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PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

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Operation Name	Fiscal Consolidation and Inclusive Growth Development Policy Financing
Region	AFRICA
Country	Gabon
Sector	MFM, Health, Governance, Social Protection
Operation ID	P159508
Lending Instrument	Development Policy Lending
Borrower(s)	Republic of Gabon
Implementing Agency	Ministry of Sustainable Development, Economy, Promotion of Investment and Planning (*Ministère du Développement Durable, de l'Economie, de la Promotion des Investissements et de la Prospective*)
Date PID Prepared	August 24, 2017
Estimated Date of Appraisal	September 11, 2017
Estimated Date of Board Approval	October 27, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

The Gabonese Republic is one of few African countries with upper middle-income status. The country is resource rich and is the locus of extraordinary biodiversity. It has a relatively high gross domestic product (GDP) per capita, driven by extractive industries (oil represents about 23 percent of the GDP and 75 percent of exports). The population stands at about 1.8 million, with a GDP per capita estimated at US$8,311 in 2015. The demographic profile of Gabon is relatively young, with approximately half of the population under the age of 19. Strong economic growth during the past decade has not translated into significant employment creation, resulting in high unemployment, at about 20 percent, particularly for women and youth. Gabon is also vulnerable to climate change.

Although no recent data are available, estimates suggest that poverty rates have barely decreased over the past ten years, while human development indicators, particularly health indicators, are below par relative to Gabon's income level. The last national household survey, completed at the end of 2005, showed a poverty rate ($3.1/day PPP) of 24.4 percent. Since then, poverty is believed to have increased until 2010, before starting to decline. Overall, estimates suggest that by 2015 the share of the population living in poverty had fallen only slightly to 22 percent. Inequality is high, at about 0.42 as measured by the Gini index, resulting in highly uneven living standards and opportunities. The country, which is 58th in the world in terms of GDP per capita, ranks 110th in the 2015 UN Human Development Index. Recent estimates show that health indicators are well short of international targets and stagnating. Since 1992-1996, mortality rates have almost stagnated at around 65 per 1,000 live births for under-five mortality and at between 230 and 316 per 100,000 live births for maternal mortality.

CEMAC countries[1] **entered an economic crisis caused by the 2014 oil prices drop which threatens exchange rate stability and, more generally, the development prospects of the region; this crisis calls for a concerted response by member countries, supported by development partners.** The CEMAC region's fiscal and external balances have sharply declined because of the steep decline in oil prices. Oil export proceeds and fiscal revenue have declined from 2014 to 2016. The crisis was 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. 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, limiting policy options to respond to the crisis and making sharp fiscal adjustments a necessity. They committed to fiscal austerity and structural reforms, setting in motion a regionally-coordinated effort to maintain CEMAC's external stability and the integrity of its monetary arrangement. Cameroon, Equatorial Guinea, Gabon and the Republic of Congo have all officially requested the support of the IMF, and Extended Financing Facilities (EFF) were approved for Cameroon and Gabon in June 2017.

Gabon's economic outlook is very challenging with a sharp and urgent fiscal consolidation required to address internal and external imbalances caused by the protracted oil price decline. 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 about 3.9 percent in 2015 and 2.1 percent for 2016. Gabon is now facing an acute fiscal crisis with a growing deficit, estimated at 6.6 percent of GDP in 2016, made worse by the accumulation of arrears from previous budgetary exercises. The fiscal crisis has been accompanied by a worsening of Gabon's external position and the rapid loss of international reserves.

II. Operation Objectives

The Program Development Objective of the Development Policy Financing is to support government's efforts in: (i) increasing revenue mobilization, stabilizing the wage bill, and improving efficiency and transparency in procurement practices to strengthen fiscal balance; (ii) improving the business climate and developing ICT services to enhance competitiveness; and (iii) improving the efficiency of health care delivery and social protection services to protect the poor. The operation is organized around three pillars: (1) strengthening fiscal balance; (2) enhancing competitiveness; and (3) protecting the poor, each including several policy areas.

PILLAR 1: Strengthening fiscal balance
Policy areas: (a) Increase revenues mobilization and improve transparency; (b) stabilize the wage bill; and (c) improve efficiency and transparency in procurement practices.
PILLAR 2: Enhancing competitiveness
Policy areas: (a) Improve the business climate; and (b) develop ICT services.
PILLAR 3: Protecting the poor
Policy areas: (a) Increase the efficiency of health care delivery; and (b) improve the efficiency of social protection services.

This proposed operation is designed as the first one in a programmatic series, which will include two development policy financing operations, each for an estimated amount of US$200.0 million, over the World Bank FY17-18 period. This proposed design will allow the WB to accompany Gabon's reforms and the IMF EFF program for at least the next two years, which will be critical to put Gabon back on track. A third operation for a similar amount may be envisaged as a stand-alone provided

[1] Cameroon, the Central African Republic (CAR), Chad, Equatorial Guinea, Gabon, and the Republic of the Congo.

timely implementation of the reforms in the first operation(s), on which it would build. The proposed series is aligned with Gabon's Strategic Plan for an Emerging Gabon (*Plan Stratégique Gabon Emergent*, PSGE) and the recent Economic Recovery Plan (*Plan de Relance Economique,* PRE), as well as with the 2016 Program Learning Review (PLR) which extends the Country Partnership Strategy (CPS) by two years.

The policy areas, actions and triggers under each of the pillars were carefully selected based on the following criteria: (a) criticality and robustness; (b) government ownership; (c) feasibility in the timeframe of the series; (d) leverage brought by the DPF; (e) strong analytical underpinnings and knowledge base to inform the choice of actions; and (f) implementation arrangements to support reforms and the achievement of program results, including through complementary investment operations and TA.

III. Rationale for Bank Involvement

Gabon is strongly committed to an ambitious fiscal consolidation process, which needs to be carefully implemented to be sustainable and to limit its potentially negative effects on growth and poverty. The government has committed to significant fiscal consolidation to restore balance in its fiscal and external accounts, and to stop accumulating payment arrears with suppliers. Given that public spending is also driving imports, fiscal consolidation will restore external balance. The government is planning to bring the fiscal deficit down to 0.1 percent of GDP by2020. To make fiscal consolidation sustainable while mitigating its impact on poverty, Gabon is committed to increase its currently low non-oil tax revenues.[2] At the same time, Gabon urgently needs to contain the wage bill, which represents about 36 percent of overall public spending and 8.4 percent of GDP.[3] Increasing the efficiency of public expenditure is critical for fiscal sustainability and value for money.

While fiscal consolidation efforts are under way, and are the priority at this stage, Gabon also needs to ensure that its economy becomes more competitive, keeps on diversifying and creates more jobs, in particular in the private sector, to build resilience to future shocks. The government has already taken important steps in this direction. Economic growth has traditionally been driven by the oil sector making it vulnerable to shocks. There is a lack of formal employment opportunities, which are mostly concentrated in the oil sector or related to the public sector. Developing a stronger non-oil economy and private sector would allow the Gabonese economy to be more resilient to future commodity price shocks. Gabon has started a diversification process in the forestry, agriculture and agribusiness sectors, thanks notably to some large investment projects supported by the state. Additionally, Gabon also has taken steps to improve its investment climate, such as the creation of the High Council for Investment (HCI), a high-level platform for public-private dialogue, and the creation of an investment promotion agency (ANPI). Further reforms are required particularly to support the development and contributions of the private sector to the economy. Gabon ranks 164 among 190 countries in the 2017 Doing Business (DB) ranking highlighting important constraints in government to business services. Gabon's overall private sector potential is also constrained by an outdated Information, Communication, and Technology (ICT) enabling environment, which penalizes competition and innovation and translates into an under-utilization of ICT applications and services.

Finally, fiscal consolidation will also need to factor in the dire human development and poverty context with a view to safeguard and make more efficient public social services for the poor. Public

[2] At about 12 percent of GDP (and 17 percent of non-oil GDP), the non-oil tax revenue ratio to GDP is low, both as compared to CEMAC targets and to tax-to-GDP levels in Sub-Saharan Africa (SSA).
[3] Compared to 1.5 percent in Equatorial Guinea and 3.6 percent in the Republic of Congo. At 42 percent of fiscal revenue in 2015, it was also above the CEMAC mandated ceiling of 35 percent.

spending on health and safety nets is low, and further expenditure cuts are likely if fiscal consolidation is not carefully implemented. Moreover, these services urgently need to be made more efficient and equitable. For instance, as a result of an inefficient and inequitable social protection system, the total number of individuals who benefitted from any type of social transfer in 2015 (excluding non-contributory health insurance for the poor) does not reach 50,000, representing less than 10 percent of the 30 percent Gabonese believed to have incomes below the poverty line.[4] In the health sector, maternal and child mortality rates are much higher than in other countries with similar per capita health expenditure pointing to important inefficiencies, notably an allocation of health spending highly biased against primary health care. The crisis context offers a unique opportunity for action which the government would like to seize.

To address the above challenges, the proposed DPF series supports structural reforms which are critical to macroeconomic stability, fiscal sustainability and diversified growth, while also protecting the poor. First, it will support the fiscal consolidation process already underway, ensuring that it is implemented in a timely and effective way, while not excessively hindering growth nor increasing poverty. It will also ensure that this adjustment is sustainable and has lasting results beyond the timeframe of the operation, by supporting revenue and wage bill targets as well as procurement reform. Second, it will help lay the ground for a more competitive economy by tackling critical systemic constraints to private sector development. Third, it will seek to protect the poor in the fiscal consolidation process and to achieve better human development outcomes, by creating fiscal space to safeguard social spending and increasing the efficiency of such spending. These reforms are complementary to the IMF EFF program under preparation.

Despite downside risks, the macro-framework is considered adequate for development policy lending. In the face of a difficult economic situation caused by depressed oil prices, Gabonese authorities have grasped the magnitude of the challenge and have responded appropriately. Notably, they have produced a revised 2017 budget law encompassing the necessary adjustments. Other considerations supporting this assessment are: (a) a cautious 2017 fiscal stance with the adoption of several measures to increase non-oil revenue, with support from the World Bank through a Reimbursable Advisory Services (RAS), and a planned constant level of expenditure (as a share of GDP), notably via measures to control goods and services spending and the wage bill; and (b) a positive medium-term macroeconomic outlook, with growth expected to stay positive and reaching 4.1 percent in 2019, thanks to non-oil sectors such as manganese, forestry, wood-processing, agribusiness, ICT and services; inflation and debt levels expected to remain acceptable; with only a moderate risk of debt distress, and the adoption of a prudent debt strategy which no longer relies on international financial markets. Finally, a program has just been approved with the IMF and other development partners and a credible plan has been put together to meet Gabon's financing needs over 2017-2019.

The proposed operation is part of a coordinated and complementary approach designed with the IMF, the AfDB and the AFD. The series complements a three-year Extended Financing Facility (EFF) program supported by the International Monetary Fund (IMF), as well as budgetary support from the African Development bank (ADB) and the French Development Agency (AFD), within the context of a coordinated response of CEMAC countries to the recent economic crisis. The EFF program was approved by the IMF Board in June 2017.

IV. Tentative financing

Source: ($m.)

[4]This compares rather unfavorably to other Sub-Saharan African countries, where on average 14.2 percent of the population is covered by social assistance, or to other upper middle-income countries, where social assistance is available to 32.8 percent of the population (for low-income countries the coverage is 16.4 percent).

International Bank for Reconstruction and Development		200.00
Borrower/Recipient		0.00
IDA		0.00
Others (specify)		0.00
	Total	200.00

V. Tranche*s*

Not applicable.

VI. Institutional and Implementation Arrangements

The Ministry of Economy will be responsible for the overall implementation of the proposed operation. Through the high level multi-sectorial steering committee led by the Cabinet Chief of the Ministry of Economy put in place for this operation it will coordinate actions under the DPF program and report progress to all relevant stakeholders.

The results framework includes indicators which can be easily reported upon. Most indicators are already regularly produced through the available administrative data, including ministries' sector plans and budget programs. Other indicators will be monitored and reported through the multi-sectorial steering committee which will help coordinate information and data needs across the various sectors involved.

VII. Risks and Risk Mitigation

The overall risk rating for this operation is substantial: The main risks are presented below:

- **The political and governance risk is rated as substantial**: the results of the August 2016 presidential elections were contested by some candidates and the election's transparency was challenged by international observers, leading to social unrest and violent demonstrations. The socio-political climate remains tense and may hamper the administration's ability to implement reforms. The project team will closely monitor upcoming developments.
- **The macroeconomic risk is rated as high:** the main risks are (i) the risk in the short run of insufficient fiscal consolidation, either for political, administrative, or other reasons, which could lead the government to deplete deposits and reserves again, eventually leading to increases in borrowing and arrears, with the risk that World Bank financing would be used to delay the adjustment, (ii) the potential for a larger spillover of the oil sector slowdown to the non-oil economy, and (iii) the risk of a disorderly devaluation if regional reserves are not restored (which could happen in the event of poorly coordinated efforts by the six CEMAC countries). Strong mitigation measures have been set-in place to address these risks, including the approval of the IMF program squarely aimed at addressing fiscal and external imbalances, and the proposed operation's support to fiscal stabilization and economic diversification in alignment with the programs of other CEMAC countries.
- **The institutional capacity for implementation and sustainability risk is rated as substantial**: the quality of institutions and public sector capacity is limited in Gabon as evidenced by a 2014 Country Policy and Institutional Assessment score of 3.1 while many of the proposed reforms require significant administrative capacity. To mitigate these risks, technical assistance is being provided as part of ongoing or planned RAS or in the context of World Bank financed investment and technical assistance projects.
- **The fiduciary risk is rated as substantial**: Central Bank systems are solid including accounting, risk management, information systems, and transparency. There are no major foreign exchange risks, as reflected by clean audits in the last four years, and the progress being made with the support of the IMF. On the other hand there are concerns with the efficiency of the Gabon PFM system, especially given the issues highlighted in the PEFA with respect to internal control, arrears, procurement,

budget execution, transparency, and risk management. Several mitigation measures are in place. First, the country is engaged in a PFM reform since 2015 that includes the enforcement of the program budgeting approach for more fiscal discipline and transparency. The reform has yielded some results to date that the government is committed to expand and consolidate.[5] In addition, through the PFM RAS, the Bank supported an improvement in the procurement system, which will be further enforced through the prior action on the procurement code and the operationalization of the ARMP, leading to a reduction in single sourced contracts. Other PFM measures, notably on addressing extra budgetary spending and arrears accumulation, are supported through the IMF program.

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The prior actions under the fiscal consolidation pillar are not expected to have significant overall social, poverty and distributional effects. Actions under the fiscal consolidation pillar such as reducing tax exemptions are not expected to have negative effects on the poor. In fact, they may even have positive effects to the extent that they will extend the tax base and improve revenue generation in support of much-needed social services. The government is refocusing the "*La Vie Chère*" by targeting products for the poorest (42 basic needs products will remain fully exempted), while excluding products which are not widely consumed by the poor, which will be either fully taxed (luxury items), or taxed at 5 percent. The absence of an updated household survey after 2005 makes it impossible to have new data on the consumption basket of the poor, but the data and analyses from the 2006 poverty assessment[6] confirm that the goods more widely consumed by the poor will not be affected by the reduced exemptions. The same poverty assessment also recommends differentiated taxation per type of products to strike a balance between higher revenues and protection of the poor. Additionally, more far reaching reductions in tax exemptions and price subsidies will only be rolled-out in parallel with the roll-out of more effective safety nets on a broader scale and the establishment of health insurance for the informal sector. Finally, the prior action to contain recruitments will not affect the education and health ministries, maintaining their capacity to deploy teachers and medical personnel where they are most needed, while the overall decrease in the wage bill and higher value for money in capital spending should help crowd-in higher quality spending on social sectors.

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 new jobs. The actions under the second pillar will make the economy more resilient, therefore containing the negative impact of exogenous shocks, such as unemployment or reduced government expenditures for social services, on the poor. At the same time, a more diversified and dynamic economy should open a wide range of employment opportunities, including through a broader range of ICT applications and in the private sector. A stronger ICT sector and its many applications should be particularly instrumental to the reduction of youth unemployment. Finally, ICT usage by the bottom 40 percent is also expected to increase.

Actions under the protecting the poor pillar are expected to have significant positive social, poverty and distributional effects. Measures under this pillar aim directly at benefitting the most disadvantaged population groups. Operationalizing the health districts and reallocating resources toward primary care (and away from tertiary care) will benefit lower income households, by making health care economically and geographically more accessible. This will be complemented by the reforms intended to make health

[5] With the transposition of the six CEMAC directives, in particular the new Organic Law relating to the finances laws and to Budget Implementation (LOLFEB), the foundations of a renewed system have been posed and areas like the budget classification and budget preparation processes are in line with internationally recognized standards.
[6] The World Bank: "Gabon: poverty assessment", June 2006.

insurance and safety nets are better targeted and more efficient. Recent analysis on vulnerability confirms that the current definition of GEF is not well-suited to target transfers and services to the poor and vulnerable.[7] On the one hand, the threshold of 80,000 FCFA per person per month is not related to Gabon's national poverty line, leading to inclusion errors. On the other hand, the GEF definition only considers the individual's income instead of the per capita household income, thus creating a significant eligibility bias against households with high dependency ratios (with few higher income earners but many dependents), resulting in exclusion errors. Basing the eligibility criteria on household income, which considers total earnings and household size, while determining a new vulnerability threshold, will have far reaching poverty and distributional effects by substantially reducing inclusion and exclusion errors (inclusion errors will be reduced by at least 30 percent[8]) in the access to transfers and services. Similarly, a more rational safety nets system will help the Government get the most out of the resources available for the poor and vulnerable, while expanding the coverage of the transfers (delivered twice a year) from 10 to 30 percent of the GEF. The recently launched 2017 household survey will help to assess the full distributional impact of the reform.

Environment Aspects

The actions and reforms supported by this operation are likely to have no adverse environmental impacts. Since some actions under the third pillar of the operation are intended to increase the utilization of health services, which could lead to an increase in volumes of medical waste, the health teams will be trained in healthcare waste management (HCWM) and related safety measures. The health information system to be put in place will also include data on healthcare waste. In fact, the quarterly quality evaluation for the PBF payments uses a standardized checklist that measures waste management, implying that there will be continuous monitoring, supervision and coaching on waste management.

IX. Contact point

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[7] The World Bank: "Gabon Vulnerability Note", 2017 (*mimeo*).

[8] A more specific figure for inclusion errors and estimates for exclusion errors will only be possible with the new 2017 household survey.

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