker than expected mainly because economic growth fell short of the ambitious objectives set and was not accompanied by sufficient redistribution, despite the implementation of some targeted poverty-reducing projects addressing the multidimensional character of poverty. Rising inflation, caused by government overspending, as well as inclement weather and the rise in oil prices undermined gains in household purchasing power, particularly among the more vulnerable groups. In the rural areas, poverty reduction was slowed down by the population's nearly full dependence on farming and livestock, which are sensitive to weather conditions. In the urban areas, poverty reduction was impeded by the deterioration of the generally substandard living conditions in the fringe districts as a result of the uncontrolled inflow of new settlers.

1.19. As shown in the table of poverty and welfare indicators in Annex 3, access to basic education improved significantly, reaching 95 percent in 2004, while girls spectacularly caught up with boys in that respect\textsuperscript{19}. The gross enrollment rate (GER) in secondary education also increased substantially (from 19.4 percent in 2000 to 29.6 percent in 2004), while remaining slightly higher among boys. On the other hand, children from better-off families remain at an advantage\textsuperscript{20}. Furthermore, the quality of education has not improved as much as access, there is a high repetition rate in basic education, and the retention and knowledge acquisition rates remain weak. This situation is partly due to the following factors:

- High drop out rates in areas with schools offering an incomplete curriculum;
- The inefficient introduction of bilingual education, as part of the 1999 reforms, due to inadequate capacities;
- Teachers who do not stay where they are appointed, as a result of low remuneration, poor organization and a lack of control.

1.20. On the whole, health indicators stagnated despite the implementation of a national health policy and the mobilization of substantial financing for the health sector\textsuperscript{21}. The causes, linked directly to the management of health services, included the following factors:

- Inadequate qualification and distribution of health staff as a result of insufficient training, remuneration, and incentives;
- Poor health care equipment;
- Lack of quality control of health services;
- Inadequate prevention and treatment of infectious diseases;
- Limited availability of essential medicines.

1.21. Access to drinking water improved noticeably between 2000 and 2004. The percentage of households with domestic water taps (as opposed to those supplied from wells or by street vendors) increased. Disparities persist between urban and rural regions and between rich and poor. For instance, the price of water charged by street vendors, the main source of supply in poor neighborhoods, is tenfold the price paid by consumers connected to the National Water Company (SNDE) network. In rural areas, only 12 percent of households have access to safe water sources.

\textsuperscript{19} Contrary to the situation in 2000, in 2004 the GER was higher among girls (by 4.5 percentage points).
\textsuperscript{20} The gap between the GERs of the first and the fifth income quintiles was 40 percentage points (50 percentage points among girls).
\textsuperscript{21} It is estimated that real public expenditures on health stagnated.
D. CONCLUSIONS AND RECOMMENDATIONS

1.22. On the eve of becoming an oil exporting country, Mauritania is still confronted with major challenges that are mainly related to its capacity to ensure an adequate management of public finances. The constraints exist at various levels and require the following measures:

- The establishment of transparent mechanisms for macroeconomic, budgetary and accounting policies in order to ensure sustainable macroeconomic stability;

- The diversification of production in order to reduce the vulnerability of the economy and to develop the non-oil sectors; and

- The implementation of government policies aimed at accelerating poverty reduction and, by the same token, the achievement of the MDGs.

1.23. Oil revenue will progressively ease one of the constraints, namely, fund availability, for approximately 20 years. Mauritania must rise to the challenge posed by that windfall by establishing adequate mechanisms for the rational management of public resources, including oil revenue. The mobilization of tax revenue should be intensified and an adequate tax base ensured, compatible with private sector development, so that public spending relies more on stable revenue sources, not volatile ones like oil. Monetary and budget policies should aim at controlling inflation and ensuring a real effective exchange rate (REER) favorable for Mauritania’s competitiveness. Lastly, economic management should be based on comprehensive information and on assessments of the effect of any decisions on short- and medium-term macroeconomic balances.

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22 Projected duration of oil exploitation. For more information, refer to the CEM update.
2. PUBLIC EXPENDITURE ANALYSIS

2.1 This chapter uses an economic and functional classification to analyze the development and composition of government spending in Mauritania. This analysis is based on the new expenditure data provided in May 2006 by the authorities following the revision of the national economic statistics for the period 1992-2004. As government expenditures are largely executed under the responsibility of the central authorities, examination of expenditures at the local level (regions, communes, or villages) is not necessary for the purposes of this report. In fact, total transfers to local government units, called Local Development Funds (FDLs), accounted for 1.2 percent of the state budget. Most of the expenditures were committed by the GIRM and its regional offices.

2.2 The analysis of public expenditures was implemented under a number of constraints, involving in particular the need to reconstruct the national budget statistics, essential to reviewing the development and composition of expenditures. Such challenges, encountered at various levels, exist in other developing countries as well but are more pronounced in Mauritania compared to the countries of the Maghreb or the CFA Franc (CFAF) Zone, whose statistical information systems are considered to be more reliable.

2.3 The main challenge was the long and systematic practice of executing public expenditures outside the budget and the complete lack of transparency. The lack of supporting documents and the involvement of various bodies in the process prevented full tracking of the expenditures in question. Consequently, the volume of some of these expenditures and their composition according to international classifications could only be approximately determined. Moreover, some departments, such as the Ministry of Fishing and Maritime Economy (MPEM) and the Ministry of Mining and Industry (MMI) spend directly part of the revenue derived from the exploitation of the respective resources. The volume of spending executed at that level was probably not high, but the practice affected the estimation of total expenditures to be analyzed. Furthermore, the presentation and monitoring of the budget were not based on a functional classification. A functional classification was formally introduced in 2001, but has not been used in the preparation of the state budget. A bridge table was prepared for the 2004 PER with a view to reprocessing part of the government expenditures and classifying them according to the functional classification. Nevertheless, this exercise has not made it possible to process a significant volume of expenditures, especially those outside of the budget.

A. THE IMPACT OF OFF-BUDGET EXPENDITURES ON TOTAL GOVERNMENT SPENDING

2.4 Between 1995 and 2004, total government expenditures increased by approximately 236 percent in nominal terms, from UM 44 billion to UM 149.6 billion. As a percentage of GDP, they increased from 24.2 percent in 1995 to 47.2 percent in 2003 and 37.7 percent in 2004. Government expenditures in Mauritania are higher than their average in Sub Saharan countries, where such spending amounts to approximately 26 percent of GDP.

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23 2006 budget was re-elaborated in functional classification (type COFOG)
2.5 Extra-budgetary expenditures during the period under consideration were a significant factor in the increase in overall government spending. In 2003, the year in which the Emergency Plan was implemented, they accounted for 44 percent of total expenditures, compared to 20 percent in 1995. As shown in the figure, off-budget expenditures accounted on average for approximately 6 percent of GDP during the period 1995-1999 and for more than 13.5 percent of GDP in the period 2000 to 2004. As a consequence of this high volume of off-budget expenditures, the overall balance has experienced a continuous deficit with an average of 11 percent of GDP for the period 2000-2004 and 5 percent between 1995 and 1999.

2.6 The breakdown of off-budget expenditures provided by the authorities has not been sufficiently detailed. Since they are executed without any transparency, they may well have been an important source of corruption especially in public procurement. It appears that off-budget spending began in the early 1990s but it has been difficult to estimate its volume between 1992 and 1994. In the period 1995-2003, off-budget expenditures increased from 21.5 to 44.9 percent of total government spending and, as a

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24 It appears as though off-budget spending accounted for 6 percent of GDP in 1993 and 1994.
percentage of GDP, from 4.9 to 20.6 percent. In the period 1995-2004, they accounted on average for 9.7 percent of annual GDP. As shown in the table below, approximately 75 percent of extra-budgetary expenditures were carried out through direct debit authorizations (LDAs) and financed directly by the BCM.

**Box 2.1: Method of Disbursing Off-Budget Expenditures**

LDAs are one method of disbursing off-budget expenditures. These expenditure authorizations are addressed by the Directorate of Budget and Accounts (DBC) to the Treasurer General for immediate payment. On that basis, the Treasury makes disbursements without requiring any prior budget allocation. According to regulations, LDAs should subsequently be settled by budget warrants. Approximately 37 percent of expenditures made under the 2003 and 2004 budgets were disbursed by means of LDAs. A breakdown according to the functional classification of the expenditures executed through LDAs between 2000 and 2004 is attached in the annex.

As the table shows, the BCM was the main source of financing for extra-budgetary expenditures. It carried out orders that it received from the high authorities and did not directly cooperate with the DBC or the Treasury. About 47 percent of the off-budget expenditures have been financed by the BCM. The BCM funding includes, among others, expenditures for the ‘fonds de contreparties’ managed by the Ministry of Economic Affairs and Development but located at the BCM.

**Analysis of extra-budgetary expenditures, 1995-2004**

<table>
<thead>
<tr>
<th>Year</th>
<th>Off-budget expenditures (in % GDP)</th>
<th>Off-budget expenditures (in % total of Gov expend.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>4.9</td>
<td>21.5</td>
</tr>
<tr>
<td>1996</td>
<td>6.8</td>
<td>28.6</td>
</tr>
<tr>
<td>1997</td>
<td>5.4</td>
<td>23.9</td>
</tr>
<tr>
<td>1998</td>
<td>5.5</td>
<td>24.1</td>
</tr>
<tr>
<td>1999</td>
<td>13.8</td>
<td>11.5</td>
</tr>
<tr>
<td>2000</td>
<td>20.6</td>
<td>12.7</td>
</tr>
<tr>
<td>2001</td>
<td>13.0</td>
<td>15.7</td>
</tr>
<tr>
<td>2002</td>
<td>19.1</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>21.2</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>24.8</td>
<td></td>
</tr>
</tbody>
</table>

A significant volume of off-budget expenditures corresponds to foreign exchange losses related to overseas spending. The gap in question resulted from the calculation, until 2005, of the costs of overseas expenditures on the basis of an exchange rate, called the “chancellery rate,” applied since 1973 without taking into account any subsequent depreciation of the ouguiya. Consequently, budget appropriations for the expenditures in question were below actual costs. On average, such foreign exchange losses accounted for more than 18 percent of off-budget spending.

The emergency plan launched in 2003 further bloated government expenditures. The plan’s objective was to provide assistance to population groups that were affected by drought and cold rains. In 2003, the plan accounted for approximately 22.6 percent of off-budget expenditures. Successive deficits of the retirement pension fund also did not appear in the LDf and were covered by off-budget expenditures. Interest on government bonds and bank overdrafts were funded directly as well, albeit to a lesser extent.

2.7 In order to break away from the bad practices, the adoption of the new Finance Law of 2006 - which is more realistic than previous finance laws- includes all expenditures. In addition, chancellery rates corresponding to real exchange rates have been used for internationally executed expenditures. No

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25 Embassies’ operational costs and scholarships.

26 In the period 1973-2005, the “chancellery rate” remained constant at US$1 = UM 40.
off-budget issues have been raised by the authorities with regards to the financial statements for the 1st four months of 2006.

Box 2.2: Expenditure Funds

There is a growing demand to create « funds » for ministries to provide more management flexibility. Considering the volume of the amounts (often higher than the regulatory standards), the confusion of responsibilities between the requestor and the allocating unit (it is not uncommon to find a Secretary General nominated as the allocating responsible) and the lack of preliminary authorization by the FC for payments, there is however the danger of future deviations. The implementation of RACHAD should limit such irregular activities, often blamed on excessively slow processing time. To avoid any problems, it is important to ensure that such procedures be used only for small expenditures (as a principle, no procurement should be financed by such funds), that expenses are regularly reconciled within the complete file and that the separation of responsibilities between the requesting and allocating entity is maintained.

B. BREAKDOWN OF EXPENDITURES ACCORDING TO ECONOMIC CLASSIFICATION

2.8 In comparison with other developing countries, expenditures in Mauritania are rather high. The ratio of public spending to GDP is higher than in the countries of Sub-Saharan Africa as well as in Mauritania’s northern neighbors. While the growing volume of non-productive expenditures such as military expenditure is specific to Mauritania, the other expenditure trends follow a similar path with those countries at similar levels of development. In other words, as is common in developing countries, we observe a growth in the expenditures for goods and services as far as recurrent spending is concerned, and an increase in investment spending in the social sectors at the expense of the productive sectors of the economy. These sectors, which rely on private investment via the banks, thus have access to limited public resources. They are unable to take off and play their role as drivers of economic growth and as a key element in policies aimed at reducing poverty.

2.9 According to the table below, government expenditures in almost all categories increased significantly. In the period 1995-2004, the budget increased by 16 percent per year. Like in other developing countries, recurrent expenditures continue to represent the largest part of the state budget, equivalent to an average of 68 percent for the period between 1995 and 2004. These recurrent expenditures have experienced a more rapid growth than overall spending. When it comes to investment expenditures, the average annual increase of 22 percent peaked in 2000 and 2001 with record growth of 59 percent and 50 percent, respectively. These peaks are due to the availability of HIPC resources during those years.

Goods and services

2.10 Government expenditures on goods and services are crucial for the effectiveness and productivity of public administration. Amounting to more than 22 percent of total expenditures, they constituted the largest recurrent expenditure category. In the period 1995-2004, however, 22 percent of expenditures on goods and services were executed outside the budget, through LDAs, direct BCM financing, and on the retirement pension fund deficit. Moreover, despite the relative size of this expenditure category – aimed at improving the functioning of the administration – the work environment of civil servants remains substandard as a result of the inadequacy and inefficient use of the available resources.

2.11 A significant share of expenditures on goods and services was not allocated to the various ministries. Instead, the envelope of “common expenditures,” which until 2005 amounted to approximately
30 percent of the annual general budget\textsuperscript{27}, was executed by the MF. It generally served to provide budget extensions to some departments, meet some expenditures of the Ministry of Rural Development and Environment (MDRE) aimed at addressing exogenous shocks frequently affecting the agricultural sector, finance transportation and treatment of poor patients abroad, etc. It has been difficult to obtain detailed information on the execution of these common expenditures and to assess their impact.

2.12 A more detailed analysis of the various subcategories of expenditures on goods and services might reveal the main causes for their inefficient utilization. In 2003, government expenditures on goods and services in Tunisia and South Africa accounted, respectively, for 8 and 12 percent of total expenditures, compared to Mauritania’s 22 percent\textsuperscript{28}. Yet the quality of public administration in these two countries is far superior.

\textit{Treatment of salaries}

2.13 In the period 1995-2004, the total wage and salary bill remained a remarkably stable percentage of GDP, averaging approximately 4.6 percent. But as a percentage of total expenditures, it decreased from 18.9 percent in 1995 to 11.5 percent in 2004. It is difficult to determine whether Mauritania could have reined in salary spending and to compare the situation in Mauritania with that of neighboring countries. This is because some salary expenditures are included elsewhere, namely under (i) military spending which finances directly the salaries of military personnel; (ii) spending on goods and services, which covers the salaries of contract workers; and (iii) off-budget spending, which financed supplementary salaries for embassy personnel. In the future, it would be useful to integrate all personnel spending under salary expenditures in order to better analyze this type of spending in its entirety.

\textbf{Box 2.3: Low Civil Service Salaries: A Disincentive}

Although the PER does not comprise a detailed analysis of the public service situation, it is quite obvious that the discouraging level of civil service salaries is one of the causes of inefficiencies in public administration. In fact, the gradual deterioration of the wage and salary scale (taking into account all categories) is the main factor behind poor performance and lack of conscientiousness among state employees. While their income diminished in real terms, the salary structure was compressed, resulting in remuneration differences between grades. Attracting and retaining qualified civil service staff is problematic. Fringe benefits (temporary accommodation, car, etc.) have been reduced and tend to be offered inequitably, primarily benefiting senior officers. An expert paid by external resources in the context of a project earns up to 8 times more than a manager in the public service. In addition, career prospects are not based on objective criteria such as performance, but rather on client relationships. The weak motivation of civil servants is also a factor in the proliferation of corruption. Successive wage and salary raises were partly offset by inflation. An increase in civil servant salaries is foreseen in order to make the civil service more attractive to prospective candidates, and to reduce the incentives for corruption.

\textit{Military expenditures}

2.14 Contrary to the picture obtained from earlier analyses, particularly the 2004 PER, military expenditures\textsuperscript{29} have not leveled off. In the period 1995-2004, they increased at an average annual rate of 21 percent. Their considerable increase in 2003 (67 percent) was mainly funded through off-budget expenditures. As a percentage of GDP, Mauritania’s military expenditures in 2003 largely exceeded the average for low income countries, but were slightly below those of neighboring Morocco\textsuperscript{30}. The rise in

\textsuperscript{27} In 2006, these expenditures account for approximately 12 percent of the budget.
\textsuperscript{28} A rate comparable to Madagascar’s (20 percent).
\textsuperscript{29} Military expenditures are the third category of expenditures over the period 1995-2004.
\textsuperscript{30} High military expenditures in Morocco may be due to the Western Sahara conflict.
military expenditures was partly due to measures taken against several attempted coups d'état, significant pay raises, and improvements in the working conditions of the military. In the period 1995-2004, on average 47 percent of annual military expenditures were executed outside the budget, mainly through LDAs (24 percent of military expenditures) and by direct BCM financing (18 percent). Although still high, the share of the general budget allocated to military expenditure, which was 12.8 percent in 2004, decreased in comparison to 1992 (27.5 percent).

Table 2.1: Military Expenditures in Selected Countries
(in percentage of GDP)

<table>
<thead>
<tr>
<th>Country</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income states (average)</td>
<td>2</td>
</tr>
<tr>
<td>Mali</td>
<td>2</td>
</tr>
<tr>
<td>Mauritania</td>
<td>5</td>
</tr>
<tr>
<td>Chad</td>
<td>3</td>
</tr>
<tr>
<td>Senegal</td>
<td>4</td>
</tr>
<tr>
<td>South Africa</td>
<td>1</td>
</tr>
<tr>
<td>Morocco</td>
<td>6</td>
</tr>
<tr>
<td>Tunisia</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: WDI
<table>
<thead>
<tr>
<th>Table 2.2: Economic Classification of Government Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditures</td>
</tr>
<tr>
<td>Total off-budget expenditures</td>
</tr>
<tr>
<td>Recurrent expenditures</td>
</tr>
<tr>
<td>Wages and salaries</td>
</tr>
<tr>
<td>Expenditure on goods and services</td>
</tr>
<tr>
<td>Subsidies</td>
</tr>
<tr>
<td>Military expenditures</td>
</tr>
<tr>
<td>Government debt interest</td>
</tr>
<tr>
<td>External</td>
</tr>
<tr>
<td>Special accounts</td>
</tr>
<tr>
<td>Total off-budget expenditures</td>
</tr>
<tr>
<td>Recurrent expenditures</td>
</tr>
<tr>
<td>Wages and salaries</td>
</tr>
<tr>
<td>Expenditure on goods and services</td>
</tr>
<tr>
<td>Subsidies</td>
</tr>
<tr>
<td>Military expenditures</td>
</tr>
<tr>
<td>Government debt interest</td>
</tr>
<tr>
<td>External</td>
</tr>
<tr>
<td>Special accounts</td>
</tr>
<tr>
<td>Total off-budget expenditures</td>
</tr>
<tr>
<td>Recurrent expenditures</td>
</tr>
<tr>
<td>Wages and salaries</td>
</tr>
<tr>
<td>Expenditure on goods and services</td>
</tr>
</tbody>
</table>

Source: MF
Subsidies and transfers

2.15 Subsidies comprise transfers to administrative public entities (PES), industrial and commercial public enterprises (EPICS) such as the National Social Security Fund (CNSS), local government bodies, scholarships to study abroad, and international contributions. Contrary to countries such as South Africa, where transfers account for more than half of total expenditures (56 percent in 2003), Mauritania's 2003 subsidies and transfers accounted for slightly more than 17 percent in 2003, compared to 12 percent in Madagascar in the same year. One third of subsidies and transfers (34 percent on average in the period 1995-2004) was executed off-budget, through LDAs and foreign exchange losses.

Box 2.4: Subsidies to PEs

The impact of remaining PEs on public finances can not be determined with certainty. In fact, the very definition of a subsidy to a PE is unclear. The MF does not consider that ex ante funds extended to an EPA—for instance, to help it to fulfill obligations under a performance contract, settle an electricity invoice, or (in the case of Air Mauritania) operate unprofitable flights—constitute a subsidy. To be a subsidy, a payment should cover PE losses a posteriori. Accordingly, the authorities argue that there have been no PE subsidies since the structural adjustment program was launched in the mid-1980s, save to Mauripost, which—since post and telecom activities were split—was not financially viable (OED 2004).

2.16 Total subsidies to the 7 largest PEs fluctuated slightly from year to year and increased from UM 385.7 million in 1990 to UM 449.5 million in 2001, reaching a peak (UM 1,757.7 million) in 1998 as a result of the recapitalization of Air Mauritania in light of its deteriorating financial situation. Subsidies to SONELEC31 and, recently, to Mauripost should also be noted. SNIM received no state subsidies.

Table 2.3: Operating Subsidies to the Main Public Enterprises (PES), 1998-2002

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Mauritania</td>
<td>1,639.0</td>
<td>201.5</td>
<td>201.5</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>SNIM</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>SONELEC</td>
<td>108.6</td>
<td>113.3</td>
<td>149.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOMELEC</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>0.0</td>
<td>N/A</td>
</tr>
<tr>
<td>SNDE</td>
<td></td>
<td></td>
<td></td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>MAURIPOST</td>
<td>...</td>
<td></td>
<td>465.8</td>
<td>449.5</td>
<td>N/A</td>
</tr>
<tr>
<td>MAURITEL</td>
<td>...</td>
<td></td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Total</td>
<td>1,747.6</td>
<td>314.8</td>
<td>860.3</td>
<td>449.5</td>
<td>N/A</td>
</tr>
</tbody>
</table>


Interest on public debt

2.17 As a percentage of GDP, interest payments on public debt increased gradually between 1995 and 2004. As a percentage of total expenditures, they increased in the period 1995-1999 and decreased between 2002 and 2004. They constituted the third largest category of recurrent expenditures. Their increase was due in part to interest paid on bank overdrafts and government bonds. Internal debt repayment took place outside the budget, particularly through LDAs. Generally speaking, LDf provisions for internal debt servicing were based on underestimations and failed to cover bank overdraft charges.

31 In July 2001, SONELEC was split into two enterprises: the National Electricity Company (SOMELEC) and the National Water Company (SNDE).
the period 1995-2004, on an annual basis, internal debt interest accounted for approximately 25 percent of 
total annual debt servicing (11 percent on overdrafts and 14 percent on government bonds).

**Investment expenditures**

2.18 As a percentage of GDP and of total expenditures, investment\(^3\) spending increased considerably 
in the period 2000-2004 compared to the period 1995-1999. In the period 1995-2004, it accounted for 
approximately 22.6 percent of total expenditures per year. The annual rate of public investment increased 
steadily between 1995 and 2003 but followed a downward trend starting in 2004\(^1\) percent. As in the case 
of recurrent spending, a part of investment spending was also executed outside the budget. The next 
chapter contains a more detailed discussion of investment expenditures, including linkages to the PRSP. 
A more thorough analysis would require the identification of the percentage of investment expenditures 
that is actually used to meet operational needs and maintenance costs necessitated by the rapid 
deterioration of infrastructure as a result of adverse weather conditions (high temperature, drought, 
sandstorms, and erosion). Although maintenance expenditures are economically important, their impact is 
politically less visible than the effect of new investments.

**C. FUNCTIONAL CLASSIFICATION OF EXPENDITURES**

2.19 Up to the end of 2005, the DBC did not use the functional classification in preparing the budget 
or assessing the impact of expenditures. The lack of proper classification handicaps the formulation of 
consistent economic policies and their assessment to inform future actions. Its absence also makes it 
difficult to compare Mauritania’s budget statistics with those of other countries with similar income 
levels. For purposes of preparing the 2004 PER, the DBC has drawn up a bridge table in order to 
reclassify expenditures into the functional classification. This same table was used to reclassify 
expenditures for the years 2000-2004. However, the classification does not include certain kinds of off-
budget expenditures.

2.20 Expenditures as a whole can be classified under four main headings\(^3\):

- Social services, comprising public services provided directly to communities and households, 
such as education, health, and social protection;
- General administration services, comprising public administration, law enforcement, and security;
- Economic services, comprising regulation of, or support for, the transport, energy, agriculture, and 
industry sectors with a view to ensuring their efficient operation; and
- Other uses, including debt servicing and transfers to various government bodies.

2.21 Functional classification of government expenditures in the period 2000-2004 revealed that 
allocations to the social sectors increased considerably, and faster than other expenditures. Table 2.4 
shows changes in expenditures, broken down by function.

\(^3\) The capital expenditures in percentage of total expenditures have grown from 21 over 1995-1999 to 29 over 2000-
2004.
\(^3\) Pradhan (1996).
Table 2.4: Breakdown of Expenditures According to the Functional Classification

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>En milliards d'UM</td>
<td>En % du PIB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General public administration services</td>
<td>5.8</td>
<td>6.6</td>
<td>5.0</td>
<td>11.2</td>
<td>13.0</td>
<td>2.2</td>
<td>2.3</td>
<td>1.6</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Defense</td>
<td>5.4</td>
<td>7.5</td>
<td>7.4</td>
<td>16.5</td>
<td>14.3</td>
<td>2.1</td>
<td>2.6</td>
<td>2.4</td>
<td>4.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Law enforcement and security</td>
<td>4.0</td>
<td>5.1</td>
<td>6.5</td>
<td>11.0</td>
<td>9.8</td>
<td>1.5</td>
<td>1.8</td>
<td>2.1</td>
<td>3.3</td>
<td>2.5</td>
</tr>
<tr>
<td>Education</td>
<td>6.3</td>
<td>8.8</td>
<td>9.9</td>
<td>11.2</td>
<td>12.2</td>
<td>2.4</td>
<td>3.1</td>
<td>3.2</td>
<td>3.3</td>
<td>3.1</td>
</tr>
<tr>
<td>Health</td>
<td>1.9</td>
<td>2.8</td>
<td>5.0</td>
<td>5.8</td>
<td>6.6</td>
<td>0.7</td>
<td>1.0</td>
<td>1.6</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Social security and related activities</td>
<td>2.0</td>
<td>0.6</td>
<td>2.0</td>
<td>10.7</td>
<td>6.6</td>
<td>0.8</td>
<td>0.2</td>
<td>0.6</td>
<td>3.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Housing and collective development</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Recreation, culture, and religious activities</td>
<td>0.2</td>
<td>1.0</td>
<td>1.1</td>
<td>0.4</td>
<td>1.8</td>
<td>0.1</td>
<td>0.3</td>
<td>0.4</td>
<td>0.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Fuel and energy</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Agriculture, forestry, and fishing</td>
<td>3.1</td>
<td>4.0</td>
<td>4.3</td>
<td>8.5</td>
<td>7.7</td>
<td>1.2</td>
<td>1.4</td>
<td>1.4</td>
<td>2.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Mining and manufacturing</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>0.4</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>3.3</td>
<td>4.2</td>
<td>3.7</td>
<td>5.8</td>
<td>8.4</td>
<td>1.3</td>
<td>1.5</td>
<td>1.2</td>
<td>1.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Other economic activities</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Non-allocated expenditures</td>
<td>47.2</td>
<td>59.3</td>
<td>72.3</td>
<td>78.1</td>
<td>68.4</td>
<td>18.3</td>
<td>20.7</td>
<td>23.2</td>
<td>23.1</td>
<td>17.2</td>
</tr>
<tr>
<td>Total</td>
<td>79.3</td>
<td>100.4</td>
<td>117.6</td>
<td>159.5</td>
<td>149.6</td>
<td>30.7</td>
<td>35.0</td>
<td>37.6</td>
<td>47.2</td>
<td>37.7</td>
</tr>
</tbody>
</table>

Source: MF

Social services

2.22 In recent years, the social sectors, notably education, health, and social affairs, were the main recipients of Mauritania's public expenditures. The sectors of education and health were also the main recipients of HIPD resources. In the period 2000-2004, health and social security expenditures almost tripled, reaching 3.4 percent of GDP at the end of the period. However, these expenditures had a mixed impact on health indicators, which on the whole tended to stagnate. In fact, improvements in the state of health in Mauritania were so slight that, according to several assessments, attainment of the health-related MDGs is hardly conceivable. Although the number of health units increased as a result of the expenditures in question, the number of patients' visits remains weak. Infant, juvenile, and maternal mortality rates were much higher compared to other developing countries and to the average for Sub-Saharan Africa.

2.23 Expenditures on education doubled in the same period, increasing from 2.5 percent of GDP to 2.3 percent. These expenditures have had a positive impact, especially on access to primary education. According to data from the Ministry of Basic and Secondary Education (MEFS), the GER in basic education reached 95 percent at the end of 2005. On the other hand, indicators of education quality deteriorated in terms of repetition and retention rates and level of knowledge acquisition.

General government services

2.24 Expenditures on defense and law enforcement have increased substantially. As a percentage of GDP, they rose from 3.6 percent in 2000 to 8.2 percent in 2003, before being limited to 6.1 percent in 2004. However, as a percentage of total expenditures, they decreased in comparison to the early 1990s, when they had accounted for 24.5 percent.34

2.25 General administration expenses increased from 2.2 percent of GDP in 2000 to 3.3 percent in 2004; as a percentage of total expenditures, they remained stable on the whole. As indicated in the discussion of expenditures based on the economic classification, this expenditure category had little impact in terms of modernizing public administration and enhancing the quality of public services.

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34 According to the sectoral classification used in the 1994 PER (World Bank).
Economic services

2.26 Although, in terms of potential growth and poverty reduction, agriculture and livestock are crucial to Mauritania’s economic and social development policies, allocations to those sectors increased only modestly and, in the period 2000-2004, amounted to 2 percent of GDP\(^{35}\) on average. With regard to agriculture, diversification targets were not attained and as result, the sector continued to be vulnerable to exogenous shocks, while poverty incidence was high in rural areas.

2.27 As a percentage of GDP, expenditures on transport and communications during the period increased from an average of 1.6 percent to 2.1 percent at the end of the period. However, they did not lead to any significant expansion of the road network. Limited infrastructure development is a major obstacle to economic growth. For instance, fulfilling the considerable potential of irrigated agriculture along the Senegal River in the southern part of the country requires substantial investment, largely in infrastructure. Moreover, the vastness of the country is a challenge to the development of an extensive road network, including much-needed rural feeder roads. With regard to telecommunications, access to services improved, particularly through enhancement of GSM coverage, but the rates charged were higher in Mauritania than in the Maghreb and CFAF Zone countries.

2.28 Expenditures on other economic activities showed no notable change during the period. Finally, spending on interest payments represented, on average, 20 percent of GDP between 2000 and 2004.

D. CONCLUSIONS AND RECOMMENDATIONS

2.29 Analysis based on the economic and functional classifications has shown that the nominal value of government expenditures increased steadily and significantly but the outcomes achieved were mixed. Execution of expenditures outside the regulatory framework did not help to achieve the government objective of reducing unproductive spending, such as military outlays. Unproductive military- and security-related expenditures tended to increase, to the detriment of spending in favor of productive sectors, such as agriculture and transport, which received limited resources even though, given their positive externalities, they are crucial to sustainable development and poverty reduction. Further increases in unproductive expenditures will eventually pose a problem in terms of development and sustainability. Despite rising unproductive expenses, allocations to the social sectors continued to be quite high. Furthermore, expenditures on goods and services failed to improve the efficiency of public administration. As a result of unsatisfactory salaries and operating conditions, the civil service remains unattractive.

2.30 Execution of expenditures outside the budget leads to a lack of information on government spending as a whole. Accordingly, the authorities decided to put an end to that practice by prohibiting Treasury debits without prior budget allocations and the necessary supporting documents. These measures should be strengthened in view of the increased revenue expected from oil reserve exploitation. In a number of developing countries with substantial revenue from natural resources, part of the government revenue and expenditures is processed off budget and consequently, those resources fail to contribute to the development of other sectors and to poverty reduction. Redoubling efforts in this area is a matter of political resolve.

\(^{35}\) This spending category includes expenditures on the development of fishing and forestry.
2.31 An analysis limited to total expenditures by sector and not comprising a detailed intra-sectoral review of appropriations would not allow for an accurate assessment of the impact of budget allocations or the identification of obstacles to attaining the expected results. It is therefore recommended to undertake PERs in some priority sectors, such as education and health, and some productive sectors, such as rural development and transport. In view of the expected increase in public expenditures as a result of oil revenue, such sectoral analyses would help to devise ways to better coordinate sectoral policies and budget allocations; build the absorptive capacity of the sectors concerned; provide useful information for the formulation of sectoral MTEFs in line with the global MTEF; and identify the financing and partnership mechanisms\(^\text{36}\) best suited to sustainable development in these sectors.

2.32 In summary it is recommended:

- To reign in military expenditure for the benefit of priority and productive sectors
- To include all staff expenditures under the salary line item
- To undertake PERs in some priority sectors, such as education and health, and some productive sectors, such as rural development and transport.
- Regarding government expenditures on goods and services, which is the largest recurrent spending category but rather ineffective in terms of improving the quality of public service\(^\text{37}\), some measures have been taken in 2006 to rationalize the management of the relevant appropriations. All recurrent costs incurred by the various departments should be broken down by allocation with a view to savings.
- To improve the remuneration of government employees, and encourage their conscientiousness through the implementation and dissemination of the professional code of ethics and the formulation of performance-based career development policies in order to reinforce the motivation and commitment of civil servants which is crucial to the quality of public administration.

\(^{36}\) Public-private partnership, participation of beneficiaries, etc.

\(^{37}\) In that connection, some technical and financial support is provided under the PRECASP for the implementation of public administration modernization measures recommended in the report drawn up by the Inter-Ministerial Committee for Good Governance.
3. DISCONNECT BETWEEN PUBLIC INVESTMENT PROGRAM AND THE PRSP PRIORITIES

3.1 This chapter analyzes investment expenditures in relation to the priority action plan (PAP), which addresses public investment needs in the PRSP priority sectors. The PRSP should be the framework for the planning and execution of government expenditures. In a macroeconomic environment characterized by government overspending, it was essential to determine whether public investment policy had been consistent with priority sector needs and execution capacity in order to formulate recommendations for the second PAP and its budgetary implications.

3.2 The 2004 PER\textsuperscript{38} showed that, in the period 1998-2002, the Government considerably increased investment allocations to the social sectors and to targeted poverty-reduction programs. In the same period, financing of the Consolidated Investment Budget (BCI) with national resources increased, attaining approximately 40.7 percent of total BCI financing in 2002. The overall rate of BCI execution improved, despite weak absorption rates in the social sectors. This chapter analyzes the relation of the investment budget to PRSP priority actions aimed at poverty reduction. The PAP comprised only investment expenditures estimated at the sector level.

3.3 Investment expenditures increased considerably in the two first years of the PRSP and decreased somewhat in 2003. They partly covered the PAP, which comprised five priority areas\textsuperscript{39} with a strong poverty- and inequality-reduction potential. Targeted and integrated poverty reduction programs had been identified with a view to addressing the needs of disadvantaged groups of the population in the poorest and most vulnerable areas of the country. For the initial period, 2001-2004, the PAP was built around the following four pillars of the PRSP:

- Pillar 1: “Stimulating broad-based growth,” comprising activities necessary for improving the private sector environment, promoting competition, reducing factor costs, developing the productive sectors, etc.
- Pillar 2: “Anchoring growth in the economic environment of the poor,” comprising activities aimed at improving the social and economic environment of the vulnerable population groups in the rural and poor urban areas.
- Pillar 3: “Expanding basic services,” comprising activities related to education and health, and aimed at improving the drinking water and power supply and promoting the new information and communication technologies (ICT).
- Pillar 4: “Promoting good governance, and capacity building,” focused on modernizing public administration, promoting economic and environmental governance, and strengthening the justice sector and civil society.

\textsuperscript{38} This document is an update of the 2004 PER, which was not published.
\textsuperscript{39} Education, health, water, rural development, and urban development.
Box 3.1: Public Investment Program (PIP) and Consolidated Investment Budget (BCI)

The PIP translates the priorities defined in the Government’s development policy into investment programs and projects, excluding only projects and programs implemented by some PEs and financed through arrangements negotiated directly by them with external partners. PIP projects and programs are at various stages of development (ranging from early to advanced project design phases) to be implemented in the medium term by the public sector (broadly defined). The BCI provides an annual framework for budget planning and for follow-up of all PIP investments, whether funded under the budget from the State’s own resources or financed with external funds (not included in the budget and not executed through government expenditures).

The Public Investment Monitoring System (SYPSIM) is used for the completion of PIP/BCI at the Ministry of Economic Affairs and Development (MAED). Despite the improvement made in the past few years, this planning tool presents various deficiencies such as:

- Lack of long-term data of the BCI
- The absence of connection between the DBC (Finance Ministry) and the financing department at the MAED
- Lack of a monitoring and evaluation module for investment expenditures; lack of reporting on non-used credit; and
- The centralized structure of the MAED

A. COSTING OF THE PRSP PRIORITY ACTIONS PLAN (PAP)

3.4 The first costing of the PAP, presented in the PRSP report, was followed by updated costing in the annual PRSP follow-up reports drawn up in connection with the revision of strategic objectives. Financial planning for the implementation of PRSP priority actions and objectives was not based on unit costs or on the absorptive capacity of the given sectors and, as a result, there were considerable differences between successive annual cost estimates contained in the various PRSP documents.

3.5 Early consolidated estimates concerning PAP activities formulated in the 2001 PRSP report for the period 2002-2004 were considerably lower than those of subsequent years. Estimated costs peaked in the 2003 PRSP progress report. The 2002 program cost, underestimated in the PRSP approved in 2001, was subsequently revised upwards (from UM 18.6 billion to UM 34.6 billion). Moreover, in the period 2002-2004, the annual PRSP program cost practically doubled and PRSP expenditure projections increased from UM 32 billion to UM 62 billion as a result of higher expenditures on health and education. The significant increase of PRSP program costs in 2002, 2003, and 2004 was mainly due to an increase in the expenditures executed (in 2003) and to substantial 2004 appropriations for pillar 1, one third of which were earmarked for the component entitled “Growth-supporting infrastructure.” In all planning documents, cost estimates were higher for pillars 2 and 3 than for pillars 1 and 4.

3.6 Differences between PAP cost estimates from year to year were mainly due to the administration’s inadequate planning capacities (failure to take into account unit costs, activity objectives, and the sector’s execution capacity). In order to compare PAP costs and BCI figures for the same period, investment data were reprocessed by summing up sectoral expenditures under the pillar concerned. Revised costs in the 2004 monitoring report, which was based on relatively realistic information and on sector needs, were quite close to the corresponding BCI projections. The PAP cost estimates provided in that report have been used in the remaining discussion.
3.7 Poverty-reduction investments in the PAP and BCI were not broken down by region. Regional poverty reduction programs (RPRP), which express PRSP objectives in a regional framework, began to be developed in 2002. Three RPRPs have so far been drawn up for Mauritania, and concern the poorest regions. For these regional strategies to be functional guides for public action, the PAP and the BCI should be presented by sectoral objectives and by regions.

B. CONSOLIDATED INVESTMENT BUDGET (BCI) AND PRIORITY ACTIONS PLAN (PAP)

3.8 A breakdown of planned 2001-2004 investment expenditures by PRSP pillar shows that approximately 60 percent of the BCI was allocated to pillars 2 and 3. Although this reflected some consistency between budget planning and poverty reduction objectives, no systematic method was used by the authorities to ensure such correlation. Since the costs of attaining the various objectives was not estimated in a way that would permit the calculation of unit costs and the preparation of sectoral MTEFs to be taken into account in drawing up the LdF and the BCI, it has been difficult to establish any correspondence between budget allocations and actual financing requirements as described under the pillars and the sectors concerned.

Pillar 1: “Stimulating broad-based growth”

3.9 In the period 2001-2004, an annual average of 23 percent of total BCI, or 3 percent of GDP, was allocated to pillar 1, the only pillar for which the BCI and PAP amounts were almost identical. There were, however, differences regarding the level of allocations for individual pillar components. In fact, investment allocations were much higher for growth-promoting infrastructure than for the productive sectors.

- In the period of implementation of the PRSP, allocations for growth-promoting infrastructure, comprising transport, energy, and ITC, increased. The transport subcomponent was the main beneficiary. Energy and the ICT were provided for in the BCI but not in the PAP and received, on average, annual allocations amounting to 17 percent of the BCI and 2 percent of GDP. Allocations to the transport sector doubled between 2001 and 2004 and were earmarked mainly for road construction and airport rehabilitation.

- Allocations to the productive sectors—fishing, mining, manufacturing, and services—were not significant, as the authorities gave priority to investments in the social sectors.

- Investment resources earmarked for private sector promotion were insignificant, since the measures to be financed—strengthening the reform of the legal and judiciary framework for the development of business—require political resolve to implement existing provisions rather than new laws or regulations.

40 In this pillar, energy and ITC are examined in terms of access to basic services.
Pillar 2: “Anchoring growth in the economic environment of the poor”

3.10 In the period 2001-2004, an annual average of 42 percent of total BCI, or 5 percent of GDP, was allocated to pillar 2. Although no method linking PRSP priorities and budgetary planning was used, the BCI allocations in question amply covered—and in fact exceeded by more than UM 21 billion—the costs of activities under that pillar, which were aimed at improving the social and economic environment of the vulnerable population groups in the rural and peri-urban areas.

- About 14 percent of the annual BCI were earmarked to the “rural development” component. About 88 percent were allocated to agriculture, rural infrastructure and water supply. Few investment resources were allocated to the “livestock development” subcomponent, but improvement of the rural water supply was beneficial to that area as well. However, insufficient resources were allocated to the “dissemination, research, and training” subcomponent, even though it is essential to rural development.

- Allocations earmarked for urban development and housing accounted on average for 8 percent of the total annual BCI. These investments were aimed at improving housing conditions in the poorer areas of the major towns, particularly by correcting living conditions in the newer neighborhoods through infrastructure and sectoral institution building.

- Multi-sector projects for poverty reduction (on average, 15 percent of the BCI per year) targeted large disadvantaged population groups in rural districts and in urban areas (shantytowns). These projects were funded mainly from HIPC resources and were implemented by the Commission for Human Rights, Poverty Reduction and Integration (CDHLPIC).

Pillar 3: “Improving access to basic services”

3.11 In the period 2001-2004, an annual average of 28 percent of total BCI, or 3 percent of GDP, was allocated to pillar 3. The allocations in question fell short of the cost identified in the PAP. In addition, the allocations varied significantly between sub-sectors and between years, and, as shown in the diagram 3.2. They were earmarked for the sectors of education (43 percent), health (35 percent), and water (21).

- As an annual average, allocations to the education sector amounted to 12 percent
of total BCI. As a percentage of GDP, they fluctuated between 1 percent (2001 and 2005) and 2 percent (2002-2004). The decrease was mainly due to the insufficient execution capacity which characterized the social sectors, particularly in relation to external financing.

- As an annual average, allocations to the health sector amounted to 10 percent of total BCI and 1 percent of GDP. Assisted by a number of development partners in recent years, the sector is currently supported only by a few donors. Attainment of the health-related MDGs is highly unlikely.

- As an annual average, allocations to the water and sanitation sector amounted to 6 percent of total BCI and included funds for enhancing access to drinking water in rural and urban areas through digging wells, building urban networks, and installing hydrants. It has not been possible to analyze funding for access to electricity and ICT. Some of the allocations financed the establishment of the agency for universal access to basic services.

**Pillar 4: “Promoting good governance and capacity building”**

3.12 BCI allocations to pillar 4, although ten times higher than the corresponding PAP provisions, were low compared to allocations to the other three pillars, probably because the attainment of good governance objectives depends mainly on the resolve of the political authorities to implement existing legal provisions and apply sanctions if needed. Limited resources were earmarked for institutional and public administration support. BCI and PAP amounts differed mainly because the PAP contained only activities for building civil society capacities and improving macro-budgetary planning and monitoring, while the BCI included some allocations to the sector of justice.

C. **BCI EXECUTION AND THE ACHIEVEMENT OF PRSP OBJECTIVES**

3.13 An assessment of progress towards the PRSP objectives reveals that PAP implementation has not been completely satisfactory. Only 61.5 percent of the activities planned were actually executed, approximately 22 percent were in progress and 17 percent were not executed. Additional activities were carried out even though they had not been planned and did not necessarily contribute directly to the attainment of PRSP objectives. This limited implementation of strategic priorities slowed down the attainment of PRSP objectives.
3.14 The rate of BCI execution varied between sectors and, in some cases, between periods. As indicated in the 2004 PER, although investment allocations to the social sectors in recent years increased significantly, their rate of execution remained low compared to the overall rate of execution of the General Investment Budget (BGI), which clearly improved. The main causes of the persisting low absorption capacity of the social sectors were the following:

- Planned investments were often overestimated because they were not based on actual data and needs;
- The quality of any feasibility studies carried out was not satisfactory;
- Infrastructure work was often slowed down because of inadequate local capabilities, particularly limited capacity of the construction sector;
- There were too many procedures with regard to external financing by various donors; and
- The frequent fluctuations in the price of building materials in the local market, and the difficulties of access to certain areas, especially during the rainy season, which often leads to a halt in construction work for several months.

Table 3.1: BCI Execution by PRSP Pillar, 2001-2005

<table>
<thead>
<tr>
<th>Axis</th>
<th>2001 Planned BGI in billion of UM</th>
<th>Execution in percentage of planned amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Axe 1: Stimulating broad-based growth</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth sectors</td>
<td>7,011</td>
<td>9,222</td>
</tr>
<tr>
<td>Infrastructures</td>
<td>4,154</td>
<td>6,106</td>
</tr>
<tr>
<td>Private sector development</td>
<td>34</td>
<td>30</td>
</tr>
<tr>
<td><strong>Axe 2: Anchoring growth in the economic environment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural development</td>
<td>4,909</td>
<td>4,969</td>
</tr>
<tr>
<td>Environment</td>
<td>323</td>
<td>1,779</td>
</tr>
<tr>
<td>Habitat and urban development</td>
<td>1,649</td>
<td>2,818</td>
</tr>
<tr>
<td>Multisectoral project for poverty reduction</td>
<td>4,162</td>
<td>5,010</td>
</tr>
<tr>
<td>Employment</td>
<td>5</td>
<td>1,404</td>
</tr>
<tr>
<td><strong>Axe 3: Improving access to basic services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>2,154</td>
<td>2,261</td>
</tr>
<tr>
<td>Health and social affairs</td>
<td>1,589</td>
<td>2,372</td>
</tr>
<tr>
<td>Urban water</td>
<td>3,512</td>
<td>2,649</td>
</tr>
<tr>
<td>Culture</td>
<td>56</td>
<td>203</td>
</tr>
<tr>
<td>Youth and sports</td>
<td>16</td>
<td>26</td>
</tr>
<tr>
<td><strong>Axe 4: Promoting good governance and capacity building</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Judicial system</td>
<td>2,175</td>
<td>2,371</td>
</tr>
<tr>
<td>Institutional development</td>
<td>1,091</td>
<td>1,107</td>
</tr>
<tr>
<td>Capacity building in the administration</td>
<td>1,057</td>
<td>1,077</td>
</tr>
<tr>
<td><strong>Total (hors SNIM)</strong></td>
<td>27,562</td>
<td>34,484</td>
</tr>
<tr>
<td>SNIM</td>
<td>26</td>
<td>457</td>
</tr>
<tr>
<td>Total</td>
<td>27,588</td>
<td>34,941</td>
</tr>
</tbody>
</table>

**Financing sources**

- **National resources**
  - 11,846
  - 16,494
  - 17,068
  - 22,525
  - 99.5
  - 101.9
  - 100.0
  - 79.6
  - 82.9
  - 76.8
  - 79.4
  - 89.4
- **External financing**
  - 14,651
  - 17,349
  - 16,987
  - 19,695
  - 127
  - 147
  - 131
  - 130
- **External financing (credits)**
  - 10,346
  - 12,487
  - 12,829
  - 14,175
  - 83.2
  - 83.4
  - 87.2
  - 97.7

**Grants**

- 4,304
- 4,862
- 4,158
- 3,790
- 44.1
- 63.3
- 43.7
- 32.2

Source: Mauritanian authorities (MAED/IMF)

* Rectificative budget was taken into account
** SNIM : National industrial and mining company
Pillar 1: “Stimulating broad-based growth”

3.15 A high BCI execution rate was achieved for pillar 1. The execution exceeded PAP considerably due to weaknesses in multiyear planning, which failed to take into account the sectors’ real needs and execution capacity. Allocations to the transport sector (with an average execution rate of 112 percent) were limited. That sector’s total budget amounted to less than 3 percent of GDP during the past decade, out of line with the respective objectives and strategies. Investment carried out during the PRSP period contributed to enlarging the road network. Transport sector projects consisted in building approximately 1,500 km of inter-town roads, rehabilitating parts of the “road of hope” (Route de l'espoir), and improving the roads in Nouakchott; but failed to remedy inadequacies in that type of infrastructure: approximately 60 percent of the Mauritanian road network is in a poor state and impassable during the rainy season, a situation impeding agricultural development and rural poverty reduction. Private enterprises and funding issues were responsible for considerable delays in road construction work. Funding for road maintenance and rehabilitation was limited, in the face of rapid infrastructure deterioration as a result of adverse climatic conditions. With regard to growth-supporting infrastructure, BCI allocations to the productive sectors such as fisheries and mining were small and satisfactorily executed. Those sectors performed favorably with small resource allocation.

Pillar 2: “Anchoring growth in the economic environment of the poor”

3.16 Pillar 2 absorbed approximately 40 percent of total BCI allocations—which were considerably higher than PAP provisions—and featured an annual rate of execution close to 100 percent (with some variation between pillar components and between years).

3.17 The “rural development” component was one of the areas with a 100 percent execution rate. Although significant investments led to incipient agricultural diversification and the creation of agricultural infrastructure, Mauritanian agriculture was left vulnerable to weather conditions and such scourges as locusts. As a result, the agricultural GDP growth rate developed irregularly in the period considered. In 2000-2004, poverty incidence in the rural areas declined by 5.8 percent, compared to the 6.3 percent target (i.e., an annual reduction of 1.5 percentage points). In terms of arable land, the country’s potential (500,000 ha, including 137,000 ha of irrigable riverside areas) is largely underutilized, since only 42,000 ha are developed, of which only 20,000 ha are exploited in a single year. In addition to inadequate investment allocations, other factors that are exogenous to the sector inhibit its development and reduce its profitability. These include regional isolation, accentuated during the rainy season, and lack of infrastructure (especially power). The agricultural sector expenditure review, which is in progress, is expected to help to identify the main strategy, funding, and institutional management problems in that area.

3.18 The overall execution rate on investment allocations to the housing and urban development component was 90.5 percent but varied considerably from year to year. In 2003 and 2004, the execution rate for the urban development sub-component was below 75 percent. That subcomponent’s main objective was to increase income and improve living conditions in the poorer neighborhoods in the cities and towns. According to the 2004 EPCV, conditions in those neighborhoods improved but considerable effort was still necessary in order to attain the PRSP objectives: 23.3 percent of households lived in precarious housing; with regard to access to property, 43.2 percent of the urban population was tenants.

3.19 The execution rate on multi-sector projects for poverty reduction averaged 85 percent per year, reflecting the fact that they were executed directly by the CDHLCPI through management procedures that

41 Despite this performance—which mainly consisted in the construction of the Nouakchott-Nouadhibou road and the rehabilitation of some airports—many areas in the country remain isolated.
were more flexible than the State budget process. These projects were meant to be integrated activities targeting particularly poor rural and urban areas, where sector departments could not intervene. Budget execution by the CDHLCPI exhibited the following weaknesses:

- A lack of synergy and complementarities between CDHLCPI activities and the actions undertaken by line ministries. This is a result of inadequate coordination and non-inclusion of CDHLCPI activities in the sectoral strategies.
- A lack of a global vision that would serve as a framework for CDHLCPI activities. The result is dispersion and an uncoordinated response to often unjustified requests.
- CDHLCPI spending in excess of annual allocations through recourse to bank overdrafts. Eventually, new annual allocations were used to reimburse liabilities incurred in earlier years.

3.20 In addition to their impact on economic growth, rural investment projects and targeted activities contributed to poverty reduction in the rural areas. In fact, according to the EPCV, the incidence of poverty between 2000 and 2004 decreased in the rural areas by 1.8 percent per year (namely, from 66.2 to 59 percent), faster than in the country as a whole (less than 1.1 percent per year). This poverty reduction, however, occurred mainly (to the extent of 11 percentage points), in the Senegal River valley and was relatively modest in other rural areas.

**Pillar 3: “Improving access to basic services”**

3.21 As indicated in the 2004 PER, the social sectors included in pillar 3 showed the lowest BCI execution rates. Although the underlying causes probably apply to all sectors, the rate of execution varied between sectors and between periods. Particularly large disparities in the execution rates can be found in the priority areas of pillar 3: the execution rate was higher in the health sector than in the water and education sectors.

3.22 In the period 2000-2004, the BCI execution rate in the education sector was low, except for 2001, when it exceeded 100 percent. In 2002-2004, it was below 40 percent, with a 23 percent minimum in 2003. That weak performance did not affect progress towards the PRSP objective of universal access to basic education, a target whose attainment by 2015 seems probable. In the period 1991-2004, the gross enrolment ratio (GER) increased from 48.7 to 98.3 percent.\(^{42}\) However, the low execution rate is probably correlated with teaching quality, whose low level gives cause for concern. In fact, in 1999-2005 the rate of retention was low (48.8 percent\(^{43}\)) and the knowledge acquisition level inadequate because, inter alia, some establishments offered an incomplete school curriculum and the implementation of the 1999 education reform ran into difficulties. In other words, the increased financial effort did not fully translate into better performance. Education expenditure equal to 1 percent of GDP translated into 1.6 years of additional schooling, compared to 1.8 years in IDA member countries in Africa. That outcome was due in part to limited capacities for managing and supervising the education system as a whole.

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\(^{42}\) According to the EPCV carried out in 2004-05, the GER was 76.3 percent in 2003-2004 and 81.4 percent in 2004-2005.

\(^{43}\) Estimation based on school administration figures.
3.23 In the period 2000-2004, the BCI execution rate in the health sector was approximately 56 percent and showed relative stability from year to year. The investment funds financed the construction and outfitting of health units under the Health Sector Development Program (PDS). In view of past trends, attainment of Mauritania’s health-related MDGs is highly unlikely. In the above period, the malnutrition indicator (weight for age) declined from 32 to 30.2 percent but fell short of the objective (20 percent by 2004). The rate of assisted childbirths was 57 percent in 2004 (PRSP objective: 70 percent). Vaccination coverage increased from 32 percent in 2000 to 79 percent in 2004.

3.24 In the first two years of PRSP implementation, the BCI rate of execution in the water and drainage sector was particularly high because of limited funding in the face of immense needs. On the other hand, that execution rate fell to only 43.3 percent in 2003 and 2004. It should be stressed that access to drinking water is still a problem in this desert country, where only 53.5 percent of the population has such access, compared to 50.4 percent in 2000. Use of domestic taps increased (from 15 percent in 2000 to 18.5 percent in 2004) to the detriment of other water supply sources. The improvement, however, concealed the following pronounced disparities: (i) The rate of domestic tap use was 13.9 percent in rural areas compared to 29.5 percent in urban areas; (ii) it was 7.1 percent among very poor households compared to 21.4 percent of among households above the poverty line; and (iii) the price of water charged by street vendors, the main source (44.4 percent) of supply in poor neighborhoods, was 11 times the price invoiced by the National Water Company (SNDE).

Pillar 4: “Promoting good governance and capacity building”

3.25 Allocations for pillar 4 were not high, but on the whole the rate of execution was satisfactory in that area. The planned and executed BCI totals largely exceeded total PAP estimates, because the BCI covered a number of areas, such as justice, that were not addressed in the PAP. In fact, BCI allocations for justice were low but increased every year. With regard to support for public administration and institution building, the rate of execution was on average 71 percent per year during the PRSP period of implementation but few satisfactory outcomes were noted in that period in relation to good governance and capacity building.

D. CONSOLIDATED INVESTMENT BUDGET (BCI) FUNDING SOURCES

3.26 Financing requirements under the first PAP for the period 2001-2004 were estimated at US$475 million, including support for the balance of payments (US$121 million) and for the PIP (US$354 million or UM 92 billion). Financing needs exclusively related to priority investments—expected to have a direct impact on the attainment of its objectives—were estimated at UM 73 billion. It was planned that those needs would be covered by HIPC funds (UM 28 billion) and budget savings realized in the period
considered (UM 14 billion), leaving a net balance of funding requirements equal to UM 31 billion (US$121 million).

3.27 In the period 2001-2005, national resources allocated to the BCI and consisting of tax and non-tax revenue increased gradually from 34 to approximately 50 percent of total BCI, or an annual average of 44 percent. This increase—the result of a deliberate political decision to finance infrastructure with the State’s own resources—was funded from additional revenues gained from HIPC. Such resources were generally used as counterpart funds for projects drawing on external financing or to support productive sectors in the absence of donors. As counterpart funds, they sometimes covered recurrent expenditures, such as operational costs of project units, including contract employee wages, fuel, etc. In the period considered, the rate of execution of allocations financed with national resources through the State budget process was on average 93 percent.

**Figure 3.5: BCI Financing Sources, 1992-2000 and 2001-2005**

![Bar chart showing BCI Financing Sources](image)

Source: MAED

3.28 Investment expenditures financed from external resources continued to increase in volume but decreased as a percentage of total BCI in view of the significant rise in the share of national resources. In the period 2001-2005, the external financing envelope consisted of loans (76 percent) and grants (24 percent). The rate of execution of these expenditures averaged 65 percent during that period and decreased to 56 percent in 2005. That situation was mainly due to the following factors:

- limited capacity for BCI planning and for preparing feasibility studies for the various projects;
- diversity of expenditure execution procedures agreed with the various donors and the difficulty experienced by local authorities in mastering those rules;
- inadequate capacity in public procurement, and weaknesses in the regulatory framework.
E. HIPC RESOURCES AND PRSP PRIORITIES

3.29 Additional resources available to Mauritania in the framework of HIPC debt relief increased from UM 2.2 million in 2000 to UM 7.6 million in 2005, thereby reducing the State's need to borrow. Although only half of the total amount of available HIPC resources was spent, the share of BGI expenditures funded from those resources increased in the period 2000-2003 from 3.5 to 10.8 percent. The additional resources in question enabled the State to take charge of most of the investment expenditures theretofore financed with external resources.

3.30 On the whole, the allocation of HIPC resources seems consistent with PRSP priorities. As shown in the table below, HIPC resources executed in the period 2001-2004 contributed to the implementation of the first three PRSP pillars. Approximately 49 percent of those expenditures were earmarked for pillar 2, and in particular for the multi-sector projects aimed at fighting poverty implemented by the CDHLPCI; 38 percent for pillar 3, and in particular for the sectors of education, health, water, and energy, whose allocations increased significantly; and 13 percent for pillar 1, exclusively for the transport sector. Moreover, the distribution was directed to areas where the poverty percentages were relatively lower.

Table 3.2: Breakdown of Executed HIPC Resources
(in millions UM)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Axe 1: Stimulating broad-based growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth sectors</td>
<td>784</td>
<td>1,500</td>
<td>1,164</td>
<td>1,040</td>
</tr>
<tr>
<td>New technology of information and communication</td>
<td>0</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Axe 2: Anchoring growth in the economic environment</strong></td>
<td>2,205</td>
<td>3,180</td>
<td>4,222</td>
<td>3,625</td>
</tr>
<tr>
<td>Rural development</td>
<td>105</td>
<td>300</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Multisectoral project for poverty reduction</td>
<td>2,100</td>
<td>2,880</td>
<td>4,172</td>
<td>3,575</td>
</tr>
<tr>
<td><strong>Axe 3: Improving access to basic services</strong></td>
<td>1,264</td>
<td>3,324</td>
<td>4,692</td>
<td>4,145</td>
</tr>
<tr>
<td>Education</td>
<td>700</td>
<td>1,297</td>
<td>1,662</td>
<td>1,366</td>
</tr>
<tr>
<td>Health and social affairs</td>
<td>354</td>
<td>1,746</td>
<td>1,758</td>
<td>1,400</td>
</tr>
<tr>
<td>Water and energy</td>
<td>140</td>
<td>231</td>
<td>1,272</td>
<td>1,379</td>
</tr>
<tr>
<td>Youth and sports</td>
<td>70</td>
<td>50</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,253</td>
<td>8,004</td>
<td>10,077</td>
<td>8,810</td>
</tr>
</tbody>
</table>

Source: MAED

44 HIPC initiative resources are comprised in the functional and economic classifications of expenditures discussed earlier, save for expenditures executed by organizations of mixed status, such as the Commission for Poverty and the Commission for Food Security, which are responsible for the execution of approximately 40 percent of HIPC expenditures (cf. Chapter 3, section 3.5).
45 This BGI contains only the investments financed by the state's own resources, executed through regular budget procedures.
46 Refer to the report 'Rapport sur la programmation, la mise en œuvre et le système de suivi pour les dépenses PPTE, 2003' of CMAP prepared for the committee in charge of monitoring and evaluation of HIPC revenues.
F. CONCLUSIONS AND RECOMMENDATIONS

3.31 The analysis revealed that the priority action plan (PAP) drawn up under the PRSP was not used as a basis for planning investment allocations. In order to ensure consistency in pursuing the strategic objectives of economic and social development, the following measures are proposed:

- The PAP should identify all integrated activities necessary for addressing the country’s economic and social development constraints in accordance with sectoral strategies and MTEFs;
- PAP implementation costs should be estimated by identifying their recurrent and investment components, assessing the projects executed, and determining the unit costs;
- Every year, the PAP should be drawn up and implemented with sufficient flexibility to take into account any lessons learned from execution and possibly to introduce new priority activities;
- Priority activities should be distributed geographically with a view to addressing specific constraints faced by individual wilayas;
- The PAP should be the only basis for programming the BCI and the recurrent budget.

3.32 Alignment of budget programming with the PAP requires systematic recourse to multiyear budgeting in order to allocate resources by strategic objectives rather than by needs and make sectoral departments accountable for the respective sectoral objectives. This approach calls for monitoring and evaluation tools that can provide information on the evolution of the related indicators. Accordingly, capacity building for planning, monitoring and evaluation in the sectoral units of the Ministry of Finance (MF) and the Ministry of Economic Affairs and Development (MAED) is crucial to the coordination of the two processes. Support for both exercises under the PRECASP would help to gradually implement this recommendation, particularly through effective integration of the MTEF process into the preparation of the State budget and the BCI.
PART II

ASSESSMENT OF THE PUBLIC EXPENDITURE MANAGEMENT SYSTEM
4. BUDGET PROGRAMMING, EXECUTION, AND PUBLIC ACCOUNTS

4.1 As noted in the chapter analyzing public expenditure, fiscal policy has been expansionary, with systematic long-standing recourse to off-budget spending which was not included in the budget and accounting reports. Such practices are commonly found in countries with severe shortcomings in their fiscal management system. However, it is important to recognize that no matter how robust the system and procedures may be, political will is still essential for the enforcement of existing regulations. In the case of Mauritania, the current system displays many weaknesses at all levels, as confirmed in a number of studies prepared by the World Bank and other development partners, but the distortions noted have as much to do with the irregular practices used by the authorities as with these weaknesses in the system.

4.2 The analysis in this chapter will be based on the conclusions of the 2004 PER. That report reviewed the conclusions and recommendations of several World Bank studies on the subject, primarily the 1999 Country Procurement Assessment Review (CPAR), the 2002 Country Financial Accountability Assessment (CFAA), which looked at financial management and private sector accounting practices, the 2002 Report on Observation of Standards and Codes47 (ROSC), and the 2003 Country Economic Memorandum (CEM), which identified strengths and weaknesses in the public expenditure management system in Mauritania. This chapter will review the measures recommended for improving public financial management, in order to assess how the situation has evolved, and propose new measures.

A. PREVIOUS ASSESSMENTS OF THE PUBLIC FINANCIAL MANAGEMENT SYSTEM

4.3 The new authorities have undertaken an evaluation48 of public financial management through the Inter-ministerial Committee on Governance, which was set up immediately after the coup d'état of August 2005. The objective was to identify the major obstacles to good governance and to propose realistic measures that could be implemented in part during the transition period in order to lay the foundations for a transparent and efficient system of government. In fact, the shortcomings and problems identified in this self-evaluation are similar to those found in the external assessments. The report, published in November 2005, identifies the following weaknesses in budget planning: lack of a long-term vision; lack of an integrated management of foreign debt; limited understanding and implementation of the global MTEF and the sectoral MTEFs; and the strong centralization of budget planning. Regarding resource mobilization, revenues are constrained by inefficient tax administration, the existence of sectors that are not effectively taxed, and poor coordination with the departments responsible for non-tax revenues (mining royalties, fishing licenses, dividends, etc.). Among the prime weaknesses of the current budget execution system are the fact that much spending is done off-budget and is completely opaque; procedures are cumbersome and delays are long; there are too many execution procedures depending on the type of financing; there is no system of cash management and budget regulation; and there is no reliable information on revenues and expenditures. The report identifies as the main factors impeding effective expenditure control and evaluation the fact that vertical controls and supervision of public accountants are ineffective, supervisory bodies and boards of directors add little value, the Supreme Audit Court does not function properly and is not independent, and there is no systematic tracking of public expenditure.

47 Prepared in collaboration with the IMF.
48 Government evaluation is based on Donors analyses such as CFAA, RONC, 2004 PER
4.4 The CFAA of November 2002 identifies as major obstacles to proper financial management a lack of updates of laws and regulatory texts governing budgetary execution, the concentration of payment authority at the MF, the frequent exemption from rules and procedures and a lack of capacity within the control units. While the CFAA was based on false data, it did however underlined that the use and frequency of exceptions not in line with regulations pointed to either an inadequacy of the regulatory texts with regards to the reality of the field, or a lack of strong financial discipline. Indeed, much of the off-budget expenditures were executed based on these types of arbitrary exceptions to the rules. The accounting system and the *ex post* control mechanisms were weak and suffered from the absence of quality information. The CFAA presented an action plan based on these observations. However, only the recommendations concerning decentralization were implemented in 2005. The remaining recommendations related to the improvement of budget planning, public accounting and control were only initiated at the end of 2005.

Box 4.1: HIPC AAP Indicators

The HIPC Assessment and Action Plan (AAP) indicators for evaluating expenditure tracking capacities, were developed for monitoring and assessing the financial and fiduciary management system of HIPC countries and cover all fields of the expenditure circuit. The 16 indicators are divided into four sets, covering: (i) budget formulation, presentation, and comprehensiveness; (ii) budget execution; (iii) budget reporting; and (iv) the procurement system.

4.5 As the assessment of the fiscal management system performed as part of the HIPC initiative in 2001 was based on erroneous information provided by the Mauritanian authorities, performance was rated satisfactory against 7 of the 15 indicators. That assessment also proposed a plan of actions to overcome problems in the public financial management circuit at all levels. Those measures, however, were not implemented, and indeed the new economic statistics, which allowed a more accurate assessment of the situation in 2001 and subsequent years, showed that the system’s weaknesses worsened through the end of 2005. The 2006 AAP assessment, conducted as part of the G8 multilateral debt cancellation process, found the same shortcomings as those in the Inter-Ministerial Committee’s self-assessment. In fact, using the new budget data for Mauritania, the 2006 assessment maintains the same rating for only 2 of the 16 indicators. The two indicators rated relatively satisfactory relate to inclusion of donor-financed investment spending in the budget, and the use of economic, administrative, and functional classifications. Yet even for these two indicators, it was noted that the authorities could make further progress. The measures recommended in the 2001 assessment have not been implemented, which explains why the situation has stagnated.

4.6 The 2004 PER, which was also conducted on the basis of erroneous information, nevertheless highlighted the main weaknesses of the public financial management system in Mauritania, and offered a series of recommendations aimed at improving the situation. The system’s shortcomings are to be found at various levels, and affect the entire expenditure circuit. Since there was no World Bank support to aide the implementation of the main reforms proposed in the 2004 PER (which in fact required capacity building in addition to political commitment), few changes have been made. The status of implementation of the recommendations made by the PER is attached in the appendix.

49 There are now 16 HIPC AAP indicators, with the addition of one rating the public procurement system.
4.7 With respect to budget comprehensiveness, the PER recommended that mining and fishing revenues, which were being spent off-budget, should be integrated into the LdF. There has been no progress on this point. Noting the existence of a separate budget that prevents a comprehensive overview of public spending, the PER recommended gradual integration of the LdF and the BCI in a consolidated document that includes all sources of financing for both recurrent and investment spending. While some improvements were noted in the presentation of the 2006 LdF, this recommendation has not yet been implemented. Moreover, on the basis of new information, the following analysis shows that the budget is still far from comprehensive, and that the recommendation is still relevant. Similarly, with regards to budget presentation, the functional classification has not been instituted as recommended in the 2006 PER. Furthermore, the review highlighted the need to continue and reinforce the MTEF process. No progress had been made on this score to the end of 2005.

4.8 In terms of expenditure execution, the main recommendation called for the progressive deconcentration of payment authority, which was centralized in the Ministry of Finance, to the line ministries, and then to the regions, in order to shorten the various stages of the expenditure circuit. This is in fact the only recommendation on which progress was made in 2005. The analysis of this subject in the present chapter examines progress and possibilities for improvement one year after this deconcentration to line ministries was launched. On the other hand, the computerization that is supposed to accompany this reform for the 3 pilot ministries was not implemented until September 2006. The government-wide rollout of the computer system is planned for 2007.

4.9 With respect to improving expenditure tracking at the payment level, the PER pointed to the need to produce regular treasury balances and to reconcile budget and accounting operations, recognizing that the data on budget execution at the payment level are far from comprehensive. Unfortunately, these recommendations had not been implemented as of August 2005. There had been no effort to produce comprehensive budget and accounting reports or to perform regular reconciliation between the treasury accounts and the balance on the State account with the BCM.

4.10 In terms of budget reporting and control, the PER found that, in spite of well-defined rules and procedures, the effectiveness of the internal control and audit system is thwarted by the many different participants involved in the system, and by the lack of regular monitoring and appropriate sanctions. It also found that the other control bodies have limited capacities. Strengthening the capacities of these bodies was deemed an appropriate measure, and has been implemented in part through assistance from the German and French cooperation programs. However, control remains inadequate at all levels.

4.11 The remainder of this and the following chapter will re-examine each stage of the public expenditure management system in light of the new information on budget execution, and progress in implementing the PER recommendations. Some recommendations that may have appeared essential are less so today, while new problems have emerged.

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50 A percentage of fisheries agreement revenues is spent directly by the Fisheries Ministry, and a portion of mining revenues is spent by the Ministry of Mining and Industry.
B. IMPROVING BUDGET PRESENTATION

Composition and scope of the budget

4.12 The 2004 PER highlighted the problems posed by the existence of two budget documents, prepared and executed by different bodies. The Government budget comprises two main documents: (i) the State Budget (LdF), issued by the Directorate of Budget and Accounts (DBC) of the Ministry of Finance (MF); and (ii) the Consolidated Investment Budget (BCI), issued by the Ministry of Economic Affairs and Development (MAED). The LdF is the budget for the central government and the deconcentrated services. However, it does not include revenues and expenditures of public institutions or local governments. The communes\(^{51}\) have their own revenues (land taxes, property taxes and local license fees), supplemented by central government transfers (from the Regional Development Funds).\(^{52}\) A portion of government revenues flows directly to the Ministry of Fishing and the Ministry of Mining. All government resources should be recorded in their entirety under revenues and expenditures in the LdF.

4.13 The scope of the LdF is limited, as far as the general investment budget (BGI) is concerned, to domestic financing. The summary balance sheet presented in the LdF does not include external financing for investment. It shows all operating and investment expenditures financed from the government’s own resources, as well as the special accounts. The general investment budget (BGI) is not consolidated with the general operating budget for individual ministries. Since 2006, it is simply added to the general operations expenditures of each specific department. The LdF contains the following components: (i) revenues, (ii) public debt, (iii) ordinary operating expenses, (iv) self-financed capital spending, and (v) special accounts. The LdF presents a summary of the BCI, to provide an overview of external financing. During preparation of the 2006 LdF, operating budget items previously shown in the BCI were recorded under operations for each Ministry in the LdF.

4.14 The BCI summarizes annual investments recorded in the Public Investment Program (PIP), both those financed by the government and those financed externally. The government-financed portion is presented in the LdF via the general investment budget (BGI). The BCI also covers amortization of the debt and transfers to the PEs, notably the National Industrial and Mining Company (SNIM). It includes all loan-financed and grant-financed investments. Decree no. 86-178 of October 29, 1986 created the annual BCI. Strictly speaking the BCI does not have a legal status but simply recapitulates the investment financed by domestic and external resources and the amortization of public debt.

4.15 The existence of two budget documents, prepared and executed according to different procedures, increases the risks of inadequate macroeconomic control and contributes to ineffective resource allocation. BCI revenues and expenditures are exempt, in part, from the public accounting rules intended to ensure that public funds are properly used. The MF cannot readily keep track of investment expenditure financed by external resources, which are executed through mechanisms established in the bilateral agreements with donors. Those resources are in fact deposited in special accounts held at commercial banks. The financial execution procedures used are those selected by the donors, who can effectively control expenditure, making sure that the available funds are properly allocated and spent in a timely manner.

\(^{51}\) Mauritania has 216 communes.

\(^{52}\) The Regional Development Funds are also annexed to the LdF.
**Budget classifications used**

4.16 Budget preparation and execution uses administrative and economic classifications. It is on this basis that the DBC establishes the payment authorization officer's administrative account (*compte administratif de l'ordonnateur*). A specific chart of accounts defines the classification for PEs, EPICs, and local governments. The administrative classification is divided into "titles" (ministries) and "chapters" (directorates). Ministries are identified by a two-character serial coding, as are the directorates and services within each chapter. The BGI sub-chapter covers investment projects. The administrative classification currently in use contains no geographic information on the administrative office receiving these allocations. The economic classification is divided into "parts," "articles," and "paragraphs." The "parts" describe the general type of expenditures, the "article" presents the nature of the expenditure, and the "paragraph" specifies the character of the expenditure. Neither of these classifications makes any reference to the location of expenditure by region.

4.17 A start was made in 2001 at introducing a functional classification, but it has never been used in the presentation of the LdF. An attempt has now been made to reclassify the 2006 LdF on a functional basis. This exercise will pave the way for the presentation of the 2007 LdF with a functional classification, in addition to the other two classifications. The functional classification, divided into classes, groups, and subgroups, determines the function of expenditures and is independent of the administrative classification, which may vary over time and therefore does not allow for long-term analysis.

4.18 A sectoral classification is used in the BCI, which has a presentation different from that of the other classifications. Sectors, which are the basic categorization unit in the BCI, are not connected to ministries, which are the basic categorization units in the LdF. Nonetheless, the MAED computer system has been harmonized, allowing for a direct link between this classification and the LdF. This means that the BCI can be presented according to the administrative and economic classifications.

C. **OPTIMIZING THE MTEF APPROACH IN THE BUDGET PREPARATION CYCLE**

4.19 The 2004 PER stressed the importance of improving the MTEF process and integrating it into the budget preparation calendar, but no steps had been taken in this direction by the end of 2005. The budget is formulated "on the spot," without any clear schedule identifying the different steps and defining the responsibilities of those involved in the exercise. It is the MF and the MAED that jointly direct the process of preparing the government budget. The conventional budget cycle has four main phases: (i) preparation of the macroeconomic framework; (ii) preparation of the budget framework, (iii) holding of budget conferences; and (iv) adoption of the budget. As of 2002, the medium-term expenditure frameworks have been integrated into the budget preparation process.

4.20 The first stage of the budget preparation cycle consists of projecting the main macroeconomic aggregates on which government priorities and the budget forecast are based. The Planning and Research Directorate of the MAED, working with the BCM and the MF, prepares this macroeconomic and financial framework. Macroeconomic and financial forecasting shows a number of weaknesses. Forecasts are not adequately performed, given the absence of forward planning and the limitations of the tools used. The second stage of the process is to set the budget framework, which is the responsibility of the DBC. This directorate estimates the level of tax and non-tax revenues and of external financial support for the coming year (n+1). Next, the thresholds of the broad expenditure categories are set, in order of priority.
4.21 Generally speaking, once the macroeconomic and budget frameworks are in place, the MF-MAED jointly issue circulars to the ministerial departments. The departments submit their financial needs to the MF-MAED, estimated in light of their sectoral objectives. The departmental proposals may be taken from their sectoral MTEF, if this is available and up-to-date. On the basis of these responses, the MF and MAED perform the necessary trade-offs among the sectoral departments.

4.22 Following approval of the PRSP (Poverty Reduction Strategy Paper) in 2001, the government adopted the MTEF approach in order to operationalize its development strategy. The sectoral MTEFs are powerful tools, particularly when they are consistent with a global MTEF that can track the financing constraint. The principles underlying the medium-term expenditure framework are the following:

- prepare a coherent and realistic budget framework that enhances macroeconomic stability and allows projections of revenues, expenditures, deficit, and debt over a three-year horizon;
- set up a system of resource mobilization that is consistent with sectoral and intersectoral strategic priorities and budgetary constraints;
- foster better participation and greater autonomy of administrative structures in the elaboration of the budget and promote more efficient use of resources programmed within a global and rigorous framework of budgetary discipline.

4.23 Between 2002 and 2004, eight MTEFs were prepared for the following sectors: education, health, rural development, transport infrastructure, urban development, energy, fisheries, and water and sanitation. This sectoral programming exercise was not as useful as it might have been, given the absence of a global MTEF determining the macro budget framework and setting the sectoral envelopes. To remedy this situation, the first global MTEF was prepared in 2003 for the period 2004-2006. The 2004 LdF was prepared on the basis of this document. An analysis of the global MTEF and the sectoral MTEFs shows that the system has a number of weaknesses that should be corrected in order to make the three-year budget programming exercise more useful.

4.24 Apart from the weakness of the macro-budgetary framework forecast in the global MTEF, the main shortcoming of the current MTEF has to do with the intersectoral allocation of spending. Over the period 2004-2006, the portion of sectoral spending in total spending has remained remarkably constant in comparison with past trends. It should be noted that the sectoral envelopes are allocated by the MAED and the MF on the basis of budget priorities. However, in the absence of a reliable analysis of the relationship between sectoral priorities and objectives, on the one hand, and sector budgets on the other, the committee responsible for preparing the MTEF allocates funding on the basis of past trends, the inflation rate, and existing policies. There are sometimes significant discrepancies between the overall envelopes by sector (shown in the global MTEF) and the needs that emerge from the sectoral MTEFs.

4.25 An evaluation of the performance of past public policies should be useful for programming the MTEFs and the budget. Such an evaluation does not take place in Mauritania, however, for several interrelated reasons:

- monitoring and evaluation capacities are very weak at all departmental levels, which means that there is frequently no evaluation of actual policy outcomes;
- the statistical information system is unreliable;
- reflecting the first two problems, there are many gaps in the definition of objectives and indicators;
4.26 Continuity in the MTEF process is not guaranteed, because of a number of problems in implementing the approach, run by operational directorates that are preoccupied with day-to-day concerns. They focus on the preparation of the document for only a short period, without any real involvement from the sectors. Moreover, the MTEF approach has not been integrated into the budget preparation cycle or into the preparation and monitoring of development strategies. This situation reflects the departments' weak capacities and the inability of the technical infrastructure to bring coherence to the process.

4.27 For the time being, then, the process is limited to producing documents, and there has been no attempt to plan more accurately either the resources committed or the results expected. In short, what is lacking is: (i) overall coherence, a calendar, and a precise working method; (ii) the development of sector strategies that will provide a basis for medium-term planning; and (iii) proper involvement of sectoral managers in the process.

4.28 Mastering the MTEF approach, however, is an important step in the transition towards performance-based program budgeting. Tunisia experience presented in the box 4.2 can be considered as good example for Mauritania. Consideration is now being given to introducing program budgeting in Mauritania, starting with basic and secondary education. However, the prerequisites for the effective use of this approach are not yet in place. Those prerequisites relate to several levels: budget preparation, questions about the personal and financial liability of public accountants, empowering program managers, transparency in budget information, a clear determination of programs as well as objectives and concepts, reorganization of the administrative structure and clarification of decision-making channels, and a review of the accounting system with introduction of analytical accounting in association with accrual accounting.

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53 The DBC, the DPE, and the CMAP are the main entities responsible for coordinating the MTEF approach. These three entities all have very heavy workloads that prevent them from focusing on this problem.
Box 4.2: Tunisia’s Experience with Performance-Based Budgeting and Decentralization of Budget Execution

**Performance-based budgeting.** Tunisia’s approach to performance budgeting could serve as an example for Mauritania in improving its multi-year budget planning and the presentation of the budget. A management unit was set up within the Ministry of Finance to steer the work of revising forecasting methods, the tracking of budget execution, and evaluation of expenditure using the management-by-objectives method in order to link strategic objectives to the means needed to achieve them. This is a restricted, high-level unit with a clearly defined mandate that runs for five years. The advantage is that this unit is devoted full-time to budget reform, whereas the technical directorates that are supposed to work on this issue remain preoccupied with day-to-day concerns. The unit’s work is overseen and evaluated by a commission within the Ministry. Its tasks include: (i) preparing a functional and programmatic budget classification; (ii) establishing performance standards and indicators; (iii) setting up a program for tracking and evaluating the achievement of objectives; (iv) designing staff training plans in management by objectives; (v) assistance to other ministries in implementing management by objectives; and (vi) preparation of the new budget structure, on this basis.

**Budget deconcentration.** The Tunisian budget system is highly deconcentrated and could offer an example for reform, both vertically and horizontally (to the regions). The bulk of operating and investment expenditure in Tunisia is managed at the local level in a deconcentrated form, or in a form close to decentralization: (i) centralized expenditures are managed at the central level (the ministry) by a central authority (payment authorization officer or ordonnateur); (ii) deconcentrated expenditures are managed at the local level (gouvernorat) by a State authority represented at the local level (Governor or regional directors of ministries); (iii) allocations to the Governor for financing deconcentrated expenditures are known as “delegated appropriations,” and they are listed in the equipment budget classification as “national interest appropriations”; (iv) decentralized expenditures are managed at the Regional Council level and are executed by the Governor, as representative of the region; (v) allocations to the region for financing decentralized expenditures are referred to as “transferred appropriations,” and are listed in the budget classification as “regional interest appropriations.”

Source: CFAA of Tunisia, World Bank, 2004

D. IMPROVING BUDGET EXECUTION PROCEDURES

4.29 As noted in the introduction, the deconcentration of budget execution recommended in the 2004 PER began to be implemented in 2005, with success in some areas and gaps in others. It is time to draw some lessons from the first year of this deconcentration in order to consolidate and expand this reform.

4.30 Until the end of 2004, responsibility for executing the LdF was concentrated in the MF. The Minister of Finance alone had the authority, as ordonnateur unique, to order the payment of budgeted expenditures. He delegated this power to commit and authorize expenditures to the Budget Director. Line ministries thus had no responsibility for executing their department’s budgets, since they could not initiate the spending process or authorize any of the stages in the expenditure circuit. According to existing legislation, the “ordonnateur” should not only supervise the pace at which expenditures are committed, but should also judge whether particular expenditures are justified. Clearly, the DBC does not have the capacity to pass such judgment, and so it approves decisions taken elsewhere.

4.31 This centralization of budget execution within the MF means that execution times are too long. The budget circuit of departments not involved in the deconcentration of budget execution causes excessive delays between expenditure commitment and payment. A review of the 13 steps that constitute this budget circuit shows, on one hand, that there are many parties involved and, on the other

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54 Military expenditures are directly initiated by the minister of defense
hand, that controls are redundant. Moreover, the current system of control entails some risks. The Budget Director and his assistants are supposed to review all accounting documents several times and authorize them personally. This imposes a tremendous workload on this directorate, and means that a significant portion of expenditures is not tracked in real time, and that various management procedures are used. In other words, this lengthy budget circuit is one of the reasons why closing and opening dates for successive fiscal years must be extended.

**Box 4.3: Fiscal Management Measures Introduced in 2004**

**Deconcentration of budget execution.** Certain articles of the general public accounting regulations bearing on budget execution were amended by Decree no. 096-2004 of September 8, 2004. An order was adopted specifying the ministries to which budget execution was to be transferred. To date, most of the regulations for implementing the reform have been adopted, in particular the decree instituting the deconcentration of budget execution and the decree creating the new financial control system in pilot ministerial departments.

**Deconcentration of financial control.** Decree no. 023-2004 of March 13, 2005. instituted financial control in ministerial departments with budget execution for their own budgetary allocation. The application order on financial control is in the process of approval.

**Financial control at the ministerial level.** Decree no 023-2005 of March 13, 2005, mandates financial controls in departments qualified to execute expenditures. The implementation is being finalized complementarily with the execution of the RACHAD software.

**Computerizing the supplies and equipment expenditure chain.** A draft decree regulating computerized management of spending on supplies and equipment and repealing certain provisions of Decree no. 74-187 on automation of public expenditures has been prepared but not yet adopted. Its adoption is a prerequisite to effective implementation of the RACHAD software.

4.32 At the beginning of 2005, Mauritania launched a reform of budget execution, involving gradual deconcentration of budget execution for supplies and equipment to certain pilot ministries. This reform is currently limited to supplies and equipment expenditures, a large portion of which is included in the "common expenditures" managed directly by the Ministry of Finance. It is based on redistributing tasks within the budget execution framework, with the line ministries as the principal payment authorities (ordonnateurs principaux), a reinforced role for financial control, and better tracking by the Directorate of Budget and Accounts (DBC). The deconcentration of budget execution for supplies and equipment is currently limited to six pilot ministries, selected for their size and the importance of the sector policies for which they are responsible. These are the Ministry of Health and Social Affairs, the Ministry of Basic and Secondary Education, the Ministry of Higher Education and Scientific Research, the Ministry of Rural Development and Environment, the Ministry of Water Resources, and the Secretariat of State Responsible for New Technologies (SETN).

4.33 This partial deconcentration of budget execution was accompanied by a modification in the organization of financial control, which until now has been centralized in the Prime Minister's Office (Primature). Prior to the 2005 reform, a financial controller in the Prime Minister's Office was responsible for overseeing the regularity of all expenditures, as well as the recording of commitments. The maintenance of the accounting function at this level was deficient. Now, four financial control officers (FCOs) reporting to the MF, have been placed in the departments benefiting from the deconcentration. This reform of financial control is an important stage of the overall reform of the public

55 These common expenditures represented about 20 percent of the budget in 2004, but no more than 12 percent in 2006.

56 Two new FCOs have been assigned to the Departments of Water Resources and of Higher Education.
finances, and should contribute to its success. These financial controllers participate in overseeing execution of the LdF, with respect both to appropriations and staffing. Their field of responsibility has thus been split off from that of the current financial control system, which remains responsible for all departments to which budget execution for their appropriations has not been devolved.

4.34 Placing financial controllers in the pilot ministries without reforming the current system leads to problems. The first problem is that there are two categories of financial controllers, without any apparent link. The ex ante control over budget execution by financial controllers for the departments in which they are placed is not directly linked to the financial control office in the General Secretariat of Government. The second problem has to do with organization of the financial control office, which the Ministry of Finance has not clearly specified. In addition to these problems with financial control, the relationship between the General Secretariat of the line ministries and the financial directors is not sufficiently clear for instituting a payment authorization unit. It has also been found that the line ministries do not yet have sufficient capacity to carry out this decentralized mission.

4.35 As part of the reform, each ordonnateur is supposed to prepare an "annual initial budget planning document" (DAPBI). This DAPBI should set out the conditions under which the LdF is to be executed, and is supposed to be in place before pilot departments receive their allocations. The FCO reviews the DAB1 to ensure that the document as a whole is consistent and that the forecast expenditures and staffing levels are realistic, and to analyze the consequences of the forecast charges for the public finances and for the coverage of obligatory expenses. However, this document bears no direct relation to the cash management plan, which is regularly updated in the Treasury.

4.36 The simplified expenditure circuit resulting from this reform reduces the number of steps from 13 to 6. The commitment slip (bon d'engagement) issued by the Information Processing Units in each spending ministry becomes, after validation by the respective ministry's FCO, the confirmation form (titre de confirmation) that allows the order to be placed. Following endorsement by the FCO, the spending ministry issues the payment order. The DBC no longer performs checks but centralizes all the payment orders and transmits them to the Treasury, which does all the necessary verification and will then either make the payments or reject the expenditure as irregular or insufficiently justified. The regulations have not set any timeframe within which the parties involved must perform the necessary checks. The concentration of payment orders within the DBC could pose a bottleneck to efforts to simplify the circuit. Moreover, without computerization of the expenditure chain, the reform itself has not shortened expenditure execution times as planned.
Box 4.4: Recent Measures Taken After the Coup d'Etat of August 3, 2005

Following the coup d'état of 2005, the new government took steps to rectify the fiscal situation by preparing a supplementary budget that captured existing off-budget spending commitments. All public servants were reminded of the basic rules of financial management:

Opening of sub-accounts in the current account of the Treasury with the BCM for public establishments and projects with government counterpart funding: Circular no. 05 of September 12, 2005, requires that disbursements of counterpart funds, subsidies or any other funding to public entities (EPA, projects etc.) must be done through sub-accounts of the Treasury account at the BCM.

Reminder of the basic rules of routine bookkeeping. In the Circular of September 21, 2005, the MF reminded all regional treasurers, embassy accountants, collection officers and accountants of public establishments about the importance of observing basic accounting rules in handling expenditures of the State and local governments and in collecting public revenues.

Reminder of provisions relating to budget closing dates. A circular of October 3, 2005, reminded ministers and State secretaries of the closing dates for the fiscal year. As a result, the accounts for 2005 were closed within the regulatory deadlines.

Review of the “chancellery rate” (taux de chancellerie). The recognition of foreign exchange losses related to expenditures abroad (in particular, by embassies and students on bursaries for foreign study) has undergone a major change with adoption of a benchmark exchange rate for 2006 that is close to the BCM's rate. This explains the sharp increase in budget allocations to the Ministry of Foreign Affairs and Cooperation and the Ministry of Higher Education and Scientific Research.

Public expenditure management at the local level

4.37 There are serious shortcomings in the management of decentralized funds at the local level.57 There is no systematic collection of information through the Treasury and the level of accountability is very low. The administrations concerned receive notification of their allocations at the beginning of each year. That notification follows the same circuit as the commitment slip. The regional representatives of the MF (the regional treasurers) are responsible for verification and payment. These expenditures are regularized, i.e. a payment order is issued, only ex post, after control by the verification unit. That unit, located within the General Treasury, includes representatives of the budget office, the financial control office, and the general treasurer. This cumbersome and time-consuming approach also leads to delays in preparing documents for closing the accounts. The verification unit takes a long time to perform its work. It is an anomaly that all transactions conducted at the local level should be treated as provisional operations, despite the involvement of so many officers and representatives of the central government.

Expenditures executed by the two commissariats

4.38 The 2004 PER highlighted the problem of hybrid entities that spend money outside the conventional budget circuit, and the need to bring them within that circuit. There was no consensus on this measure among the authorities, and there seems to have been no movement in this direction. The entities in question, namely the Commissariat on Human Rights, Poverty Reduction and Integration (CDHLPCI) and the Commissariat on Food Security (CSA) continue to spend public funds that are allocated to them off-budget. Their task is to deliver public services to the poorest and most vulnerable population groups, and they do so through parallel funding channels. It is true that these entities disburse their funds more quickly on average (24 days) than do the ministerial departments that must work through the conventional budget circuit. For example, it takes the Ministry of Rural Development and

57 wilayas, moughataas, diplomatic missions
Environment (MDRE) six times as long to execute expenditure as it takes the CDHLPCI. Yet this slow performance should not lead the authorities to allow increasing amounts of poverty reduction funds to be exempt from the controls imposed on other budgetary expenditures. On the contrary, the budget circuit should be improved in order to shorten the delays, and the public funds transferred to these agencies should be gradually brought within the regular expenditure system, in accordance with current regulations.

**Respecting budget cut-off dates**

4.39 The 2004 PER did not dwell on the issue of extensions to budget cut-off dates, but this has been a recurrent problem for several years: in fact, two budgets from different fiscal years can continue to be executed at the same time, because of a supplementary period that runs beyond the cut-off date set by the organic law. According to current legislation on the closure date for budget operations, all expenditures are supposed to be adjusted or posted by March 15 of the following year. On several occasions, expenditures were allowed to be authorized for payment after the end of the fiscal year (December 31), whereas the law requires that payment authorization must stop on December 15. The fact that appropriations cannot be carried over, together with delays in the procurement process, explains in part why investment expenditures are authorized after December 31 as a charge to the budget for year n-1. Indeed, payments have been made after March 15 of the following year. This situation frustrates proper budget execution, because for several months in any given calendar year there may be two parallel budgets in execution.

4.40 Whatever the justification for these irregular practices, they clearly diminish the transparency of budget execution and of government operations. This situation poses problems of two kinds for the Treasury. First, in terms of the financing and cash management plan, expenditures for fiscal year n-1 are paid during fiscal year n+2, whereas the financing forecasts do not cover these operations. This impedes the preparation of summary statements such as the Government Flow of Funds Table (TOFE), since budgetary execution data are supposed to be documented for each fiscal year. The second problem relates to the production of accounts. This procedure generates considerable delays in closing the accounts and producing the budget execution law (act approving budget execution) on time. Because of this situation, the Treasury must work with a provisional balance sheet for an abnormally long period of time.

4.41 Recent measures have been taken to close the accounts for fiscal year 2005 by the regulatory cut-off date. The government that took office after the coup d’état of August 3, 2005 is committed to putting an end to the irregular procedures. In a circular of October 3, 2005, the Minister of Finance reminded all ministers and secretaries of State of the legal provisions governing the closure dates for budget transactions. He asked them to respect those closure dates for all their budget allocations. As a result of these instructions and provisions, notifications were closed by October 30, 2005, commitments by November 20, 2005, and payment orders by December 15, 2005, consistent with Decree 84-189 of August 21, 1984. In 2005, supplementary days were taken as accounting days in compliance with the regulations.

E. **COMPUTERIZING THE EXPENDITURE CHAIN IN SUPPORT OF DECONCENTRATION**

4.42 The 2004 PER stressed the importance of deconcentrating budget execution and of supporting this change with suitable software. However, the first year of the deconcentration reform has not been accompanied by computerization of the expenditure chain as planned. Each entity still runs its own application, which is not necessarily compatible with those of the other units. Data transfers from one system to another are still done largely by hard copy or diskette. The main responsibility of the Directorate of Information Technology (ITD) is to record public expenditure transactions. The current computer system dates from 1975 and has not been upgraded since. It is an outmoded system that does
not allow for ongoing management of operations and cannot provide an overview of the situation for proper cash management. This old system does allow the ITD to inform the DBC of the production of confirmations and payment notices. The computer system theoretically lets the DBC perform regular checks on the availability of budget funds at the stages of commitment and payment order. This information was used to prepare the monthly budget execution statement (TOFE) and in principle serves as the basis for verifications by the DBC and financial control office.

4.43 In order for payment authorization to be successfully deconcentrated, the execution of expenditures on equipment and supplies was reformed with the introduction of a computerized system for managing these outlays. The system uses a central database that contains all data relating to budget preparation and execution. The new Réseau Automatisé de la Chaîne des Dépenses (Automated Expenditure Chain Network, “RACHAD”) is run by a software package that integrates all budget execution procedures, as well as parameters relating to the country’s fiscal environment. This application has two components: the “budgetary allocations” component, which is exclusively in the hands of the Ministry of Finance, allows for management of the allocation of appropriations, and monitoring and regulation of budget execution; the “spending entity” component, reserved to the ministerial departments, allows for the execution of expenditures following the commitment, verification and payment authorization stages.

4.44 The current product does not include a payment module that would connect payment officers to the same network as other players in the circuit, for purposes of making payments. After testing and validation, RACHAD was delivered in November 2005. According to current information, the application is capable of deployment in all ministerial departments located within the Nouakchott administrative zone, where fiber-optic networks already exist. However, budget management for 2006 began with the outmoded 1975 system still in use. This makes it unlikely that they will be any prompt improvement in budget execution in terms of reducing the time lags in the circuit or the supplementary extension to cut-off dates.

F. IMPROVING PUBLIC ACCOUNTING AND REPORTING

4.45 None of the 2004 PER recommendations on public accounting and reporting had been implemented as of the end of 2005. Although a general circular from the DTCP describes developments in the government accounting framework and clearly defines the way the accounts and procedures are supposed to work, the accounting system is in fact a hybrid one: double-entry bookkeeping is used at the central level, but single-entry in the regions other than Nouakchott. Mauritania’s chart of accounts, created in 1992, is intended to describe and control operations with the general budget, the special accounts, and the supplementary budgets, and to provide information for budget management and control purposes. It draws heavily on the French chart of accounts, and includes nine classes.58 Despite this, the chart of accounts is not sufficiently detailed to track expenditures by type through to payment.

4.46 A proper public accounting system should allow the DTCP to establish a monthly cash balance and to prepare annual summary statements of the Treasury, together with substantiating documentation. Prior to August 2005, these important statements were not regularly produced, and information on budget execution at the payment stage was therefore far from comprehensive. Apart from the problem with the hybrid accounting system, some payments were made directly by the BCM and were not recorded in the treasury accounts. Moreover, the “chancellery rate” used in embassies did not reflect the real value of the ouguiya (UM). Efforts to improve the situation were begun in 2001, but have produced no tangible results in terms of the financial statements.

58 Three (3) classes of accounts are not operational: class 6, “Expense account,” Class 7, “Revenue account,” and Class 8, “Special account.”
4.47 A treasury balance was produced at the end of 2005 and was used to reconcile treasury records with those of the Central Bank of Mauritania. This balance, which constitutes a summary statement of government accounting operations for a given period of time, is computerized. It is automatically updated whenever a new transaction is centralized. The summary statement can be used to determine the net situation (of debits and credits in the opening balances, budget operations, totals and balances. There are some gaps in the summary statement, which does not cover all revenues in the budget execution accounts. Moreover, the opening balances from the budget execution accounts are not carried forward to the projected balance sheets.

4.48 It has not been possible to produce comprehensive summary accounts, because of the limitations in the accounting method used and irregular practices. The summary account should demonstrate the government’s net position and all transactions for the fiscal year that affect that net position (stocks and flows). Compiling it requires double-entry bookkeeping at all levels. According to current regulations, the Treasury’s summary account, together with substantiating documentation, is supposed to be sent to the Cour des Comptes for audit and for preparing the Budget Execution Law. The DTCP is hampered in its production by the lack of full information on State assets and liabilities. Given this situation, there is no comprehensive operating account that can be reconciled with the administrative account.

G. CONCLUSIONS AND RECOMMENDATIONS

4.49 The above analysis shows that the public financial management system suffers from inadequacies at all levels, despite efforts made in the last few months. The system as it stands does not allow rational management of the substantial revenues expected, nor does it constitute a basis for development of a modern economy. Most of the recommendations in the 2004 PER are still relevant. They are repeated here, with due regard to the new challenges revealed in the analysis of current procedures for budget programming, execution, and accounting. They have been thoroughly discussed with the Mauritanian authorities and there is overall consensus on them. Moreover, most of these measures are covered in the report of the inter-ministerial committee on governance and are reflected in the new PRSP plan of action. Their implementation will require capacity building and will be taken up, in part, by the Public Sector Capacity Building Program (PRECASP).

4.50 The existence of two budget documents prepared and executed in different ways does not contribute to efficient budget execution. Therefore it is recommended:

- to merge the two budgets (LdF and BCI) into a single document, over the medium term;
- to conduct a detailed study within the PRECASP in order to determine the best approach for integrating all State financial transactions into a single document as a move toward harmonizing expenditure execution.
- to make the budget more comprehensive by including all the PEs (for example the University of Nouakchott, the National Statistics Office, etc.) and the major EPICs such as the CNSS, which has a large budget.

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59 The Budget Execution Laws for 2001 and 2002 were prepared without a comprehensive operating account.
60 Additional resources generated by oil production, cancellation of multilateral debt, and official development assistance.
61 A US$13 million project financed by IDA, with a fiscal component of more than US$5 million.
62 The other EPICs, which are involved in industrial and commercial activities, have financial autonomy and are subject to private sector accounting rules, and would therefore remain outside the general public budget.
4.51 In terms of budget presentation, it is important that it should allow spending on social programs and poverty reduction to be tracked:

- in the short term, the administrative and economic classifications should be improved;
- introduction of a geographic component into the administrative classification is urgent in order to make operational the regional poverty reduction programs.
- it is important to continue to use the functional classification for tracking poverty reducing and social sector spending.

4.52 The government should reinforce its current policy, which is to prepare a PRSP and a global MTEF and, within that framework, a series of sectoral MTEFs that constitute operational action plans. Mauritania might consider the approach taken by Tunisia (box 4.2) in this area. The following measures are proposed:

- to set up a temporary unit within the Ministry of Finance to work solely on this reform, instead of leaving it to various operating directorates that may be preoccupied with their day-to-day activities;
- to put in place a procedural mechanism to ensure the system’s sustainability, by linking the PRSP, the sectoral strategies, the global MTEF and the sectoral MTEFs with the preparation of the State budget;
- consideration should be given to institutionalizing the budget process, using the MTEF approach and performance-based program budgets.
- the global and sectoral MTEFs should be updated annually. Preparation of the sectoral MTEFs should be extended to all sectors based on the country’s economic and social development priorities, as set forth in the overall strategy and the sectoral policies.
- the quality of medium-term forecasting of sectoral MTEF should be improved so that objectives can be reliably linked to available (or any incremental) resources.

4.53 Introduction of performance-based program budgets will require:

- amendments to budget terminology to introduce classification by program,
- amendment of the accounting and financial tracking system to include the new classification,
- and training for staff to understand clearly the goals and the methodology of program budgeting. The program budget approach should be introduced on a pilot basis in three well-run sectoral departments, such as those for the basic and secondary education, health, and water and sanitation.

4.54 Success with the reform started in 2005 for deconcentrated budget execution will require:

- specifying more closely the powers of the financial controller attached to the General Secretariat of Government vis-à-vis those of the financial controllers attached to the Ministry of Finance, and on the other hand, designating the entity within the Ministry of Finance responsible for coordinating the work of the financial controllers. In Morocco, for example, the controllers belong to the Expenditure Commitments Inspection Directorate (CED), an institutionally and hierarchically independent body located within the Ministry of Finance. The Inspection Directorate is headed by a Comptroller General. The training of future financial controllers should begin promptly, before the reform is extended to other departments.
• Statutory time limits should be set for each control procedure in order to prevent excessive payment delays.

4.55 When it comes to deconcentrating expenditure commitment and authorization to the regions, this should be done gradually, and only after budget execution has been fully deconcentrated to the line ministries. As noted above, the line ministries would become "ordonnateurs principaux," and the regional directors of the ministries must become "ordonnateurs secondaires," reporting to the CdC, which is supposed to enforce budgetary regulations. Expenditures covered by notifications of appropriations could be considered as definitive transactions and recorded as such by the local public accountant. This reform should be accompanied by the creation of financial control offices at the regional level (wilaya, moughataa, or the ministerial level). The financial controllers should send monthly reports to the DBC on the expenditures committed and authorized by the ordonnateurs secondaires at the regional level. This information would allow the DBC to settle the local administration accounts in real time. In addition, the Treasury would benefit from a revision of the system for centralizing payments made by the decentralized accounting offices (there is seldom any reconciliation between the statements of expenditures executed at the decentralized and at the central levels). This would allow for up-to-date accounting, the regular production of statements on expenditure transactions from the local managers, and the filing of substantiating documents.

4.56 The introduction of RACHAD in the ministries is essential for making any significant improvement in the effectiveness of expenditure, and for achieving the objectives of deconcentrating payment authorization in terms of reducing budget execution times. It is also important to determine and apply time limits for each officer in the expenditure chain, in order to limit the time taken to complete the transaction. Development of a payment module linking RACHAD to the Treasury would help streamline the circuit and ensure that expenses are paid on time. Over the medium term, introduction of compatible computer systems for the entire budgeting process (revenues and expenditures) and for the administrative and accounting phases will speed up budget preparation and execution, improve formal controls, and make data available more promptly. Compatible software must be used for budget execution in all ministries (MF, MAED, and the line ministries) involved in this task.

4.57 The length of the "supplementary period" should be enforced, strictly consistent with existing regulations. This period should only be used to settle expenditures authorized before the end of the fiscal year.

4.58 With respect to budget accounting, the DTCP needs to be reorganized to split off the Treasury functions. As a short-term measure:

• A unit should be set up, headed by a chief accountant who would be responsible for expenditures. A comprehensive reorganization could be envisaged with a view to creating (i) a treasury and government accounting directorate to manage the Treasury, keep accounts, and produce reports; and (ii) for external Treasury offices with a network of government accountants answering to the central directorate.

• As for the production of accounts, double-entry bookkeeping should be extended to all external treasury offices, links should be established between treasury accounting and budget accounting, and reconciliation of the BCM and treasury accounts should be further improved.

• Building on progress made in recent months, the balance of Treasury accounts should continue to be regularly posted. Accordingly, all revenue should be recorded in budget execution accounts, and the opening balances of those accounts carried forward to the projected balance sheets.
5. BUDGET CONTROL, AUDITS AND PUBLIC EXPENDITURE REVIEWS

5.1 The purpose of this last chapter is to review the evaluation of the budget control system in light of developments since the 2004 PER was finalized. The 2004 PER revealed problems with the different budget controls. Apart from the recommendations for strengthening the capacities of the financial controllers, the Cour des Comptes and Parliament, which have been carried out in part, a number of the inadequacies examined earlier still persist. The various control bodies have now been joined by a new institution, the General Inspectorate of State (Inspection Générale d’Etat, IGE), which has not resolved the problem of overlap and lack of coordination among the control institutions. The existence of these multiple control structures has not, in the recent past, assured sound management of the public finances in accordance with existing regulations, nor has it produced accountability in the use of public resources or lead to imposition of the penalties stipulated in case of irregularity or fraud.

A. IMPROVING INTERNAL AND EX POST CONTROL

Financial control

5.2 Normally, the financial controller is supposed to play an important role in ensuring the proper use of public funds. Until the end of 2004, financial control did not lie with the MF, but was placed under the General Secretariat of Government (SGG) in the Prime Minister’s office. The transfer of authority for budget execution required the introduction of a financial control office reporting to the Minister of Finance to oversee the new ordonnateurs. However, the imperatives of budget management and regulation make it necessary to return financial control to the Ministry of Finance.

5.3 Decree no. 023-2005 of March 13, 2005 instituted financial control over those ministerial departments that had the authority to authorize payments according to their budget allocations. That decree was to be followed by a number of regulations, now in preparation, for application in the ministries and in entities that receive public funds. The area of responsibility of this new financial control has been split off from that of the centralized financial control within the SGG, which remains responsible for all departments to which budget execution for their allocations has not been devolved, as well as for common expenses and payroll expenses. What is novel about this new financial control system is that it supervises budgetary compliance and no longer judges the appropriateness of the expenditure.

5.4 The establishment of these new financial controllers raises concerns of two kinds, relating directly to the oversight function. The first problem is that there are now two categories of financial controllers, without any apparent link. The ex ante control over budgetary execution by financial controllers for the departments in which they are placed is not directly linked to the financial control office in the General Secretariat of Government. The second problem has to do with organization of the financial control office, which the Ministry of Finance has not clearly specified. In addition to these problems with financial control, the relationship between the Secretary General of the line ministries and the financial directors is not sufficiently clear for instituting a payment authorization unit.

63 The control institutions are the Financial Control Office (FCO), the Internal Inspectorate of the Treasury, the Inspectorate General of Finance (IGF) of the MF, the Central Directorate for Combating Economic and Financial Crime, and the Inspectorate General of State (IGE) in the Prime Minister’s Office. The CCM (Central Procurement Commission) and the CDMs (Departmental Procurement Commissions) also play a role in overseeing procurement expenditure.
Internal control in the Treasury

5.5 The Directorate of Treasury and Public Accounting (DTCP) has an internal inspection office that conducts simple controls over cash balances and reporting. There is in fact some confusion between the duties devolved to this treasury inspectorate and the tasks of the IGF. As with the IGF, the treasury inspectorate prepares an annual work program covering the main fields of supervision. For example, in 2005, on the basis of the annual program for fiscal year 2005, the inspectorate conducted audits at Rosso, Nouadhibou, and the Atoum–Nema corridor. Implementation of the supervision program was limited by the fact that the office has only 11 agents and is inadequately equipped. To make it more efficient, it will have to be strengthened both technically (clearer definition of tasks vis-à-vis the IGF, a procedures manual) and in terms of resources (required travel).

General Inspectorate of Finance

5.6 The General Inspectorate of Finance (IGF) is supposed to conduct ex post audits of the state budget execution and to investigate instances of bad management. This office goes into action at the request of the Minister of Finance. In addition to dealing with emergencies, the office also has an annual work program that is submitted to the Cour des Comptes for information. In the past, it suffered from shortages of material and human resources, but was recently strengthened with the recruitment of additional staff. The results of its audits and investigations are not published, and it is not known whether they are used to make public expenditure more efficient.

B. Updating the Procurement Code

5.7 The Central Procurement Commission and its subdivisions, the departmental procurement commissions, are important institutions for the evaluation and control of procurement activities. The Procurement Code, adopted in 2002, laid the basis for a new regulatory framework more in keeping with accepted principles and requirements in the field of procurement. The fact that the procurement thresholds have been raised has allowed the departmental commissions of the sectoral ministries to participate in procurement. However, there have been several shortcomings in implementing the 2002 code. Apart from the fact that the execution and ex ante control structures are overloaded and do not have sufficiently qualified and motivated staff, some regulatory provisions of the 2002 code are not consistent with the internationally recognized basic principles of procurement. The limitations in the current legislation relate, among other things, to a lack of clarity in the application of the rules and the incompatibility of certain functions, in particular those of regulation, contract award, control, and appeal.

5.8 As part of administrative modernization, a review of the current procurement code (CMP) has been undertaken in order to enhance the country’s absorptive capacity by making the procurement process swifter and more transparent. That review, which began in 2005 with an institutional grant from the World Bank, should correct the weaknesses highlighted in the updated 2002 CPAR. The new government guidelines are designed to attract more interest in government procurement on the part of private suppliers, both domestic and international, and to reduce the time and costs associated with the procurement of goods and services by the Mauritanian government. The proposed reform program addresses three aspects:

- establishing an institutional framework that will take into account the need to keep separate the different functions of procurement, i.e. regulation, contract award, control, and recourse; the preparation and adoption of regulations for application; and the publication and distribution of standard bidding documents and contract forms;

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64 Decree 2002-08 of February 12, 2002 and Order R 0540 of May 15, 2002 on thresholds.
65 An IDF of US$349,000 was provided in December 2004 to assist the government.
• bringing fiscal provisions governing procurement into line with internationally recognized practices for trade and imports; and finally;
• strengthening capacities and structures through a permanent program of training in public procurement, and support for the procurement regulatory function, including monitoring and evaluation of the system’s performance.

5.9 The proposed action plan calls for a complete overhaul of the CMP and establishment of a complete, consistent, and functional system to re-assert the principles of transparency and efficiency in the award of public contracts, by June 2006. It stresses the need to reorganize the institutional framework in order to promote the five essential pillars of a properly functioning procurement system:

• establishment of a regulatory body;
• introduction of an *ex ante* procurement control system separate from the contract award function, in order to guarantee transparency in the allocation of contracts;
• provisions for legal appeal;
• existence and application of sanctions; and
• systematic publication of procurement plans as well as bid evaluation proceedings.

C. COMBATING CORRUPTION

5.10 The Mauritanian authorities appear currently to attach great importance to the fight against corruption. The preparation and implementation of an anticorruption strategy is called for in the report of the Inter-ministerial Committee on Good Governance, and in the Poverty Reduction Strategy Paper. This determination is also reflected in the establishment of the Inspectorate General of State (IGE).66

5.11 The IGE reports directly to the Prime Minister (PM). It has a general and permanent mandate for supervision, investigation and inspection, dealing among other things with the proper management of public affairs and the evaluation of public policies and programs. It was created following the coup d'état of August 2005, and has been given an important role in implementing the new authorities’ commitments to good governance. It conducts its work in accordance with an annual program, and upon referral by the Prime Minister. Because it is a new entity, it does not yet have sufficient human and material capacities to carry out its activities fully. The results of its investigations are submitted to the Head of Government (the PM).

5.12 The Central Directorate to Combat Economic and Financial Crime was created in July 2004. It falls under the Ministry of the Interior, Posts and Telecommunications. It is involved, among other things, in investigating tax fraud and public corruption (it is not involved in preventing money laundering).

D. REINFORCING JUDICIAL AND PARLIAMENTARY CONTROL

5.13 The *Cour des Comptes* (CdC), created in 1993, is making gradual progress in accomplishing its tasks as defined by law. The provisional report on judicial control for 2001 is awaiting response from the Treasurer General, and a start has been made on the report for 2002. With respect to the Budget Execution Laws, those for 2001 and 2002 have been adopted by parliament. On the other hand, the Budget Execution Laws for 2003 and 2004 have posed great problems, in part because of missing documentation and the difficulty of locating off-budget expenditures. To remedy this situation, a formula will have to be found, either in the form of a new *loi d'apurement* (law closing books) or a simple fact-finding report.

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66 The IGE was created in September 2005.
The lack of a unit responsible primarily of producing updated account balance sheets and preparing the necessary statements is a source of major delays. Concerning judicial control and the Budget Execution Law, the CdC depends on prior input from the Treasury. For this reason, strengthening the Treasury must include a strengthening of control. In addition, the publication in 2006 of the full annual report will consolidate efforts to improve the quality of controls. The CdC also plans to institute performance audits, including sanctions for faulty management.

5.14 Parliamentary control was the responsibility of the two chambers, which were dissolved after August 3, 2005. Until that time, however, the National Assembly had been receiving technical assistance, since September 2004, from the GTZ, including training in public finance issues. The training cycle, which had started with training in budget preparation, was interrupted by the coup d'état. The report on the Budget Execution Law was subjected to in-depth debate in the Finance Committee and the Audit Court, resulting in a long list of recommendations to the government. This was followed by extensive debate in the plenary session.

E. MAIN PROBLEMS RELATED TO AUDITS

5.15 Audit results are not published in Mauritania, regardless of the entity producing them. Moreover, the work of the Auditor General is rarely subjected to external quality control. There has as yet been no resort to private sector auditors, who might be able to verify government transactions on behalf of the Auditor General. However, externally funded projects, including those financed from World Bank loans, are audited by private sector auditors.

5.16 The audits have revealed anomalies and irregularities of various kinds. Problems relate most often to the quality of documentation, failure to follow proper competition procedures, splitting of contracts, and timing inconsistencies in the expenditure stages. Some irregularities are caused by unfamiliarity with the laws and lack of training. Others arise from violations of regulations, which disrupt the proper functioning of public finances.

5.17 For example, the absence of legally required identification on documents submitted by suppliers is one of the inadequacies noted. This practice has two direct consequences for the public purse:

- it facilitates tax evasion, as it supports unidentified suppliers over those who fulfill their tax obligations;
- it frustrates competition, since without identification it is difficult to determine inter-business relationships in order to ensure that there is real competition among bidders.

5.18 In fact, the main problem encountered during the audits is the absence of substantiating documentation on public expenditures. This shortcoming in terms of record-keeping makes it difficult to prove competition during procurement procedures, or to substantiate expenditures such as salaries, bonuses, or scholarships. This problem goes beyond mere record keeping, however, and will have to be addressed in detail. If it persists, the government will be incapable of rendering accounts, and this will impede achievement of its commitments to good governance, and to combating corruption in particular.

F. MONITORING AND EVALUATION OF PUBLIC EXPENDITURES

5.19 Regardless of the sector, the expenditure tracking and evaluation system is defective in Mauritania. The rules do not require the MF to undertake a systematic evaluation of a given percentage of spending for programs and projects. Moreover, the results of ad hoc evaluations are of little use in

67 Address, business registration number, tax number.
budgetary decisions, and are not sufficiently disseminated. There are no surveys of users and clients in the various ministries to evaluate their degree of satisfaction with the services offered. Nor are any investigations such as expenditure tracking surveys conducted to determine possible bottlenecks. The first survey of this kind is now being prepared in the health sector. Current practices in the system for allocating public resources and taking budget decisions provide little incentive for the sectoral departments to evaluate the policies implemented.

5.20 A committee was established in 2001 to monitor the programming and execution of HIPC funding. That committee includes the MF, the MAED and several sectoral departments. It produced quarterly and annual reports on budget execution over the period 2001-2004, intended primarily for donors. This certainly marked a beginning, but the tracking and evaluation of public spending needs to be broadened to other sources of financing and to all policies. Moreover, the outcomes of these evaluations should be made more widely known.

5.21 With respect to the tracking and evaluation of external financing handled by the MAED, there are number of problems. The MAED does not publish comprehensive information on donor support or any evaluation of the use of these resources for policy purposes. We notice a lack of information regarding actual disbursements which means that financial monitoring is exclusively based on disbursement requests sent to donors. These requests can be denied or delayed by moths while exchange rate fluctuations continue affecting the accuracy of the financial data. This is one of the factors impacting negatively the planning of investment spending. Additional problems are the unavailability of data regarding physical monitoring and the lack of efficient monitoring tools.

5.22 The Mauritanian government, and in particular the MF and the MAED, do not have the capacity to conduct a rigorous examination of budget proposals based on cost effectiveness and cost-benefits analysis. This fact explains the problems found at the budgeting stage.

G. CONCLUSIONS AND RECOMMENDATIONS

5.23 The strengthening of control and supervisory institutions is a priority on the government’s agenda for improving the effectiveness and transparency of the management of public assets. Therefore, it is recommended to continue the following measure:

- it would be desirable for the various supervisory institutions to work together in establishing their annual programs, so as to avoid both duplication of effort and unnecessary inconvenience to the institutions they supervise.
- greater coordination would also allow for better coverage of supervision.
- given the resource constraint, there is an urgent need to look closely at the main objectives of supervision and the expected results. In some cases, amendments to legislation and regulations and revisions to procedures could diminish significantly the possibilities for embezzlement or corruption.

5.24 When it comes to prosecuting crimes detected by the supervisory institutions, it would be useful: (i) to create a division within the Public Prosecutor’s office to deal with “economic and financial crimes”; and (ii) as for parliament, to reinforce external oversight by creating new channels between parliament and the CdC.68 Submission of a mid-term budget execution report by the MF to parliament would also be useful to the supervisory institutions and would contribute to transparency.

68 Through legislation, debate on the comprehensive annual report in the presence of the President of the CdC, the possibility of having parliament refer matters to the CdC, etc.
5.25 With respect to the procurement system, if the reform program is to succeed to promote competition, to prevent corruption, and to foster transparency and accountability in management of the public purse, it will have: (i) to involve all stakeholders at the various stages of revising the code to ensure that the procurement offices will feel ownership over it; and (ii) the rules to be established should be enforced impartially so as to help create a stable and well-regulated environment.

5.26 The audit and control system will only function efficiently if the public administration makes the considerable efforts needed to improve the record keeping system. This will require training for staff in charge of the supporting documentation that must accompany any public expenditure at each stage of the budget circuit. Respect for the basic rules is fundamental in this area.

5.27 The monitoring and evaluation capacities of the MF and the MAED must be strengthened so that the various officials involved can determine the extent to which the resources employed have achieved the expected objectives. An effective tracking and evaluation system, involving all stakeholders, could provide important indications when it comes to deciding whether to expand the scope of a program, to modify it, or to terminate it. The monitoring of HIPC expenditures should be extended to all poverty reduction spending, and should include an evaluation of its impact.
ANNEXES
Annex 1: Selected Macro-Economic Indicators (2001-2006)

Table 1. Mauritania: Selected Economic and Financial Indicators, 2001–06

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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<tr>
<td><strong>National income and prices</strong></td>
<td></td>
<td></td>
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<tr>
<td>GDP at constant prices 1/</td>
<td>2.9</td>
<td>1.1</td>
<td>5.6</td>
<td>5.2</td>
<td>5.4</td>
<td>19.3</td>
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<tr>
<td>Non-oil GDP at constant prices</td>
<td>2.9</td>
<td>1.1</td>
<td>5.6</td>
<td>5.2</td>
<td>5.4</td>
<td>6.7</td>
</tr>
<tr>
<td>GDP deflator 1/</td>
<td>7.9</td>
<td>7.8</td>
<td>2.5</td>
<td>11.5</td>
<td>16.9</td>
<td>44.4</td>
</tr>
<tr>
<td>Non-oil GDP deflator</td>
<td>7.9</td>
<td>7.8</td>
<td>2.5</td>
<td>11.5</td>
<td>16.9</td>
<td>8.8</td>
</tr>
<tr>
<td>Consumer price index (period average)</td>
<td>7.7</td>
<td>5.4</td>
<td>5.3</td>
<td>10.4</td>
<td>12.1</td>
<td>6.5</td>
</tr>
<tr>
<td>Consumer price index (end of period)</td>
<td>4.1</td>
<td>8.4</td>
<td>2.9</td>
<td>16.1</td>
<td>5.8</td>
<td>8.1</td>
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**External sector**

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<th>2004</th>
<th>2005</th>
<th>2006</th>
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<tbody>
<tr>
<td>Exports of goods, f.o.b. (percentage change in U.S. dollars)</td>
<td>1.6</td>
<td>-7.7</td>
<td>-4.4</td>
<td>38.0</td>
<td>36.6</td>
<td>213.2</td>
</tr>
<tr>
<td>Of which: non-oil</td>
<td>1.6</td>
<td>-7.7</td>
<td>-4.4</td>
<td>38.0</td>
<td>36.6</td>
<td>27.9</td>
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<tr>
<td>Imports of goods, f.o.b. (percentage change in U.S. dollars)</td>
<td>2.4</td>
<td>-7.3</td>
<td>25.7</td>
<td>70.3</td>
<td>50.3</td>
<td>-12.9</td>
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<tr>
<td>Imports of goods, f.o.b. (percentage change in U.S. dollars)</td>
<td>-7.0</td>
<td>-7.6</td>
<td>22.1</td>
<td>33.7</td>
<td>14.7</td>
<td>17.4</td>
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<tr>
<td>Official transfers (in percent of GDP)</td>
<td>7.5</td>
<td>6.1</td>
<td>7.2</td>
<td>4.1</td>
<td>3.8</td>
<td>2.5</td>
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<tr>
<td>Current account balance (in percent of GDP)</td>
<td>-11.0</td>
<td>3.7</td>
<td>-18.6</td>
<td>-35.0</td>
<td>-50.0</td>
<td>3.5</td>
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<tr>
<td>Current account balance (in percent of GDP)</td>
<td>-6.0</td>
<td>8.3</td>
<td>-7.0</td>
<td>-12.4</td>
<td>-7.9</td>
<td>-9.1</td>
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<tr>
<td>Overall balance (in percent of GDP)</td>
<td>-6.9</td>
<td>-1.8</td>
<td>-9.5</td>
<td>-7.3</td>
<td>-4.0</td>
<td>4.8</td>
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**Official reserves**

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<th>2003</th>
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<tbody>
<tr>
<td>Gross official reserves (in millions of US$, end-period) 3/</td>
<td>40</td>
<td>74</td>
<td>32</td>
<td>39</td>
<td>70</td>
<td>152</td>
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<tr>
<td>in months of following year’s imports of goods and services 2/</td>
<td>0.9</td>
<td>1.4</td>
<td>0.4</td>
<td>0.5</td>
<td>0.7</td>
<td>1.4</td>
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**Money and credit**

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<th>2005</th>
<th>2006</th>
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<td>Money and quasi-money</td>
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<tr>
<td>Currency in circulation</td>
<td>17.6</td>
<td>17.7</td>
<td>47.5</td>
<td>-3.4</td>
<td>14.8</td>
<td>12.8</td>
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**Consolidated government operations**

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<th>2004</th>
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<th>2006</th>
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<tr>
<td>Revenue and grants</td>
<td>24.7</td>
<td>34.8</td>
<td>35.4</td>
<td>32.9</td>
<td>26.4</td>
<td>43.0</td>
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<tr>
<td>Revenue and grants (excluding oil)</td>
<td>24.7</td>
<td>34.8</td>
<td>35.4</td>
<td>32.9</td>
<td>26.4</td>
<td>26.1</td>
</tr>
<tr>
<td>Income, excluding grants</td>
<td>20.7</td>
<td>30.4</td>
<td>30.7</td>
<td>29.7</td>
<td>24.4</td>
<td>23.6</td>
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<tr>
<td>Oil revenue 4/</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>17.0</td>
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<tr>
<td>Expenditure and net lending</td>
<td>35.0</td>
<td>37.6</td>
<td>47.2</td>
<td>37.7</td>
<td>33.5</td>
<td>32.6</td>
</tr>
<tr>
<td>Overall balance including grants</td>
<td>-10.3</td>
<td>-2.9</td>
<td>-11.8</td>
<td>-4.8</td>
<td>-7.0</td>
<td>10.5</td>
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<tr>
<td>Overall non-oil balance excluding grants</td>
<td>-14.3</td>
<td>-7.2</td>
<td>-16.4</td>
<td>-8.0</td>
<td>-9.1</td>
<td>-8.9</td>
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<tr>
<td>Overall non-oil balance including grants</td>
<td>-10.3</td>
<td>-2.9</td>
<td>-11.8</td>
<td>-4.8</td>
<td>-7.0</td>
<td>-6.5</td>
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**Memorandum items:**

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<th>2005</th>
<th>2006</th>
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</thead>
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<tr>
<td>Ouguiya/US$ exchange rate (end of period)</td>
<td>264.1</td>
<td>288.7</td>
<td>266.6</td>
<td>266.2</td>
<td>268.6</td>
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<td>Exports, f.o.b. (in millions of U.S. dollars)</td>
<td>355</td>
<td>328</td>
<td>314</td>
<td>433</td>
<td>604</td>
<td>1,862</td>
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<tr>
<td>Imports, f.o.b. (in millions of U.S. dollars) 2/</td>
<td>415</td>
<td>383</td>
<td>468</td>
<td>625</td>
<td>716</td>
<td>843</td>
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<tr>
<td>Nominal GDP (in billions of ouguiya)</td>
<td>287</td>
<td>312</td>
<td>338</td>
<td>397</td>
<td>497</td>
<td>857</td>
</tr>
<tr>
<td>Nominal non-oil GDP (in billions of ouguiya)</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>577</td>
</tr>
<tr>
<td>Nominal GDP (in millions of U.S. dollars)</td>
<td>1,122</td>
<td>1,150</td>
<td>1,285</td>
<td>1,495</td>
<td>1,871</td>
<td>3,189</td>
</tr>
<tr>
<td>Population (in millions)</td>
<td>2.57</td>
<td>2.63</td>
<td>2.89</td>
<td>2.76</td>
<td>2.82</td>
<td>2.89</td>
</tr>
<tr>
<td>GDP per capita (in U.S. dollars)</td>
<td>437</td>
<td>437</td>
<td>477</td>
<td>542</td>
<td>663</td>
<td>1,103</td>
</tr>
<tr>
<td>REER (12-month percentage change; end of period) 5/</td>
<td>4.5</td>
<td>-0.3</td>
<td>-13.4</td>
<td>8.1</td>
<td>8.7</td>
<td>0.3</td>
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</table>

Sources: Mauritanian authorities; and Fund staff estimates and projections.
1/ The large increase in the GDP deflator in 2006 (and the relatively low increase in real GDP for this year) reflect the authorities’ choice of 1998 as the base year for the calculation of national accounts at constant prices. Oil prices were at a low in 1998.
2/ Excluding oil exploration/production and other mining (copper, gold)-related activities.
3/ Excluding oil account.
4/ Including oil signature bonuses.
5/ In 2006: estimates through end-May.
Figure A1.2: Real Exchange Rate (1999-2005)

Source: IMF
Annex 2: Fiscal Revenues in Mauritania

Important fiscal reforms have been introduced among the various actions undertaken since 1995. Several of those reforms aim at reducing tax rates and simplifying tax procedures in order to establish a favourable environment for business activity and investment. The following table presents an evolutionary comparison of rates before the reforms of 1995 and the current situation.

**Table A2.1: Selected Tax Rates**

<table>
<thead>
<tr>
<th>Nature of the tax</th>
<th>Before the 1995 reforms</th>
<th>Situation in 2006</th>
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</thead>
<tbody>
<tr>
<td>Tax on industrial and commercial profits (BIC)</td>
<td>40%</td>
<td>25%</td>
</tr>
<tr>
<td>Minimum presumptive tax (IMF) (4% of turnover)</td>
<td>25% deductible</td>
<td>100% deductible</td>
</tr>
<tr>
<td>Deficit Report</td>
<td>3 years</td>
<td>4 years</td>
</tr>
<tr>
<td>Value-added tax (TVA)</td>
<td>0% / 5% / 14%</td>
<td>0% / 14%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>linear</td>
<td>Downward per case</td>
</tr>
<tr>
<td>BIC/forfeit : scale</td>
<td>13 levels</td>
<td>5 levels</td>
</tr>
<tr>
<td>General income tax (IGR) : Scale</td>
<td>11 levels</td>
<td>5 levels</td>
</tr>
<tr>
<td>Tax on income from property (IRF): exemption</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Tax on non-commercial profits (BNC)</td>
<td>-</td>
<td>Set up of a 4% pre-account</td>
</tr>
</tbody>
</table>

Source: MF

**Direct fiscal reform** is responsible for 3 objectives: simplification, growth and fairness of the tax system. It plays a critical role in ensuring macro-economic stability, correcting income inequalities and promoting the development and diversification of the private sector. Started in 1995, the reform continued during the years 2001-2004 with the following initiatives:

- Gradual reduction of the tax on industrial and commercial profits (BIC): the tax rate has gone down from 40% to 35% in 2001, 25% in 2002 and 20% in 200 before going back to 25% in 2004;
- Full deduction on minimum presumptive tax (IMF) imposed on BIC: This deduction went from 25% to 50% in 2000, then 75% in 2001 and 100% in 2002;
- Extension of deficit report period to 5 years instead of 3;
- Introduction of option of regressive depreciation: This enables companies to reduce or increase their cash flow by deducting all deficits incurred in the first years of operation;
- Standardization of value-added tax (TVA) rates at 14% (2001), with a 0% rate on some products;
- Implementation of reimbursement processes for TVA on investment;
- Improvement of services to large taxpayers with the set-up of the large taxpayer unit (*Direction des Grandes Enterprises*);
- Reform of the tax on wages and salaries (ITS)\(^{69}\): The scale was simplified (from 11 to 2) and the rate reduced (from 40% to 15%) with an exemption of amounts under 10,000 UM;
- Simplification of the general income tax (IGR) with brackets reduced from 11 to 6 and the maximum applicable rate lowered from 40% to 39%.

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\(^{69}\) In 2006, reforms are planned to bring back the maximum rate to 35% with an exemption up to UM 21,000 UM.
The reform of external finances went on with the implementation of the following principles:

- Reduction of custom rights on equipments to a common rate of 5%;
- Reduction of holding time on merchandise in optional storage and the limitation of the type of product allowed to be held;
- The application of a "régime spécial de remise de droits" (drawback);
- Improvement of evaluation practices by the inclusion in the finance law of 2002 of new measures on customs evaluation (in June 2002, the customs administration adopted legal measures in line with GATT and now use the transactional value as the evaluation tool for imported products);
- Set up of a reimbursement process for exporting companies.

Despite the implementation of the listed improvements, public finances continue to endure major challenges: a permanent weakness in terms of information on contributors, existence of sectors that are not being taxed, a lack of monitoring of non-compliant companies, low collections from the real estate tax, a lack of fully computerized systems at the port and at the Customs head office, insufficient means to fight fraud, etc..
### Annex 3: Evolution of Poverty and Social Indicators

<table>
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<tr>
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<tbody>
<tr>
<td><strong>Poverty</strong></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Incidence of poverty at national level</td>
<td>56.6%</td>
<td>54.3%</td>
<td>51.0%</td>
<td>46.7%</td>
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<tr>
<td>Incidence of extreme poverty at national level</td>
<td>34.1%</td>
<td>27.9%</td>
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<tr>
<td>Poverty depth</td>
<td>19.3%</td>
<td>15.3%</td>
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<tr>
<td>Gini index</td>
<td>34.0%</td>
<td>39.0%</td>
<td>39.3%</td>
<td></td>
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<tr>
<td>Incidence of poverty in rural area</td>
<td></td>
<td></td>
<td>66.1%</td>
<td>59.0%</td>
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<tr>
<td><strong>Education</strong></td>
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<tr>
<td>Gross primary enrollment rate</td>
<td>46.0%</td>
<td>82.0%</td>
<td>87.0%</td>
<td>95.1%</td>
</tr>
<tr>
<td>Gross primary enrollment rate for girls</td>
<td></td>
<td></td>
<td></td>
<td>78.8%</td>
</tr>
<tr>
<td>Proportion of pupils starting grade 1 who finish grade 5</td>
<td>55.0%</td>
<td>48.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of girls starting grade 1 who finish grade 5</td>
<td>51.0%</td>
<td>44.0%</td>
<td></td>
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</tr>
<tr>
<td>Adult literacy rate</td>
<td>42.8%</td>
<td>42.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>54</td>
<td>57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infant mortality rate (per thousand)</td>
<td>87</td>
<td>106</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infant -child mortality rate (per thousand)</td>
<td>137</td>
<td>122</td>
<td>135</td>
<td>123</td>
</tr>
<tr>
<td>Proportion of births attended by qualified health personnel</td>
<td>56.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maternal mortality rate (per thousand)</td>
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<td></td>
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<tr>
<td>HIV/AIDS prevalence rate</td>
<td>0.5%</td>
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<tr>
<td>Proportion of population living within 5 kilometers of health services</td>
<td>67.0%</td>
<td>73.0%</td>
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<tr>
<td>Malnutrition rate</td>
<td>47.6%</td>
<td>32.0%</td>
<td>30.2%</td>
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<td><strong>Water, sanitation and electricity</strong></td>
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<tr>
<td>Proportion of population with access to a potable water source</td>
<td>60.4%</td>
<td>63.7%</td>
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<tr>
<td>Rate of water supply through an indoor tap</td>
<td>35.0%</td>
<td>45.0%</td>
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<tr>
<td>Proportion of population with access to improved sanitation</td>
<td>48.0%</td>
<td>49.0%</td>
<td></td>
<td></td>
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<tr>
<td>Proportion of population with access to electricity</td>
<td>18.0%</td>
<td>23.8%</td>
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</tbody>
</table>

**Sources:** ONS
Annex 3A: Geographical Distribution of Poverty According to 2004 EPCV

Situation de pauvreté par wilaya en 2004

Source: ONS
Annex 4: Evolution of Public Expenditures
Public expenditures according to the economic classification and modality of execution
(as a % of GDP)

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<td>Total expenditures</td>
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<td>30.7</td>
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<td>Current expenditure</td>
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<td>Compensation of employees</td>
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<td>4.5</td>
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<td>Budget</td>
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<td>4.1</td>
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<td>0.8</td>
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<td>Good and services</td>
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<td>0.1</td>
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<td>0.8</td>
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<td>Subsidies</td>
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<td>1.6</td>
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<td>2.1</td>
<td>2.5</td>
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<td>1.2</td>
<td>1.2</td>
<td>1.4</td>
<td>1.3</td>
<td>1.5</td>
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<td>1.4</td>
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<td>0.4</td>
<td>0.4</td>
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<td>0.1</td>
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Source: GRIM (2004c)
### Table A4.2: Economic Classification of Off-Budget Expenditure (in UM Billion)

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Source: MF
# Annex 5: Cost Planning for PRSP-I PAP

## Table A5.1: Cost (in UM million) of Action Plan for PRSP Priorities for Period 2002-2004

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</tr>
<tr>
<td><strong>Total</strong></td>
<td>19,289</td>
<td>20,997</td>
<td>20,787</td>
<td>76,073</td>
</tr>
</tbody>
</table>

Source: The PRSP was initially prepared in 2001 and monitoring reports were completed successively in 2002, 2003 and 2004 with an updated version of the costs of the action plan.

NB: In the analysis presented in chapter 3, the estimations used for the comparison of BCI were based on the 2004 cost estimations.
Annex 6: Implementation Status for the Recommendations of the 2004 PER

<table>
<thead>
<tr>
<th>AREAS OF INTERVENTION</th>
<th>MEASURES TO TAKE IN 2004</th>
<th>MEASURES TO TAKE IN 2005</th>
<th>MEASURES TO TAKE IN 2006</th>
<th>IMPLEMENTATION UPDATE AS OF APRIL 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. BUDGET PREPARATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global MTEF and MTEF by sector/LDF</td>
<td>- Based on the PRSP, update global MTEF and the main sectoral MTEFs (health, water, energy) for 2005-07. - Finance law for 2005 prepared on the basis of the global MTEF.</td>
<td>- Based on PRSP, update global MTEF and the main sectoral MTEFs (health, water, energy) for 2006-08. - Finance law for 2006 prepared on the basis of the global MTEF.</td>
<td>- Based on PRSP, update global MTEF and the main sectoral MTEFs (health, water, energy) for 2007-09. - Finance law for 2007 prepared on the basis of the global MTEF.</td>
<td><strong>Weak improvements:</strong> Process re-activated in 2006 with the preparation of a draft global MTEF that should serve as the basis for the preparation of sectoral MTEFs and the LDF 2007.</td>
</tr>
<tr>
<td>Harmonization of budgetary procedures</td>
<td>- Prepare procedures to integrate the BCI into the LDF.</td>
<td>- Implement procedures to integrate the BCI into the LDF.</td>
<td>- Finalize implementation of procedures to integrate the BCI into the LDF.</td>
<td><strong>No progress</strong></td>
</tr>
<tr>
<td>Integration of all state resources in the LDF</td>
<td>- Review off-budget public revenues and applicable procedures.</td>
<td>- Integrate all state revenues in the 2006 LDF - Design accounting and disbursement system for oil revenues.</td>
<td>- Integrate all state revenues in the 2007 LDF - Establish accounting and disbursement system for oil revenues.</td>
<td><strong>Improvement:</strong> Creation of the oil fund in 2006 to receive all revenues resulting from oil production.</td>
</tr>
</tbody>
</table>

66
<table>
<thead>
<tr>
<th>AREAS OF INTERVENTION</th>
<th>MEASURES TO TAKE IN 2004</th>
<th>MEASURES TO TAKE IN 2005</th>
<th>MEASURES TO TAKE IN 2006</th>
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</tr>
</thead>
</table>
| Deconcentration of budget (toward ministries) | - Adopt regulations concerning budget deconcentration and execution at ministerial level.  
| Deconcentration of budget (toward regions) | [Measures concerning the deconcentration to the spending ministries -- see above] | - Launch revision of texts concerning deconcentration of budget execution at the regional level. | - Implement texts regarding deconcentration of budget execution to pilot regions. | No progress |
| Simplification and computerization of expenditure cycle | - Begin project of simplification and computerization of expenditure cycle (goods and services). | - Implement computer application at the central level starting January 2005. | - Redefine role of the DBC in the expenditure chain at the central level. | Weak Improvements: Computer application is available but not being used. Effective use possible in 2006 at the MF and Ministry of Primary and Secondary Education. |
| Off-budget expenditure | - Review all exceptional procedures of public expenditure execution. | - Prepare and adopt action plan regularizing exceptional procedures | - Accomplish action plan | No progress |
| Public Accounting | - Prepare and adopt an action plan aimed at developing and consolidating computerization of public accounting. | - Computerize public accounting at central level.  
- Produce monthly account statements.  
- Prepare action plan to reorganize DTCP.  
- Prepare state asset accounting system. | - Achieve total computerization of public accounting at the central level.  
- Computerize accounting operations at decentralized levels (regions and departments).  
- Establish state asset accounting system. | Weak Improvements: Progress with regard to treasury statement; other areas remain unchanged. |
<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Reform of procurement procedures</td>
<td>- Adopt and send to the Council of Ministers a note presenting options for reform of procurement code.</td>
<td>- Adopt and implement (in December 2005) new procurement code. - Adopt and begin use of standard documents and manual of procedures, revised based on the new code.</td>
<td>- Monitor application of new procurement procedures and evaluate efficiency of approval process through audit conducted by independent experts.</td>
<td>Weak Improvements: Recruitment of technical assistance for the revision is ongoing with the possibility of finalization in 2006.</td>
</tr>
<tr>
<td>Institutional Framework</td>
<td>- Set up a permanent supporting unit for public procurement in the relevant ministries.</td>
<td>- Adopt regulations reorganizing procurement commissions. - Aim to establish permanent supporting unit for public procurement in other ministries.</td>
<td>- Generalize establishment of permanent support unit for procurement in all ministries and state institutions.</td>
<td>No progress</td>
</tr>
</tbody>
</table>
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