



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 25-May-2018 | Report No: PIDC24670



BASIC INFORMATION

A. Basic Project Data

Country Gabon	Project ID P164201	Project Name Gabon Second Fiscal Consolidation and Inclusive Growth DPF (P164201)	Parent Project ID (if any) P159508
Region AFRICA	Estimated Board Date Sep 28, 2018	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Budget and Public Finance	Implementing Agency Ministry of Economy, Prospective, and Development Planning		

Proposed Development Objective(s)

This second operation maintains the development objectives of the first operation. It will support Government’s efforts in: (i) strengthening fiscal balance, by increasing revenue mobilization, stabilizing the wage bill, and improving efficiency and transparency in public spending; (ii) enhancing competitiveness, by improving the business climate, strengthening ICT services, and starting to address skills mismatch; and (iii) protecting the poor, by improving the efficiency of health care delivery and social protection services.

Financing (in US\$, Millions)

SUMMARY

Total Financing	200.00
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DETAILS

Total World Bank Group Financing	200.00
World Bank Lending	200.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

The Gabonese Republic is one of few African countries with upper-middle-income status. It has a relatively high gross domestic product (GDP) per capita, driven by extractive industries (oil represents about 31 percent of the GDP and 73 percent of exports). The population stands at about 1.8 million, with a GDP per capita estimated at US\$7,925 in 2017. The demographic profile of Gabon is young, with approximately half of the population under the age of 19. Strong economic growth during the past decade has not translated into significant job creation, resulting in high unemployment, at about 20 percent.

The economic crisis which CEMAC countries have experienced since a decline in oil prices in 2014 has so far been contained. This crisis threatened exchange rate stability and, more generally, the development prospects of the region. In a crisis meeting in Yaoundé on December 23, 2016, CEMAC's heads of state reaffirmed their commitment to safeguarding the CFA franc peg to the euro through sharp fiscal adjustments. The CEMAC region's fiscal and external balances had sharply declined from 2014 to 2016, because of the steep decline in oil prices. The crisis had been made worse by accommodative fiscal policies at the national level and expansionary monetary policy at the regional level, so that international reserves reached a critical low in December 2016. Since then, fiscal consolidation efforts and recovering oil prices have helped the regional primary fiscal deficit improve to 0.9 percent of GDP in 2017, as well as the current account deficit improve to 5.0 percent of GDP the same year. Foreign exchange Reserves have reached their lowest point in June 2017 before picking up and stabilizing in the third quarter of 2017.

Gabon's short term economic outlook is challenging with a sustained need to pursue fiscal consolidation and address persisting liquidity and arrears management issues. While economic growth averaged 5.1 percent from 2012 to 2014 owing to the commodity boom and high levels of public investment, growth declined to 2.1 percent in 2016 and 0.7 percent in 2017. The cash deficit has declined to 3.1 percent of GDP in 2017, from 6.6 percent in 2016. Lower than expected non-oil revenues and higher current spending, notably by parastatal agencies, combined with the fact that a large share of the adjustment has been borne by externally financed investment projects, have created additional fiscal pressures. External arrears have continued to accumulate and key PFM reforms are lagging.

Relationship to CPF

The operation's development objective is aligned with the broader World Bank's twin goals of ending extreme poverty and promoting shared prosperity as well as with more specific engagement on these topics in Gabon. Specifically, the proposed DPF is fully consistent with the World Bank CPS FY12–FY16 for Gabon, which has been extended by two years (up to FY18) with the recently completed PLR. The operation is central to the PLR's three main objectives (improved governance and public-sector capacity, greater competitiveness and increased employment, and improved human development and environmental sustainability). A combined focus on more sustainable and growth friendly fiscal consolidation, including through support to more and better domestic resource mobilization and improved management of the payroll, and reforms to enhance competitiveness and protect the poor, including through in-depth institutional and policy reforms to improve the investment climate and strengthen the ICT sector, increase access to PHC, and build a well-targeted social protection system, should have a very significant impact on promoting shared prosperity and ending extreme poverty in Gabon.

C. Proposed Development Objective(s)

This second proposed operation maintains the three development objectives of the first operation. It will support



Government's efforts in: (i) strengthening fiscal balance, by increasing revenue mobilization, stabilizing the wage bill, and improving efficiency and transparency in public spending; (ii) enhancing competitiveness, by improving the business climate, strengthening ICT services, and starting to address skills mismatch; and (iii) protecting the poor, by improving the efficiency of health care delivery and social protection services. The pillars of the operation are organized around these three objectives.

Key Results

In line with these objectives, the key expected results of this operation are as follows. For Pillar 1, are expected an increase in non-oil revenue, a higher compliance with hiring procedures in the civil service, a contained wage bill increase, and an increased use of competitive processes for public procurement. For Pillar 2, are expected shorter times for business registration, a higher share of collateral registries and land titles digitized, an increased number of investors' inquiries to the national investment promotion agency (ANPI), and an increased participation of private sector actors to TVET institutions' board and higher number of performance contracts signed by these institutions with the Ministry. For Pillar 3, are expected a higher share of primary health care facilities in priority regions receiving performance payments and offering essential health services, as well as lower inclusions errors in targeting systems for social protection services and a higher share of poor Gabonese (GEF) registered in the database for cash transfers and receiving these at least twice a year.

D. Concept Description

Consistent with these objectives, the operation is organized around three pillars, each including several policy areas, as summarized in the complete policy matrix outlined in Annex1:

Pillar 1 - Strengthening Fiscal Balance: Policy areas: (a) Increase revenues mobilization and improve transparency; (b) stabilize the wage bill and improve workers' performance; and (c) improve efficiency and transparency of public spending.

This first pillar supports fiscal consolidation and quality of expenditures improvement. It focuses on a reduction of the budget deficit, focusing on increasing revenue mobilization and improving transparency, in particularly by reducing revenue loss due to tax expenditures, stabilizing the wage bill, and improving the efficiency and transparency of public spending. It also seeks to promote a performance-oriented public administration, and to increase the overall efficiency of public spending. The choice of these areas and related reforms is rooted in the key issues and constraints of Gabon's fiscal and PFM context.

Pillar 2 - Enhancing Competitiveness: Policy areas: (a) Improve the business climate; (b) strengthen ICT services; and (c) address skills mismatch via improvements in the governance and management of TVET.

The second pillar supports enhanced competitiveness by focusing on improving the business climate. While Gabon has improved its ranking from 152 to 132 out of 190 economies in starting a business (DB report 2018), continued efforts in this area are required. There is a specific need to improve the legal framework for the resolution of commercial disputes with the creation of commercial chambers within the courts and an arbitration center. Gabon also needs to improve its investment framework through an improved investment code and the rationalization of incentives. These improvements will increase predictability and enforcement of legal obligations from the Government and help contain tax expenditures on potentially ineffective investment incentives. In addition, the mismatch between currently supplied skills and labor market needs prevents graduates from seizing job opportunities and hampers private sector growth. According to the 2014 World Bank report on Export Diversification and Competitiveness, only 36 percent of services companies reported



having found enough skilled labor at home to supply their export services.

Pillar 3 - Protecting the Poor: Policy areas: (a) Improve the efficiency of health care delivery and (b) increase the efficiency of social protection services.

The need for fiscal consolidation in the face of persistent human development challenges makes it imperative for Gabon to protect funding for social services but also to improve value for money in these sectors. This is critical in this economic crisis context in order to protect the poorer segments of society, preserve and build their human capital. Under this proposed second operation, the formulation of the objective of Pillar 3, to protect the poor by improving the efficiency of health care delivery and social protection services, remains relevant.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

This operation is expected to have mostly positive poverty and social impacts. The prior actions proposed under the Fiscal Consolidation pillar, including those focus on tax expenditure and public sector wage bill and performance management, are not expected to have significant overall social, poverty, and distributional effects. The prior actions under the Enhancing Competitiveness pillar are expected to have positive overall social, poverty, and distributional effects, as they will enhance resilience to shocks while spurring job creation. The prior actions under the Protecting the Poor pillar are expected to bring significant positive social, poverty and distributional effects, as they aim directly at benefitting the most disadvantaged population groups. In the health sector, operationalizing PBF in primary care in selected health districts (and away from tertiary care) will benefit lower-income households, by making health care economically and geographically more accessible and of better quality. The reforms supported under this pillar also intend to make health insurance and safety nets more efficient and better targeted to the poor. They will strengthen the targeting mechanism in order to substantially reduce inclusion and exclusion errors, thus increasing the positive poverty and distributional impacts of social transfers. Similarly, they will support the consolidation of multiple cash transfers to help the Government get the most out of the resources available for the poor and vulnerable, while expanding the number of poor (“Gabonais Economiquement Faibles” – GEF) beneficiaries.

Environmental Impacts

Gabon has progressive environmental policies, regulations and laws which should mitigate any negative impacts from some actions under the DPF2. However, regulatory oversight and enforcement are limited in Gabon. Operations and operating procedures do not typically meet international standards for Environmental, Social, Health and Safety (ESHS) performance. To ensure that prior actions address these challenges effectively, their potential environmental effects were analyzed and management measures proposed. E.g. The prior action on the New investment code proposed under the Enhancing Competitiveness pillar is likely to lead to more investment opportunities with their associated environmental risks. Because of this potential negative effect, the development of the new investment code will mainstream environmental sustainability. The reforms supported in the health sector are likely to lead to an increase in volumes of health care waste. To ensure continuous monitoring, supervision and coaching on healthcare waste management, the Performance Based Financing and Quality of care checklist shall include waste management. Other prior actions proposed under the Enhancing Competitiveness pillar (ARMP and public procurement; One Stop Shop for business start-up; on the digital business and collateral registry and Land Registry) present environmental mainstreaming opportunities that could strengthen their long-term impacts and ought to comply with commitments that the Government may have on the environment, land use planning and climate change. For e.g. including Environmental, Social, Health and Safety (ESHS) performance and metrics in the ARMP’s annual report appears to be an important factor



in communicating and encouraging good ESHS performance in public contracts and in large investment projects.

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APPROVAL

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