

INTEGRATED FRAMEWORK FOR TECHNICAL ASSISTANCE FOR TRADE DEVELOPMENT IN LEAST DEVELOPED COUNTRIES

Mauritania - An Integration and Competitiveness Study Terms of Reference

1. GENERAL OBJECTIVE OF THE INTEGRATED FRAMEWORK (IF)

The Integrated Framework (IF) was established by WTO trade ministers in 1996 to promote the integration of the least developed countries (LDCs) into the global economy.¹ This was in response to the slow progress of the LDCs in successfully integrating into the world economy. Participating agencies include the WTO, the IMF, the International Trade Center, UNDP, UNCTAD, and the World Bank (WB). Progress in mobilizing donor support proved difficult, and the program started slowly. An independent review of the IF, completed in June 2000, highlighted the lack of linkages to overall development strategies or programs and the absence of donor resources. Following the meeting of the Heads of Organizations last summer, the IF was redefined to ensure better integration of trade with national development strategies and complemented by a trust fund for IF activities. A specific objective of the IF was to increase the benefits that Least Developed Countries (LDCs) derive from trade-related Technical Assistance (TA) made available to them by the international community.

The revised IF work program in a country starts with the preparation of a diagnostic trade integration study that will cover the competitiveness of the LDC economy and of the sectors that are engaged in international trade or have such potential. This study is to be undertaken by a team of local and international experts, relying on a fully participatory process and will have major capacity building effects in the country. The World Bank takes the lead in this task, while funding is provided by a trust fund financed by the multilateral and bilateral agencies participating in the initiative supplemented by resources of international agencies in terms of staff contributions. Based on the findings of the diagnostic study, the team will suggest a program of TA to strengthen the overall

¹ This comprises a group of 49 mostly African countries, and Cambodia, Myanmar, Samoa, Lao Peoples Democratic Republic, Solomon Islands, Tuvalu, Kiribati, Vanuatu in East Asia; Afghanistan, Bangladesh, Nepal, Bhutan Maldives in South Asia; Yemen in MENA; and Haiti in LAC.

competitiveness of the economy and of the sectors that were selected for more detailed analysis. A draft IF report will be presented to the Government and the donor community for discussion and action. Also, a “trade specific” workshop or seminar will be held in the country to discuss the draft report with relevant parties, including the donor community, chambers of commerce, and civil society, with a view to raising the profile of trade issues within the overall context of the PRSP. Government is expected to include the major conclusions in the updated PRSP document.

The IF initiative has decided to start the process with three pilot countries, the results of which are expected to be concluded by November 2001.

Consultations with stakeholders

A precondition for undertaking the integration studies is that there is a commitment to incorporate trade analysis into the PRSP process. This process involves a variety of participation and consultation mechanisms with stakeholders, so that discussions on trade will occur as part of the broader participatory mechanisms associated with the preparation of PRSPs. However, these should be supplemented by at least one ‘trade specific’ workshop or seminar in the country to discuss the draft report with relevant parties, including the donor community, chambers of commerce, and civil society, with a view to raising the profile of trade issues within the overall context of the PRSP.

In the case of Mauritania, WTO, ITC and UNDP will join the mission at the Consultation Meeting on Trade conference on June 10-11 in Mauritania where the government of Mauritania’s document on trade strategy (October 2000) will be discussed. UNCTAD will join the mission for a tourism sector analysis. IMF and WTO will provide input for macro and trade regime sections.

There will be a workshop at the end of the mission with all partners. Once the draft report is prepared a second mission and a series of workshops will take place and the PRSP process will start.

The government will establish a steering of which the resident representatives of the UNDP and of the World Bank will be members, as well as national counterparts to the mission members.

Capacity-building

Efforts will be made to involve local consultants and representatives of the private sector and think tanks in the preparation of the integration study and sectoral action plans. To some extent it is envisaged that this will occur through working with counterpart national PRSP teams that are responsible for the trade agenda.

In the case of Mauritania, the livestock section of the report will be prepared by a local consultant who is being identified with the help of the resident mission of the World

Bank. The counterpart team from the Mauritania government working on the report will be made up of representatives from The Ministry of Trade, Artisanal and Tourism, Ministry of Economic Affairs and Development, Ministry of Fisheries, Ministry of Finance, Ministry of Rural Development and Environment and the Central Bank of Mauritania. Consultations will be made with representatives of professional organizations and universities.

Time frame

It is envisaged that the pilot scheme will proceed in two stages, given the overall objective of developing a vision and strategy designed to increase exports significantly. The World Bank will lead missions to each country. Other IF core agencies will be involved, based on the objectives of mission and the expertise required. Missions will update existing information and assess the macroeconomic, trade policy and investment environment, including the role of exchange rate management, impact of market access barriers confronting potential exports from the country concerned, using feedback from the mission and country counterparts to identify the products concerned, and other sectoral issues that will be identified for each country.

On the basis of this data collection and analysis of the internal and external environment confronting investors in the country in general, and the key sectors in particular, a draft report will be prepared by the mission members - which will comprise international consultants and local experts. A workshop will be held to disseminate the preliminary results of the mission. The draft report will be discussed with stakeholders (, Government Agencies, entrepreneurs, civil society) as part of a second, follow-up mission. The second mission will organize a consultation workshop for key players, and will assist the counterpart national PRSP team to complete the integration strategy. This will include a determination of technical assistance needs, a discussion of major findings and a process to incorporate the conclusions into the PRSP. The country's PRSP timetable would ideally provide enough lead time to integrate trade issues into the PRSP. However, given the dynamic nature of the PRSP process, this is not a binding constraint.

The IF initiative has decided to start the process with three pilot countries, the results of which are expected to be concluded by November 2001.

2. SELECTION OF MAURITANIA IN THE PILOT PROGRAM

Mauritania was included in the pilot program for the following reasons. *One* is a significant interest shown by the Government for support in trade integration into the global and regional economy, and their request to the World Bank to undertake a trade integration study as a basis for their program. *Second*, the Government has shown great resolve to own and develop the PRSP process; a Consultative Group meeting is scheduled for December 2001, and its findings will be included in the updated PRSP that will then be presented to the Boards of the WB and the IMF. Third the October 2000

document on Trade Strategy, prepared by the Ministry of Trade, Artisanal and tourism sets the stage for this diagnostic study.

3. OVERALL STRUCTURE OF THE REPORT

The study will be led by Mr. Luc De Wulf who will lead the mission and be responsible for the delivery of the draft and the final report.

The diagnostic study will consist of the following sections:

First, a review and analysis of the country's economic and export performance. This would include real per capita growth, poverty trends, and integration performance in a historical and international perspective. Particular attention will be paid to indicators of per capita income, trade and integration performance vis-à-vis those of comparator countries. Analysis will focus inter alia on trends in export and import to GDP ratios, FDI as a share of GDP ratio, type of FDI (by sector), the speed and extent of export diversification (across products and markets), intra-industry trade trends (horizontal and vertical; role of global production sharing and processing trade), the composition of imports (share of capital goods, intermediates), international telecommunication traffic, composition of employment, dependence on agricultural production, etc., as well as sources of foreign exchange earnings by sector (including services). The analysis of these indicators will be forward as well as backward looking.

This will be undertaken by a consultant in headquarters. (not yet identified)

Second, a description and assessment of the macroeconomic environment. Particular emphasis will be placed on the behavior of the real exchange rate. The objective here is to assess the incentive regime that confronts producers, both in tradables and nontradables. Particular attention will be paid to the role of the real exchange rate and its volatility on the competitiveness of the Mauritanian economy. Hence the study will cover historical behaviour of real exchange rates and its impact on the supply response, especially on the key activities and subsectors. In addition, the study will focus on: (a) institutional arrangements for exchange rate management, especially whether they are designed to be flexible, and reflect the underlying productivity of the real economy; and (b) the structure and constraints in efficient operation of the foreign exchange markets, and whether they can be improved to yield more competitive and stable real exchange rates.

This section will be undertaken by the IMF at headquarters, as part of their regular mission.

Third, section focusing on the international policy environment and specific constraints that exports from Mauritania face in international markets. This section will document the specific set of trade restrictions (and preferential trade arrangements) that exist in industrial country markets for the existing and potential export products. . The section will also explore the functioning of some of the existing preferential schemes such as LDC or GSP preferences that Mauritanian exporters may enjoy in QUAD markets.

Estimates of the cost of satisfying the respective rules of origin will be provided. The role of tariff quotas and export subsidies of OECD countries in limiting Mauritania export growth will also be explicitly addressed. This will allow Mauritania to have reliable information to argue for greater market access in the global forums, as well as adjust their policy interventions so as not to be penalized by the restrictions in the world markets.

Determine the impact of membership in regional economic integration arrangements on the prevailing policy stance by explicitly considering the benefits and costs of such agreements in terms of policy freedom and investment incentives. The impact on Mauritania's exports of reducing these trade barriers in partner markets in both a preferential or a Most Favored Nation way will also be examined. The main task will consist in collecting tariff, tariff quota, preferential regimes and export subsidy information across OECD markets for products that Mauritania has exported (or has the potential to export) during the last 10 years. The simulation exercise will be undertaken under partial equilibrium to ensure a maximum of transparency.

This will be undertaken by World Bank.

Fourth, this section will analyze the structure of the trade regime.

- A detailed description of the trade (tariff) regime, analyzing the nominal, trade weighted, and if possible, production weighted protection. Also, the analysis of preferential trade regimes (regional and other arrangements) on the structure of protection. More emphasis should be given to the trade regimes applying to key subsectors such as mining, fisheries, agriculture, livestock and tourism.
- Pattern of imports and exports, their evolution and direction across markets and products, and if possible, the relation between reforms undertaken over the last decade and the response of trade to these reforms.
- Their agreements with the WTO, an evaluation of steps needed to institutionally meet their commitments, and if possible, costing the implementation of their agreements in order of priority.

This section will be undertaken by WTO. We expect Mr. Willy Alfaro of the WTO who will join the mission.

Fifth, this section will analyze the trade facilitation and more specifically the workings and efficiency of the customs administration. Areas to be addressed/assessed include customs clearance: existence and functioning of temporary admission and drawback mechanisms and exemptions. Issues of temporary admission and duty drawback should also focus on the rules for the present export sector (mainly fisheries and mining) and the potential exports. In this context, it might be useful to look into the Preshipment Inspection Company (SGS) and see how this contribution strengthens the customs operations. These findings should then be used to draw up a series of suggestions.

This section will be undertaken by officials of the Ministry of Finance with possible support of a consultant still to be identified.

Sixth, this section will focus on the regulatory environment in the country. The investment climate and ease of entry, exit and expansion of enterprises is a key determinant of the potential supply and responding to the changes in the international environment. There are three studies carried out by FIAS for Mauritania. These are: “Analysis of Administrative and Sectoral Barrier to Investment”; “Enterprise Taxation and Incentive Systems: Analysis and Recommendations; Recent Developments and Reform of Investment Code.” These documents will be pulled together into a coherent section and will be updated during the main mission (to be identified). This task will be undertaken by a consultant in Washington, DC.

Seventh, this section will focus on a small number of key labor-intensive sectors: agriculture, livestock, fisheries and tourism with potential for significant expansion in terms of output and exports. For each sector/product, the team will analyze the internal constraints that entrepreneurs face in expanding production and exporting to the rest of the world. Common threads in the analysis are:

- transaction costs: trade facilitation, duty free access to intermediate inputs, availability and cost of export credit, communications and energy;
- transportation: adequacy of transportation infrastructure and regulation;
- the regulatory environment: focus on restrictions on entry and exit, inspections, and other regulations that constrain the ability of firms to adjust in key sectors; and
- global, regional rules and disciplines: analysis of constraints and opportunities will review such areas as product and other standards, market standards, intellectual property protection requirements, rules of origin, etc.

Tourism:

The tourism sector is rather underdeveloped and small. However, the example of neighboring countries suggest that there is ample potential for niche tourism and possible beach tourism. The success of such tourism will depend on a number of factors; the hotel infrastructure (including FDI facilities and incentives), the existence of tour operators in Mauritania and their contacts with partners in Europe and North America, local transport facilities, airline access, import facilities for the tourist sector, etc.

Interest of foreign investors seems to center on this sector (in 1977, 70% of all interest expressed by these foreign investors centered on tourism). In 1997, investment in hotels amounted to UM 1.7 billion.

In 2001, the Government intends to prepare a Comprehensive Plan for Tourism Development. Focus will be on culture-oriented tourism, as well as ecological tourism. Benefits at the local level from tourism will be sought through greater showcasing of the country's cultural heritage, support for local artisans and the promotion of new destinations.

The analysis of this section should aim to prepare the background for the Governments Comprehensive Plan. The specific areas to be covered are:

- The regulation and policies that affect the airline access and pricing.
- Local transport availability for the potential sights where potential investors have shown interest.
- Incentives and regulation of tourism investments especially for the lodging and allocation of land.
- The trade regime as it applies to the Tourism sector; especially with regard to duty free import regime (this component is to be coordinated with the work on the customs regime).

This section will be undertaken by Mr. Joseph Tomatis (consultant) with inputs from UNCTAD

Fisheries:

Growth of the fisheries sector has been uneven. There was rapid growth in the mid-1980s when the sector represented 10% of GDP. Then there has been a decline due to overfishing. Year to year variation in catch is important and prices have been weak. In 1999 artisanal fisheries amounted to .3% of GDP; fishing contribution in the secondary sector amounted to 3.3% of GDP for a total of about 4% of GDP.

Exports of fish have declined in recent years (\$184 million in 1995, gradually down to \$113 million in 1999). Fish exports were 46% of the total in 1999. Open sea fishing agreements were signed with the EU (five years starting 1996 with revenues of \$53 million a year). In addition, fees from fishing licenses amount to 8-9 % of GDP, or one third of total fiscal revenue. Export taxes on fish were abolished in 1997, but yielded in 1995 about 5% of total fiscal revenue.

Over fishing is a major problem as indicated by smaller sizes in the fish caught and smaller overall catches. A critical issue has been the control and continuation of fishing licenses. The number of licenses has been frozen since 1997. The funding of the Directorate that controls fishing is insufficient, and there have been problems with enforcement.

In 1998, a round table discussion took place on these issues with donors: The result was an action program including: (i) increase funding for research, (ii) increase funding for surveillance, and (iii) protect marine environment. Since then funding has increased and donors meet quarterly to monitor the actions.

GOM plans to launch a ten-year development plan for the sector based on (i) training of fishermen, (ii) development of port for non-traditional fishing, (iii) establishment of focal points for fisheries along the coast, and (iv) review of credit and insurance systems.

Outstanding issues, which will be the focus of this section, are as follows: The critical focus is to encourage FDI to enhance the value-added chain in two critical directions. First is to encourage greater processing of fish within Mauritania. Second is to encourage the linkages between artisanal fishing and the modern fish processors and exporters. More specifically, what are the options and policy regimes that can encourage a move in this direction. And what are the physical investment requirements to achieve these objectives.

Finally, there is a substantial technical assistance program by GTZ in Mauritania. The mission will liaise with them on these issues.

This section will be undertaken by Mr. Gert van Santen (consultant)

Livestock:

Agricultural sector is dominated by livestock, which constitutes about 15 % of GDP. The sector has been largely ignored and is poorly integrated with the rest of the economy. Animal health services are inadequate, collection of by-products (milk, hides) is badly organized while the meat chain is underdeveloped and primitive and pasture and range management is absent leading to environmental degradation. These areas should make up the major elements of the medium-term development program of the sector. Country produces enough meat and could export but not enough milk. Data on Mauritanian exports are absent, but there appears to be substantial border trade with the neighboring countries.

The critical question for this section is how best to integrate this sector to the rest of the economy.

The first question is to evaluate whether the information system generates reliable information on the stocks, import and exports of this critical sector.

Second question is what are the policy and infrastructural options for formalizing and developing the sector for greater supplies of milk, official exports of meat and hides, and making it possible for Mauritania to use the preferential access it has in the EU market.

This section will be undertaken by a local consultant who is being identified with the assistance of the World Bank resident mission.

Agriculture:

Objectives of the Government's strategy till 2015 depend on (i) diversification and (ii) improving rice yields. On diversification, the strategy relies on: providing credit and extension services; stimulating private investment; assisting processing and artisanal preservation techniques; finding tree varieties that are adapted to the local climate; and promoting efficient irrigation techniques.

Policies for the rice sector include: reviewing the whole rice chain to provide better seeds; assist in more efficient mills; ensuring adequate input supply including credit; reviewing the land tenure system; supporting social and professional organizations; and developing a better pest control system.²

This section of the report will evaluate the basic elements of the Government's program. More specifically it will analyze the implications of the diversification of the irrigated agriculture, both for meeting the needs of the economy and exporting to EU where Mauritania might have preferential market access. Similarly, the tradeoffs between more rice production, and the establishment of higher value crops for export need to be explicitly analyzed. Finally, this section will look at the possibilities of organizing the smaller producers for greater access to local and international economy.

This section will be undertaken by Mr. Hassan Serghini

Eighth, this section will analyze the poverty impact of the suggested policy changes. It will describe the evolution of poverty during the last 10 years in Mauritania and infer the impact that changes in trade policy and other macro-economic variables had on the poor. The LSMS household survey of 86/88 and the more recent integrated household survey of 1995/1996 will be used as inputs for this.

This section will also provide an analysis of the effects that different future changes in trade policy (or market access) may have on poverty. A simple model will be developed to relate consumption and production of the poor relative to the rest of the economy with changes in poverty and vulnerability of households. The main difficulty of this exercise will be to "locate" the poor in terms of consumption and production patterns relative to

² Also promotion of gum Arabic is in the program; this sector has declined over time and needs revival and could assist the poor. This will involve opening trade and promoting private investment in the sector (production and marketing—private and associations).

the rest of the economy. Ideally, this could be done from household surveys, but the existing Mauritania household survey provides only consumption data. For the production side, the information is very limited and therefore will be complemented using two sources: (i) information collected on Mauritania itself and (ii) comparison with households surveys in other comparable countries in terms of its overall production structure and consumption patterns

This section will be undertaken by Mr. Marcelo Olarrega.

Finally, the report will develop a pro-poor trade integration strategy made up of a proposed set of policy reform priorities and several action plans at the sectoral level that include project proposals to capitalize on major opportunities identified in the strategy. These policy proposals will target the key bottlenecks and constraints that emerge from the analysis as priority areas for action, and corollary actions by donors and development partners. The sector-specific analyses will result in recommended action plans that identify key priorities and bottlenecks that must be addressed in order to mobilize investment and exports. Each study will also include an assessment of technical assistance and capacity building priorities to support the trade strategy, as well as recommended actions that should be taken by high-income and regional partner countries to improve access to their markets. The recommendations will take into account the likely impact of proposed actions on the level and structure of poverty to ensure that the strategy has the desired positive impact on the poor. To the extent possible, an analysis of gainers and losers from the policy changes will be undertaken and specific policies to minimize any possible detrimental impact on the poor must be identified.

This section will be undertaken by Mr. Luc De Wulf (Mission Chief)

5. TIME TABLE

- Initial mission: June 10-30, 2001
- First draft of the report: end of August 2001
- Translated version provided to GOM: September 15, 2001
- Workshop and dissemination; within the country and the steering committee: end of September 2001
- Final report: November 2001

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