Foreign Direct Investment in Mauritania: Opportunities, Policies, and Risks

الاستثمار الأجنبي المباشر في موريتانيا: الفرص والسياسات والمخاطر

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Abstract:

Foreign direct investment (FDI) has become nowadays a key element of economic growth in developing and emerging countries alike. This study aims to analyze the reality of foreign direct investment in Mauritania, focusing especially on the factors that impact investment attraction, assessing risks and obstacles, and demonstrating their effects on the national economy. The study also highlights the need to direct investments towards productive sectors with added value in order to maximize returns and improve domestic savings. As a result, the study concluded that there are many structural obstacles that prevent the flow of foreign investment despite the significant investment potential in Mauritania.

Keywords: FDI; Economic Development; Investment Climate; Economic Policies, Mauritania.

JEL Classification Codes: F32, E22, O11.

ملخص:

أصبح الاستثمار الأجنبي المباشر ركيزة أساسية في تحقيق النمو الاقتصادي في الدول النامية والصاعدة. تهدف هذه الدراسة إلى تحليل واقع الاستثمار الأجنبي المباشر في موريتانيا، مع التركيز على العوامل التي تؤثر في جذب الاستثمارات، وتقييم المخاطر والمعوقات، وبيان أثرها على الاقتصاد الوطني. كما تسلط الدراسة الضوء على ضرورة توجيه الاستثمارات نحو قطاعات منتجة ذات قيمة مضافة لتعظيم العوائد وتحسين الادخار المحلي. انتهت الدراسة الى وجود عديد من المعوقات الهيكلية التي تحول دون تدفق الاستثمارات الاجنبية رغم الامكانات الاستثمارية الكبيرة في موريتانيا.

كلمات مفتاحية: الاستثمار الجنبي المباشر، التنمية الاقتصادية، مناخ الاستثمار، السياسات الاقتصادية، موريتانيا.

تصنيفات JEL : F32؛ E22؛ O11.

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INTRODUCTION:

Foreign Investment is one of the most important mechanisms for economic development and a key means of achieving economic growth in various countries, especially in developing economies that are in dire need of investment—such as Mauritania—particularly after the failure of previous development efforts to meet their objectives. This has necessitated adopting economic programs and policies that rely primarily on the private sector, domestic savings, and foreign investments.

Since the private sector has limited capacity and local savings are weak due to low income levels, foreign investment became essential for financing economic and social development projects. Foreign direct investment (FDI) occupies a significant position in modern economic analysis, particularly in capital analysis. Multinational corporations play a central role in this context. As early as 1921, a conference of prominent economists from the United States, Canada, and Europe recognized the importance of international direct investments. Today, FDI serves as the primary channel for international economic relations, with multinational corporations acting as its main conduit.

Based on the above, the following research question arises:

How can investment be effectively realized?

This question can be broken down into several sub-questions:

- What do foreign investors seek, and what do developing host countries want?
- What are the key general economic policies that help create a favorable climate for foreign investment?

To answer this research question, highlight its importance, and achieve its objectives, the study is structured around the following main concepts: the concept of investment, real and financial investments, Mauritanian investments, and their constraints based on investment sectors. The study concludes with a general conclusion, followed by a set of proposals and recommendations to mitigate the negative effects discussed and outline future research prospects.

1- Basic Concepts of Foreign Investment:

1-1-Definition of Investment:

Investment plays a crucial role in promoting the national economy and development by directing foreign investments and opening up to capital. It is therefore a primary tool for a successful and advanced economy. Several definitions exist:

1-1-1-Economic Definition:

Economically, investment is “the allocation of funds currently to obtain future returns,” encompassing all resources, materials, and assets acquired for this purpose.

It is also “capital expenditure in a project to achieve growth (profits) or increase invested capital,” aiming to enhance an institution’s capacity and strength.

Some contemporary authors define it as “the addition of new productive or capital resources to the state’s capital.”

Others define it as “an active intervention by an individual to create lasting capital that provides future services.”

Investment is “the deployment of capital, i.e., directing funds toward uses that satisfy economic needs.”

1-1-2-Accounting Definition:

Investment is defined as a set of tangible and intangible assets, whether movable or immovable, acquired or created by an organization for internal use rather than sale, to increase the productive capacity of a project.

It is also "a flow of monetary expenditure over a certain period aimed at maintaining or developing capital through the production or acquisition of goods and productive equipment that satisfy economic needs."

1-1-3- Financial Definition:

Investments are "accumulated financial sums aimed at generating future returns or income."

Investment is "current expenditure expected to yield greater future returns."

From all the above definitions, investment can be summarized as the current allocation or sacrifice of funds to achieve future returns greater than the initial investment.

1-2- Foreign Investors vs. Host Developing Countries:

1-2-1- Reasons foreign investors are attracted to developing countries:

Insufficient returns on capital in their home countries.

Access to raw materials and proximity to their sources.

Opening new markets for their products.

1-2-2- What host developing countries seek from foreign investors?

Development of infrastructure and services that support manufacturing and growth.

Production of export goods and job creation.

Continuous technological advancement in industrial and service production.

2- Experiences of Developing Countries in Attracting FDI:

During the past century, competition to attract FDI intensified due to its benefits in technology transfer, trade flows, job creation, and accelerated economic development. Governments faced difficulties as offering lower incentives than competitors reduced their attractiveness, while excessive incentives created financial burdens.

Types of Investment Incentives:

A. Financial Incentives:

Direct financial support from host governments, including grants or subsidized credit facilities. Examples include:

Loan facilitation from national banks at reduced interest rates.

Financial support for research and feasibility studies for project establishment and expansion.

B. Tax Incentives:

Reduced taxes, exemptions on import duties for raw materials, intermediate goods, and capital equipment.

C. Indirect Incentives:

Provision of land and infrastructure for projects at reduced costs.

3. Role of Foreign Investment in Economic and Social Development:

3-1- Economic Development:

Investment supports economic growth, especially in agriculture and industry.

Infrastructure projects are vital as they are non-importable, capital-intensive, and often state-supervised.

Prioritizing agriculture can lead to industrial development, reflecting historical patterns of industrialization.

Industrial investments create jobs, reduce unemployment, and enhance economic accumulation.

3-2- Social Development:

Investment in education and health directly supports social development.

Improving education raises cultural and intellectual levels.

Human capital development meets labor market needs, enhancing productivity and living standards.

4. Policies to Attract FDI to Mauritania:

4-1- General Attraction Policies:

Market-based policies with minimal state intervention.

Export-oriented trade policies to encourage foreign trade.

Adequate availability of foreign currency for investment projects.

Administrative efficiency and advisory services for investors.

Development of infrastructure, protection of intellectual property, and labor skill enhancement.

Rationalizing tax incentives and focusing on industrial priorities.

Establishment of R&D funding mechanisms for product development.

4-2- Specific Attraction Policies:

A. Financial:

Development of stock markets and banking systems.

Tax regulation with a maximum rate of 30%.

Strengthening trust with international financing institutions.

B. Economic:

Encourage private sector participation.

Promote competitiveness.

Enhance savings and infrastructure, particularly communications.

Liberalize foreign trade.

C. **Procedural**:

Simplify visas and foreign labor entry.

Establish industrial zones with clear land allocation and facilities.

D. Administrative:

Improve training of administrative staff to reduce bureaucracy and corruption.

Ensure inter-institutional cooperation for FDI success.

E. Guarantees:

Sign bilateral/multilateral investment protection agreements.

Increase insurance coverage for investment protection.

Foster good relations with international institutions.

5- Investment Potential in Mauritania:

Mauritania has strategic advantages for economic prominence regionally, given its natural and human resources:

5-1- Investment Sectors:

Mining: Iron, gold, copper, etc.

Energy: Gas, oil, renewable energy.

Fisheries: Potential catch of 1.8 million tons with required processing facilities.

Agriculture and Livestock: Over 500,000 ha arable land, 135,000 ha irrigated, and more than 22 million livestock.

Tourism: Desert, eco-tourism, Atlantic coastline, historical cities, and oases.

Infrastructure & Real Estate: Transportation, housing, free economic zones with tax incentives.

5-2- Infrastructure Development:

- Expansion of roads, ports, and airports.
- Ports: Nouakchott and Nouadhibou for goods; a traditional fishing port.
- International airports; paved roads connecting major cities.
- Electricity, telecommunications, and internet available nationwide.
- Vocational training schools prioritizing science and technology.
- Hospitals across all regions and four in Nouakchott.

6- Risks and Constraints of Investment in Mauritania:

Investment Risks:

Non-systematic risks: Project-specific (industrial, legal, social, administrative, financial).

Systematic risks: Government policy changes, exchange rates, natural and unpredictable events.

Investment Constraints:

A. Administrative Constraints: Weak management, government interference, corruption.

B. Low-quality feasibility studies: Over-optimism, inadequate technology, cost misestimation.

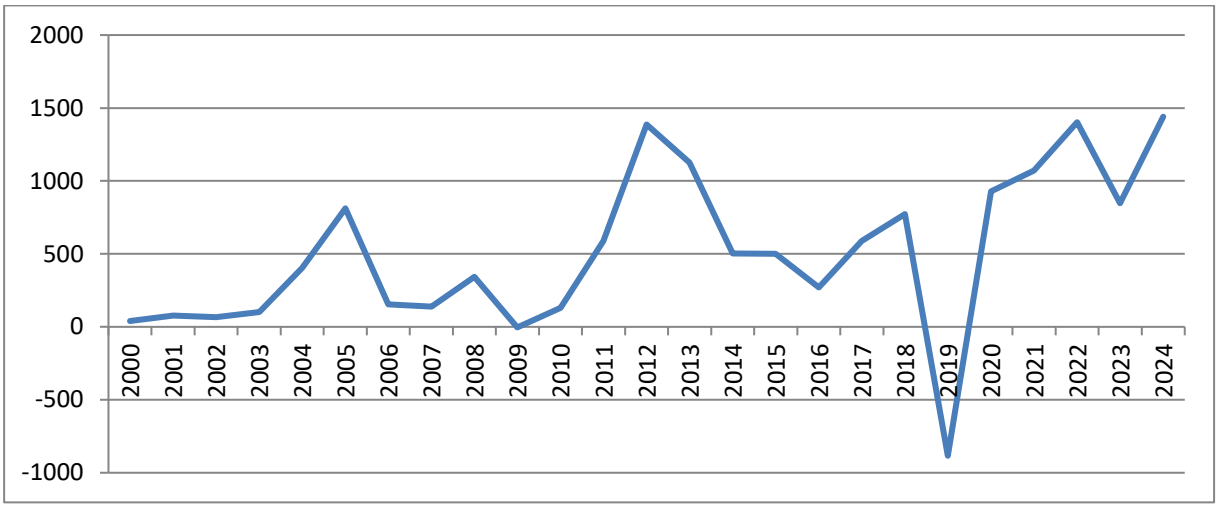
C. Lack of legal clarity and effective judiciary: Fragmented investment laws, weak enforcement.

D. Insufficient infrastructure: Transport, energy, communications increase investment costs.

F. Financial constraints: Lack of long-term financing, high-interest rates.

E. Marketing challenges: Difficulty in product distribution, trade barriers, and government interventions.

Fig (1): Evolution of FDI in Mauritania 2000-2024 (net inflows in million US dollars)



Source: World Bank.

Analysis of Net FDI Inflows (1997–2024):

FDI in Mauritania was negative in 1997 (-3.3 million USD), reflecting a weak investment climate.

By 2005, inflows surged to 815 million USD, showing improvement in policies and investor confidence. Growth was modest in 2023 (878 million USD), indicating steady but limited expansion. A sharp rise in 2024 (1530 million USD) highlights renewed investor interest and potential in strategic sectors.

Summary: FDI in Mauritania shows a long-term upward trend, with recent increases signaling growing attractiveness, though sustainable benefits require policy support and sectoral diversification.

Table (1): Foreign Direct Investment as a share of GDP

Year	FDI as % of GDP
2005	0.28%
2023	7.96%
2024	0.13%

Source: Official investment codes of Mauritania.

Analysis of FDI as a Percentage of GDP (2005–2024)

In 2005, FDI was very low (0.28% of GDP), reflecting limited integration into the economy. By 2023, it surged to 7.96%, indicating a significant increase in foreign investment relative to the economy. In 2024, it dropped sharply to 0.13%, suggesting that despite high absolute inflows, FDI's share of GDP declined, possibly due to rapid GDP growth or concentration in specific large projects.

Summary: FDI's contribution to Mauritania's GDP has been volatile, showing that high investment inflows do not always translate into proportional economic integration.

Table (2): FDI Shares by sector (%)

Sector	FDI Share (%)
Extractive (mining, energy)	65
Infrastructure	15
Services	10
Agriculture & Fisheries	10

Source: Official investment codes of Mauritania.

Analysis of FDI by Sector

The majority of FDI in Mauritania (65%) is concentrated in the extractive sector (mining and energy), highlighting a reliance on natural resources. Infrastructure attracts 15%, while services and agriculture & fisheries each receive only 10%, indicating limited diversification.

Summary: FDI in Mauritania is heavily concentrated in extractive industries, which may boost short-term growth but underscores the need to diversify investment across other productive sectors for sustainable development. The data show concentration in extractive industries, reflecting a resource-based economy and highlighting the need for investment diversification.

CONCLUSION:

This study aimed to analyze the concept of foreign investment, its types, and main constraints. The situation of FDI flows to Mauritania. In fact, The accumulation of obstacles significantly hinders FDI flows, potentially reducing returns and deterring investors.

Recommendations:

- ✓ Improve the business climate and simplify procedures.
- ✓ Strengthen public-private partnerships.
- ✓ Direct foreign investments toward high-value sectors.
- ✓ Facilitate technology transfer and localization.

Mauritania's investment prospects are promising if natural and human resources are optimally utilized within a comprehensive and sustainable development vision.

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