OVERVIEW OF THE INVESTMENT CLIMATE

Historically, Mauritania has been relatively open to foreign direct investment, due in large part to its wealth of attractive natural resources in the fishing, mining and hydrocarbon industries. Despite this, political instability, corruption, the lack of qualified labor, high taxes and an underdeveloped infrastructure have made investors hesitant to enter the Mauritanian market. Due to political instability and the global financial crisis, 2009 was a difficult year for Mauritania to recruit foreign investment, but 2010 witnessed positive GDP growth of greater than 5%, as well as increased foreign direct investment, particularly in the mining sector of the Mauritanian economy. Mauritania is in the process of redrafting a comprehensive Investment Code to regulate foreign direct investment. This code is expected to be released in 2011 and should offer a much greater degree of clarity regarding the legal framework governing investments in Mauritania.

INTERNATIONAL INDICATORS:

Transparency International's 2010 Corruption Perceptions Index ranked Mauritania 143 of 178 economies surveyed.

The Heritage Foundation's 2010 Index of Economic Freedom survey ranked Mauritania 133 of 179 countries surveyed.

The 2010 World Bank Doing Business Report ranked Mauritania 165 out of 183 countries.

The data collected from third party sources to determine Mauritania's 2011 Millennium Challenge Corporation (MCC) eligibility demonstrate that Mauritania is currently not qualified for an MCC compact agreement. In the 2011 MCC assessment, Mauritania received the following scores, with 50% being the median score for other Low Income Countries:

--MCC Government Effectiveness: 50%
--MCC Rule of Law: 55%
--MCC Control of Corruption: 65%
--MCC Fiscal Policy: 13%
--MCC Regulatory Quality: 52%
--MCC Business Start Up: 76%
--MCC Land Rights Access: 36%
--MCC Natural Resource Management: 3%

OPENESS TO FOREIGN INVESTMENT

The current government, elected in July 2009, has placed a priority on recruiting foreign investors to Mauritania. The Investment Authority of the Ministry of Economy and Development has been asked to give quarterly updates to the office of the Prime Minister concerning foreign investment projects. The government's investment and development strategy emphasized private sector development, which was seen as the main engine of economic growth. Privatization, liberalization, and investment incentives figured prominently in Mauritania's previous World Bank and IMF structural reform programs. Foreign investment is welcome in most sectors. The 2002 Investment Code uses privatization and liberalization to encourage foreign investors and guarantees companies the freedom to transfer most capital and wages abroad. Foreign investment is prescreened by the government. Certain financial investments, particularly in the fields of mining, hydrocarbons, telecommunications, and utilities are subject to additional restrictions. Reforms have been implemented to ease foreign investment, but complicated and burdensome bureaucratic procedures, corruption, and non-transparent legal, regulatory, and accounting systems inhibit investment. Residents and non-residents may hold foreign exchange accounts, but non-resident accounts are subject to some restrictions. Payments and transfers are subject to quantitative limits, bona fide tests, and prior approval in some cases.

In collaboration with the World Bank, the Investment Authority in the Ministry of Economy and Development is writing a new Code of Investment, which has not yet been completed, but is expected to be announced in 2011. The new code aims to reduce the administrative bureaucracy associated with approving foreign direct investments in Mauritania. The Investment Code is the principal source for laws and information related to Mauritania's investment climate. It is designed to encourage direct investment, facilitate administrative procedures, and enhance investment security. The following are legal guarantees in the current Investment Code for any entity, Mauritanian or foreign, wishing to invest in Mauritania:

-- Freedom of establishment and capital investment, in accordance with the laws and regulations in place
-- Freedom to transfer foreign capital
-- The ability to transfer professional income of foreign employees
-- The equal treatment of Mauritanian and foreign individuals and legal entities

The Investment Code applies to all sectors of the economy, with the exception of the following sub-sectors, which are governed by laws and regulations specific to those sectors:

-- Purchasing goods for resale on the local market without further processing
-- Activities governed by the country's banking laws, except for leasing activities
-- Activities governed by insurance regulations
-- Activities in the mining and petroleum sectors
-- Communications and telecommunications
-- Water and electricity production

Contracts are protected by the Civil and Commercial Codes, although court enforcement and dispute settlement can be difficult to obtain. The judicial system remains weak and is unpredictable and inefficient in its application of the law. Judges lack training and experience in commercial and financial law and are sometimes corrupt.

With the exception of sectors where public companies hold monopolies such as water and electricity distribution, Mauritania has no discriminatory policies against foreign investment, imports, or exports. The mining, fishing, agricultural, banking, petroleum, technology and tourism sectors are actively seeking foreign direct investment.

Foreign investors generally receive the same treatment as Mauritanian investors, subject to the provisions of treaties and agreements concluded between the Government of Mauritania and other countries. Foreign investors have the same access as Mauritanians to courts of law. Nonetheless, the success of foreign investors often depends in large part on collaboration with local partners who understand the local market and government. Unfortunately, the unstable political and economic climates have meant that certain investors have suddenly found obstacles to their success because of the changing political affiliations and interests of their Mauritanian partners.

The Government of Mauritania practices mandatory screening of foreign investments. Screening mechanisms are routine and non-discriminatory and for all sectors except the petroleum and mining sectors, they are conducted through the Consolidated Office for Investment, or "Guichet Unique," in the Ministry of Economy and Development. To invest in Mauritania, investors are required to first obtain an Investment Certificate. Investors can obtain the certificate by presenting their proposal and all required documents to the Guichet Unique. The Guichet Unique then selects and recommends investment projects to the Council of Ministers. In general, the Council of Ministers approves all projects recommended to it. Investors interested in the petroleum and mining sectors normally go directly through the Ministry of Energy and Oil or the Ministry of Industry and Mines. Suppliers for large government contracts are selected through a tender process. Tenders are publicly announced in local newspapers and government websites. After issuing an invitation for tenders, the Central Market Commission selects the offer that best fulfills government requirements. Please note the Ministry of Economy and Development is currently undergoing a re-organization as the new Investment Code is developed. The procedures above will likely be revised when the new Investment Code is released in 2011.

There are no laws or regulations specifically authorizing private firms to adopt articles of incorporation or association which limit or prohibit foreign investment, participation, or control. There are no other practices by private firms to restrict foreign investment.

Foreign direct investment in Mauritania had been increasing from 2002 until the coup d'etat of 2008. After his election in July 2009, President Aziz's government continued to promote investment in Mauritania by proposing reforms to make foreign investment easier by fighting corruption and reforming the investment code. There were practically no western investments in Mauritania between the coup d'état of 2008 and the elections of July 2009. Since then, there has been a dramatic increase in investments in the mining sector, as well as modest investments in the real estate development and fishing sectors.

In December 2009, the IMF signed an agreement with the Mauritanian government, according to which, the IMF will grant USD 100 million of assistance to Mauritania spread over three years. According to the Mauritanian Ministry of Finance and the IMF, this program aims to allow Mauritania to better control its public finances, strengthen reforms initiated in the financial sector, give more credibility to exchange markets and to strengthen Mauritania's energy policy to better withstand shocks to domestic petroleum production and energy price fluctuations.

The largest foreign investments have been in the petroleum and mining sectors, attracting approximately 80% of all foreign investment in Mauritania. The fishing industry accounts for almost all other foreign investment in Mauritania.

SUMMARY OF THE MOST RECENT AND PROMINENT FOREIGN DIRECT INVESTMENTS IN MAURITANIA

Woodside Petroleum began off-shore oil production in February 2006 at 70,000 barrels per day (bpd), but production quickly dropped to less than 15,000 bpd due to technical problems in the oil field. After disappointing results, Woodside Petroleum sold its Mauritanian interest to Petronas in October 2007. Petronas, as well as several other oil companies, are actively involved in exploration. Current petroleum production is around 10,000 bpd.

The French energy conglomerate Total is currently exploring for oil in the Taoudenni basin, the first on-shore oil exploration project in Mauritania. Total publicly claims that considerable quantities of petroleum and natural gas are available in this region, but there have been no extractions to date.

In the mining sector, there have been significant new investments in iron ore, gold, diamonds, copper, gypsum, and uranium. In November 2009, the Australian Hanson Westhouse Company (Forte Energy) announced the existence of important quantities of uranium in northern Mauritania. A contract has already been signed between Hanson Westhouse (Forte) and the French company AREVA for the transport of exploration equipment and the supervision of the operations. Hanson-Westhouse (Forte) has been exploring for uranium since 2003, but despite promising findings, they have yet to produce any uranium. It is expected that China Minmetals Corporation will be announcing in 2011 that they have purchased an iron ore mine in Mauritania after completing preliminary research during the past three years.

In November 2010, the Swiss Group Xstrata announced a USD 6 billion investment in the iron ore sector after purchasing 50.1% of the shares of the Australian firm Sphere. In August, 2010, the Canadian company Kinross purchased Red Back Mining for USD 7.1 billion, which gives Kinross the right to operate the Tasiast gold mine in Mauritania. Expected gold reserves in the Tasiast mine have been upwardly revised for each of the last three years, and the Tasiast mine is expected to be one of the largest gold mines in the world within the next two years.

Salene Fishing Mauritanie s.a., a South African company, announced plans to invest USD 120 million in the fishing industry. In 2010, a Chinese-backed project to finance a USD 300 million expansion of the Port of Nouakchott broke ground.

In December 2010, the Moroccan and French banks Attijariwafa Bank and Banque Populaire purchased 80% of the outstanding shares of BNP Paribas in Mauritania for USD 101.7 million. Attijariwafa Bank and Banque Populaire will hold 67% and 33% of BNP Paribas Mauritania's capital respectively.

In December 2009, SNIM, the largest parastatal company in Mauritania announced that it had successfully raised USD 710 million to finance the construction of the Guelb II iron ore concentrator project. SNIM signed a USD 610 million agreement with the Canadian firm SNC-Lavalin to undertake the engineering and construction of this project.

There have also been significant investments in the telecommunications sector, primarily from France, Morocco, Tunisia and Sudan. Investors, primarily from the Gulf region, continue to promise major new investments in Mauritania. Some of the planned international investments in Mauritania include housing and hotels, roads, railways, expanded mining operations, a new airport, a new oil refinery, and an expansion of the Port of Nouakchott. Investment in Mauritania has often been hampered by the lack of clear regulations, skilled labor and infrastructure developments, most notably water, electricity, and transportation. The current government and donor partners are making infrastructure improvements by increasing power generation, water supply and the construction of paved roads.

CONVERSION AND TRANSFER POLICIES

There are no legal or policy restrictions on converting or transferring funds associated with investments. Investors are guaranteed the free transfer of convertible currencies at the legal market rate, subject to the availability of such currencies. Similarly, foreigners working in Mauritania are guaranteed the prompt transfer of their professional salaries. To transfer funds, investors are required to open a foreign exchange bank account in Mauritania. Transfers from abroad are limited to 100,000 Euros per transaction, but investors may conclude an unlimited number of transfers each day. There are no legal transaction limits for investors transferring money out of Mauritania, although regulations to undertake such transactions may be complicated.

The local currency, the ouguiya, is freely convertible within Mauritania, but its exportation is not legally authorized. Hard currencies can be easily found either in commercial banks. The Central Bank has liberalized the foreign exchange system and now holds regular foreign exchange auctions, allowing market forces to fix the value of the ouguiya. Individuals and companies may obtain hard currencies through commercial banks for the payment of purchases or the repatriation of dividends. If the bank has hard currency available, there is no delay in effect for remitting investment returns. However, foreign currency is in high demand and banks may not have sufficient currency. In that case, the commercial bank must obtain it from the Central Bank in order to conduct the transfer. The Central Bank is required to prioritize government transfers, which could present further delays. Delays, although relatively uncommon, have been reported from one to three weeks.

There are no legal parallel markets in Mauritania which would allow investors to remit investments through other means. There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs.

EXPROPRIATION AND COMPENSATION

The current Investment Code ensures that if the government expropriates private property, it will provide appropriate and prompt compensation, exempt from duties and taxes. There are no recent cases of expropriation in Mauritania. Only one government expropriation has occurred since independence: the nationalization of the French mining company MIFERMA in November 1974. In that case, compensation was paid by mutual agreement between the two parties. In 2003, the Mauritanian government annulled a major contract with a British company for petroleum supplies and the management of storage and refining facilities in Nouadhibou. In this case, the two parties negotiated a mutually agreed upon settlement, and the government provided compensation to the British company.

DISPUTE SETTLEMENT

The only recent, large investment dispute between the Government of Mauritania and a foreign investor occurred in 2006 with Woodside Petroleum Ltd. In 2003, Woodside signed four production sharing contracts (PSC) with President Taya's government. A transitional government took power following the August 2005 coup. In February 2006, the new government began a dispute with Woodside over four amendments to the original PSC involving oil revenues and environmental issues. An international arbiter was brought in and the dispute was settled when Woodside agreed to cancel the four amendments, pay USD 100 million, and set up an environmental fund.

Following the coup d'état of 2008, there were reports from some companies doing business in Mauritania or with the Mauritanian government that claimed their debts and contracts from the previous government were not honored. Some of these companies have been told that contracts and agreements signed with the previous government were not recognized by the new government or were signed by parties without proper authority to enter into such agreements. There are indications that the current government would like to settle these disputes.

The country has a Commercial Code and related civil laws, but application and enforcement remain limited. Settling a dispute through the courts remains a long and complicated process and Mauritania lacks effective means for enforcing property and contractual disputes. The judicial system is weak and the financial sector's legal framework needs to be upgraded. Judges lack sufficient training and specialized experience in commercial and financial law. Judges are also susceptible to corruption.   Many laws and decrees related to the commercial and financial sectors are never published and are therefore not well understood. It can also be difficult to access laws and legal texts that have been published. The system is inefficient; most judgments are not issued within prescribed time limits and are often not written. The country does have bankruptcy laws, although there are very few reported cases of these laws being applied.

Judgments of foreign courts are accepted by the local courts, but enforcement is limited. The government accepts binding international arbitration of investment disputes between foreign investors and government authorities. In addition, there are domestic mechanisms for arbitration, both through traditional religious institutions and through the courts. Disputes between individuals or legal entities and the government related to the Investment Code are settled by an arbitration procedure to which both parties have agreed and is in accordance with the following agreements:

-- The 1965 Convention on the Settlement of Disputes Related to Investments Between States and Nationals of Other States, also known as the Washington Convention
-- The 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards

PERFORMANCE REQUIREMENTS AND INCENTIVES

Mauritania is in a transitional stage with respect to application of its WTO commitments. The government offers tax benefits, including exemptions in some instances, to enterprises in priority sectors listed in its Investment Code. In the case of imported "dumped" goods deemed to be competing unfairly with a priority enterprise, the government will respond to industry requests for tariff surcharges, thus providing some potential protection from competition. Additional clarity to these procedures and exemptions should come with the publication of the new Investment Code in 2011.

There are no performance requirements beyond those that might be indicated in individual investment agreements and no requirements for local financing. There are some rules governing the percentage of host country nationals employed, but the government is flexible on this point. Industrial fishing crews are encouraged to have five Mauritanian crewmembers per vessel, but it is not a requirement. Foreign firms are encouraged to participate in government-financed research and development programs. Investment incentives such as free land, deferred and reduced taxes and tax-free importation of materials and equipment are available to encourage foreign investors. The Investment Code outlines certain investment incentives, but foreign investors may negotiate others directly with the government. Performance requirements are not normally imposed as a condition for establishing, maintaining or expanding an investment, or for access to tax and investment incentives unless indicated in an individual investment agreement. Under the Investment Code, investors are required to purchase from local sources if the good or service is available locally and is of the same quality as could be purchased abroad. There is no requirement for investors to export a certain percentage of output or only have access to foreign exchange in relation to their exports.

There is no requirement that nationals own shares in foreign investments. Additionally, there are no discriminatory or excessively onerous visa, residence, or work permit requirements inhibiting foreign investors' mobility.

RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

The Government of Mauritania guarantees any individual or legal entity wishing to undertake business activities in the country the freedom of establishment in accordance with the laws and regulations in force. Privatization and liberalization programs have also helped put private enterprises on an equal footing with respect to access to markets and credit.

FINANCIAL FREEDOM

Mauritania's underdeveloped financial sector remains concentrated in urban areas. Limited access to credit and the high costs of financing keep more dynamic entrepreneurial activity from taking place. Lending to the private sector has been limited. The banking sector dominates the financial system, accounting for more than 80 percent of total assets. There are 11 commercial banks, one of which is 50 percent government-owned. Foreign banks are new to the system; two French bank subsidiaries opened in 2006 and 2007 and one Qatari bank subsidiary (Qatar National Bank) opened in 2010. In 2007, a new banking law was enacted to enhance competition, improve access to credit, and ensure bank liquidity. The law mandates separation of bank management and ownership and limits the percentage of loans that a bank can make to related parties. Capital markets are virtually nonexistent; there is no stock market and less than 7% of Mauritanian citizens possess formal bank accounts. Although the entry of foreign banks has reduced the cost of borrowing, it is still prohibitively expensive and nearly impossible to find business loans at a rate competitive with those available in neighboring countries.

PROTECTION OF PROPERTY RIGHTS

Property rights are protected under the Mauritanian Civil Code, which is modeled on the French code. Biased application of the law by the Mauritanian judicial system has been a problem for some local companies. In practice, it can be difficult to gain redress for grievances through the courts. Mortgages exist and are extended by the commercial banks. There is a well-developed property registration system for land and real estate in most areas of the country. There remain many land tenure issues in southern Mauritania, particularly the area along the Senegal river. Investors should be fully aware of the history of the lands they are purchasing or renting, and should verify that the local partner has the proper authority to sell/rent large tracts of land in this area of Mauritania before agreeing to any deals.

The legal protection of intellectual property rights is still a relatively new concept in Mauritania, and those seeking legal redress for IPR infringements will find very little historical record of cases or legal structures in place to support such claims. Mauritania is a member of the Multilateral Investment Guarantee Agency (MIGA) and the African Organization of Intellectual Property (OAPI). In joining the latter, member states agree to honor intellectual property rights principles and to establish uniform procedures of implementation for the following international agreements: the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Hague Convention for the Registration of Designs and Industrial Models, the Lisbon Convention for the Protection and International Registration of Original Trade Names, the World Intellectual Property Organization, the Washington Treaty on Patents, and the Vienna Treaty on the Registration of Trade Names. Mauritania signed and ratified the WTO TRIPS (Trade Role on Intellectual Property and Service) agreement in 1994, but it has yet to implement it. The government also signed and ratified the WIPO (World Intellectual Property Organization) treaties in 1976. It has not signed and ratified the WIPO internet treaties.

Despite the many signed agreements, Mauritania's judicial system is chaotic and corrupt. The judiciary is subject to influence from powerful political and business figures in Mauritania. Poorly trained judges are often intimidated by social, financial, tribal, and personal pressures.

TRANSPARENCY OF THE REGULATORY SYSTEM

In practice, ownership in many sectors of the economy is concentrated among a few families. They have significant monopolistic power which is reinforced by formal and informal regulatory barriers. Tax rates on businesses in the formal sector are extremely high, which could distort or impede investment. The procedures required to pay taxes are complicated and time consuming. Recent efforts to combat corruption have resulted in business faced with extraordinary tax bills that they previously could avoid through bribes paid to tax inspectors and assessors. Labor laws and conditions of employment are complex. There are many limitations on hiring conditions, duration of work, and dismissals, which could also distort or impede investment. Environmental and health and safety laws and policies, mostly because they do not exist, do not distort or impede investment.

The government established the Consolidated Office for Investments (Guichet Unique) in 1997 in order to streamline bureaucratic procedures for investment. As a result, transparency has increased and bureaucratic procedures have been reduced. Nevertheless, complicated bureaucratic procedures and unnecessary red tape that require time and money remain a problem. There is also a complex and often overlapping system of permits and licenses required to do business. In addition, there continues to be a lack of transparency in the legal, regulatory, and accounting systems, which do not meet international norms. There are no informal regulatory processes managed by nongovernmental organizations or private sector associations. Proposed laws and regulations are supposed to be published in draft form for public comment before being sent to Parliament, but this does not always occur. As a result many businesses in Mauritania maintain dual accounting standards to allow them to at best avoid bureaucratic inefficiencies and at worst evade the particularly high rates of taxation.

EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

In principle, government policies encourage the free flow of financial resources and do not place restrictions on access by foreign investors. Most foreign investors, however, prefer external financing due to the high interest rates and procedural complexities that prevail locally. Credit is often difficult to obtain and dependent upon special relationships with bank owners and officials. Commercial bank loans are virtually the only type of credit instrument. There is no stock market or other public trading of shares in Mauritanian companies. Individual proprietors, family groups, and partnerships generally hold companies. They cannot be freely bought into by outsiders, and portfolio investment is accordingly quite limited. Critics of the Mauritanian banking system indicate that because the bank owners are often-times connected to many different extended family interests, those credit seekers viewed as competition can be kept out of the market and those in most need of financing can be manipulated by the banks.

Following the elections of July 2009, both the World Bank and IMF announced their intent to re-engage with Mauritania. The IMF announced plans to assist with the stabilization of the banking sector. President Aziz has also stated as policy that banks in Mauritania should be well-capitalized and actively lending to credit seekers. Since the entry of French banks into Mauritania in 2007, access to credit is easier and cheaper. The climate of competition contributed to the decline of the interest rates on loans from 30% to 11% or 12% in 2009, although the lowest interest rate loans often come with many hidden costs and fees, meaning the true interest rate is often a bit higher than stated. Reforms in the banking sector have also reduced the number of steps required to invest in Mauritania, but the process can still be time consuming and deficiencies continue to persist in the enforcement of laws and regulations.

COMPETITION FROM STATE OWNED ENTERPRISES

State owned enterprises in Mauritania are most active in the fields of mining, hydrocarbons, power generation and public utilities. There are no formal barriers to competition with state owned enterprises, but like all investments in Mauritania, access to domestic credit may be limited if investments are viewed as competition for the powerful business conglomerates that are closely tied to the limited number of banks in Mauritania. Foreign investments in the fields of where state owned enterprises are active may be subject to additional investment restrictions. There are no Sovereign Wealth Funds (SWF) in Mauritania.

Most state owned enterprises in Mauritania have independent boards of directors. The directors are usually appointed based upon political affiliations, but typically directors are qualified for their positions. Mauritania is making progress in disclosing information in the oil sector and for the national hydrocarbon company (SMH), but the Mauritanian government does not disclose revenues and expenditures from its mining sector in its budgets.

Mauritania expressed interested in joining the Extractive Industries Transparency Initiative (EITI) in 2005 and released an annual report in 2007. However, it has taken only basic steps to complete the validation process. Since the August 2008 coup and the July 2009 elections, the new government has indicated interest in restarting the validation process. However, Mauritania missed the March 2010 deadline, as well as the September 2010 extended validation process deadline. The IMF's 2002 fiscal Report on Standards and Codes (ROSC) and the 2008 Article IV report emphasize the need to significantly improve public expenditure management, accountability and transparency. The ROSC pointed to the need to improve dissemination of information to parliament and the public. These points are being re-addressed in the newest IMF program, which was initiated in late 2009.

CORPORATE SOCIAL RESPONSIBILITY

There is little awareness of corporate social responsibility in Mauritania, either on the part of producers or consumers. Certain state run industries have been active in providing basic educational opportunities for the children of their employees, and scholarships for their employees to study abroad, but this is usually the extent of social responsibility initiatives. Companies in the mining and hydrocarbon industries send young Mauritanians overseas to complete their studies on scholarship programs, but many of the scholarship recipients have family ties to powerful individuals in the companies. The larger fishing companies have recently started to provide more opportunities for qualified youth to study at a fishing and naval training school in Nouadhibou to prepare a limited number of Mauritanians for careers in the fishing industry.

POLITICAL VIOLENCE

There have been two coups in Mauritania since 2005. Both were bloodless and non-violent. The most recent coup, which occurred August 6, 2008, removed Mauritania's first democratically elected president from power, Sidi Mohamed Ould Cheikh Abdallahi. For the first time in Mauritania's history, there was political opposition to a coup. Groups opposing the coup attempted to stage protests on a regular basis. The Dakar Accords paved the way for elections in July 2009, which were accepted internationally.

There were several demonstrations in 2009 protesting Israeli actions in Gaza. While demonstrations in Mauritania are generally peaceful, these were some of the largest demonstrations ever held in Mauritania and several turned violent. In October and November 2007, youth throughout Mauritania led street protests over the rising price of basic commodities. During the protests they threw rocks and burned tires and buildings. Police responded with tear gas, and in one incident killed two protestors.

There has been an increase in terrorist incidents in Mauritania since the end of 2007, including the murder of an American citizen in Nouakchott, a suicide bombing at the French Embassy, a suicide bombing against a military base in Nema, and the kidnapping of western citizens. Al Qaeda in the Islamic Maghreb (AQIM) has claimed responsibility for all of the attacks. A number of people believed to be responsible for the attacks or associated with AQIM are currently being held in Mauritanian prisons awaiting trial. Realizing AQIM presents a significant threat to the political, social and economic stability of Mauritania, President Aziz is committed to defeat the threat of violent extremism in Mauritania.

CORRUPTION

President Aziz ran on an anti-corruption and populist platform and donor partners applauded the release of the first-ever Mauritanian anti-corruption strategy in November 2009. Although the strategy has not yet been codified into Mauritanian law, there have been a number of high-profile anti-corruption cases that demonstrated a never-before seen commitment to fighting corruption in Mauritania. Although President Aziz has made progress in fighting corruption in Mauritania, the laws and regulations that do exist are not effectively enforced, largely due to the fact that corruption has historically been so prevalent in every level of Mauritanian commerce and governmental affairs.

Mauritania acceded to the UN Anticorruption Convention on October 25, 2006. Mauritania is not a signatory to the OECD Convention on Combating Bribery. Corruption is an obstacle to foreign direct investment in Mauritania, but it is not one of the most severe obstacles. Firms generally rate high taxes, access to credit, underdeveloped infrastructure, and a lack of skilled labor as greater impediments to investment than corruption. Larger companies with more powerful connections are generally less affected by corruption than are small and medium enterprises. Corruption is most pervasive in government procurement, bank loans, fishing license attribution, land distribution, and tax payments. Firms also commonly pay bribes to obtain telephone, electricity, and water connections and construction permits more quickly.

Since assuming office, President Aziz embarked upon an ambitious, if not controversial, program to reduce privileges for government employees and to identify and punish those guilty of financial crimes. The current anti-corruption push began in November 2009 when the Bureau of Economic Crimes arrested the former governor of the Central Bank for alleged crimes committed between 2000-2001. His arrest was quickly followed by the arrest of the former deputy governor of the Central Bank and the launch of an investigation into the business practices of 12 other prominent businessmen and bankers. The individuals were questioned about their involvement with illegal transfers made through their banks and businesses during the same period. The former Central Bank governor is accused of laundering approximately USD 95 million over the course of two years, the equivalent of nearly 10 percent of Mauritania's 2010 budget. This most recent investigation highlights the degree to which corruption in both the public and private sectors continues to occur. While most people do not doubt that these individuals engaged in corrupt practices, these investigations are controversial as opposition figures claim the investigations are being used less to reduce corruption in Mauritania, but rather to settle political scores.

In September 2005, Mauritania created "The Office of the Inspector General of the State" (GIS) which handles financial investigations in the public sector in Mauritania. This agency is under authority of the Prime Minister's Office and has the authority to conduct investigations in all government offices and departments. Althought the office took a few years to become operation, in 2010 there were seven investigations that resulted in the dismissal of senior governmental officers and managers of public institutions because of corruption or mismanagement.

Despite the current push to fight corruption, wealthy business groups and government officials reportedly receive frequent favors from authorities, such as unauthorized exemption from taxes, special grants of land, and favorable treatment during bidding on government projects. Mauritanian and non-Mauritanian employees at every level and in every organization are believed to flout Mauritanian tax laws and filing requirements. The only exceptions are civil servants, whose income taxes are automatically deducted from their pay. Such widespread corruption has deprived the government of a significant source of revenue, weakening its capacity to provide necessary services. Recent efforts to increase tax collection have proven controversial as business owners have been faced for the first time with tax obligations that reflect the relatively high level of formal taxation in Mauritania.

BILATERAL INVESTMENT AGREEMENTS

Mauritania has bilateral investment agreements and investment protection with member countries of the Arab Maghreb Union (Algeria, Libya, Morocco, and Tunisia) as well as with Saudi Arabia, France, Belgium, and Romania. Other agreements exist with Burkina Faso, Cameroon, Gambia, Ghana, Mauritius, Italy, Lebanon, Qatar, Yemen, Korea, Egypt and the Arab League. Mauritania has no bilateral investment or taxation treaties with the United States.

Mauritania is a signatory to the Cotonou Agreement between the European Union (EU) and the group of African, Caribbean and Pacific (ACP) countries, and thus enjoys free access to the EU market. As a "least-developed country", Mauritania also benefits from duty-free access to the European market under the Everything-But-Arms initiative. Since 1987, the Government has signed four fisheries agreements with the European Union, the most recent covering the period August 2008 - July 2012. As of January 1, 2010, Mauritania was restored as a beneficiary member of the trade preferences outlined in the African Growth and Opportunity Act (AGOA), which provides for the privileged access of Mauritanian export products into the U.S. market.

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

Mauritania currently qualifies for Overseas Private Investment Corporation (OPIC) coverage, but its program is limited. Potential investors should contact OPIC directly for guidance. A British-Mauritanian insurance company, Atlantic Londongate, offers broad commercial coverage. Mauritania is a member of the Multilateral Investment Guarantee Agency (MIGA), which protects foreign direct investment against political risk. The Embassy purchases local currency at an official rate of 290 ouguiya per dollar. The ouguiya has been fairly stable over the last few years, but could devalue if there is further political or economic instability.

LABOR

While labor is abundant, there is a shortage of skilled workers and well-trained technical and managerial personnel in most sectors of the economy. As a result, there are few sectors of the economy that use advanced technologies because the skilled labor required to operate them is not readily available. While labor is relatively inexpensive, labor productivity is very low, even compared to neighboring countries. The mining sector is an exception, where the national mining company SNIM provides advanced training for its employees.

Labor-management relations are generally good in Mauritania and there are few strikes by workers. Mauritania is a signatory to the ILO conventions protecting worker rights. In October 2004, the government updated the Labor Code to conform to ILO Conventions 138 and 182. It organized a forum on labor laws and worked with UNICEF on a survey of child labor in two major cities, Nouakchott and Kiffa.

Mauritania's restrictive labor regulations hinder employment and productivity growth. The non-salary cost of employing a worker is moderate, but the difficulty of laying off a worker creates a disincentive for new hiring.

FOREIGN TRADE ZONES/FREE PORTS

There are no duty-free import zones in Mauritania. However, the Investment Code introduced a Duty-Free Points Regime to encourage exports. The following are eligible for the Duty-Free Points Regime:

--Production activities and provision of services intended exclusively for exportation.
-- Activities intended indirectly for exportation through the complete and exclusive sale of goods or services to enterprises, which export directly.

The Duty-Free Points consist of facilities where such activities are carried out. They are placed under the control of the Customs Administration. Companies whose activities fall under the Duty-Free Points Regime are exempt from export duties and taxes. Customs and import regulations are notoriously opaque and investors should actively research the regulations pertaining to any potential investment sectors.

FOREIGN DIRECT INVESTMENT STATISTICS

The most recent available statistics show USD 414.8 million in FDI in 2008. The vast majority of investment occurred in the oil (USD 352.2) and mining sectors (USD 72.6) with a smaller percentage going to the fishing sector. Statistics come from the United Nations Conference on Trade and Development (UNCTAD), and are the most recent statistics available. They do not reflect the halt in FDI which occurred after the coup d’état and during the global financial crisis, nor do they reflect the recovery in FDI in 2010.