

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

June 1, 2017  
Report No.: AB7903

<b>Operation Name</b>	Gabon Fiscal Consolidation and Inclusive Growth
<b>Region</b>	AFRICA
<b>Country</b>	Gabon
<b>Sector</b>	MFM, Health, Governance, Social Protection
<b>Operation ID</b>	P159508
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	Republic of Gabon
<b>Implementing Agency</b>	Ministry of Sustainable Development, Economy, Promotion of Investments and Planning ( <i>Ministère du Développement Durable, de l'Economie, de la Promotion des Investissements et de la Prospective</i> )
<b>Date PID Prepared</b>	June 1, 2017
<b>Estimated Date of Appraisal</b>	September 5, 2017
<b>Estimated Date of Board Approval</b>	October 27, 2017
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Key development issues and rationale for Bank involvement**

**The Gabonese Republic is one of the 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, in particular health indicators, are below par relative to Gabon's income level.** The last national household survey, a household income and expenditure survey for measuring poverty and inequality, weighting the Consumer Price Index (CPI) basket, completed at the end of 2005, showed a poverty rate 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 quite high, at about 0.42 as measured by the Gini index, resulting in highly uneven living standards and opportunities. The country, which is 58<sup>th</sup> in the world in terms of GDP per capita, ranks 110<sup>th</sup> in the 2015 UN Human Development Index. Recent estimates show that health indicators are still well short of international targets and stagnating. In particular, although, Gabon shows declining under-5 mortality rates (U5MR) and infant mortality rate (IMR) since 1992-1996 to date, the recent past decade has not

shown promising results. Mortality rates have almost stagnated at around 65 for U5MR and at around 43 for IMR (Gabon Demographic Health Survey, 2013). Maternal mortality in Gabon also has shown insufficient progress in reduction in the past decade. The maternal mortality ratio (MMR) is significant ranging between 230 (World Health Organization, WHO, 2010) and 316 (Gabon Demographic Health Survey, 2013) per 100,000 live births.<sup>1</sup>

**Economic growth in Gabon has traditionally been driven by the oil sector making it vulnerable to shocks.** The lack of a diversified economic base is one of the key structural causes of the current crisis. With an economy heavily dependent on public spending which is in turn dependent on oil revenue, the 2014 drop in oil prices directly caused the fiscal and Balance of Payments imbalances, but indirectly it also caused the rest of the economy to slow down. Developing a stronger non-oil economy would allow the Gabonese economy as a whole to resist to future commodity price shocks better, as well as to limit their impact on the Gabonese through income loss. With a good endowment of agricultural land, potential in forestry and tourism, and a sub-regional market offering avenues to sell its products, Gabon has a very real potential for economic diversification and there have been some significant signs of the process happening, notably in the agriculture and agribusiness sectors, thanks notably to some large investment projects supported by the state.

**Gabon's present economic outlook is very challenging with a sharp and urgent fiscal consolidation required to address external and internal 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 higher than expected levels of public investment, the most recent data point to a growth rate of about 3.9 percent in 2015 and 2.1 percent for 2016. This deteriorating performance is largely due to the sharp fall in oil and other commodity prices: oil prices today are more than 50 percent lower than they were in 2011. Other commodity prices have also dropped by about 31 percent over the same period. Gabon is now facing an acute fiscal crisis with a growing deficit, estimated to 6.6 percent of GDP in 2016 (overall balance on a cash basis), made worse by the accumulation of arrears from previous budgetary exercises.

**The Government has launched an Economic Recovery Plan (*Plan de relance économique*) PRE focused on supporting growth and addressing the crisis.** Acknowledging the decline in economic activity and structural imbalances in public finances, monetary, and external accounts, the government decided to implement an economic recovery plan. Its strategic orientations revolve around three axes: (i) viability and sustainability of public finances; (ii) improved economic governance, through an improvement of the business environment, support to strategic sectors, the restructuring of public entities as well as the improvement of financing instruments for the economy; and (iii) the realization of productive structural and infrastructural investments aimed at developing the productive capacity of the country. With this plan, the government expects to place the fiscal and external accounts back onto a sustainable path and to support growth.

**Given the continued commitment of Central African Economic and Monetary Community (CEMAC) countries to safeguarding the CFA franc peg to the Euro, fiscal consolidation is at the center of the government strategy to restore balance in its fiscal and external accounts, and stop accumulating payment arrears with suppliers.** Given that public spending is also largely driving imports in Gabon, fiscal consolidation will also restore external balance. The government is planning on a set of expenditure and revenue measures, for the period 2017-2020, with a view of bringing the fiscal deficit down to 0.1 percent of GDP in 2020, from 6.6 percent in 2016. Increasing the efficiency of public expenditure is critical for fiscal sustainability and value for money.

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<sup>1</sup> The National Health Development Plan (PNDS 2011-15), states MMR to be 520 per 100,000 child birth in 2010. WHO (Gabon Health Statistics Profile 2010) states MMR to be 260 in 2008.

**Successful implementation of the fiscal adjustment program will require additional financing, to avoid negative growth.** Additional financing will be required over 2018-2019. This programmatic DPF series will provide a major contribution to these financing needs. In the face of a difficult economic situation caused by depressed oil prices, Gabonese authorities have grasped the magnitude of the challenge and have indicated their plan to respond appropriately. Notably, they will produce a revised 2017 budget law encompassing those adjustments. Other considerations supporting this assessment are: (a) a cautious fiscal stance with the adoption of several measures to increase non-oil revenue in 2017, a constant level of expenditure (as a share of GDP) planned in 2017, 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 forestry, manganese, wood-processing, agribusiness 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 does not rely anymore on tapping into international financial markets. Finally, a program is being negotiated 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 linchpin of the Government's medium-term policy platform is the Strategic Plan for an Emerging Gabon (*Plan stratégique Gabon émergent*) PSGE that was adopted in 2009.** The PSGE aims at modernizing the country and turning it into an emerging economy by 2025, with focus on three strategic pillars: addressing the foundations of competitiveness; developing priority sectors with strong growth potential; and promoting shared growth. Four main areas for an emerging and competitive economy are identified under the first pillar: sustainable development, good governance, human capital (education) and infrastructure. The second pillar focuses on an economic diversification organized around three key areas ("*piliers de l'émergence*"): (a) Industrial Gabon (*Gabon Industriel*), which aims to position Gabon as an industrial hub using clean energy and driven by the exploitation of raw materials such as manganese, iron, gas, and a regional wood processing industry; (b) Green Gabon (*Gabon Vert*), which aims to position the country as a pioneer in the green economy through sustainable management of the country's rich biodiversity, including forests, and the development of ecotourism; and (c) Service-oriented Gabon (*Gabon des Services*), which aims to develop Gabon as a center of excellence in higher education and to nurture the country's capacity in research, business and trade, tourism, health, media, and Information, Communication and Technology (ICT). Finally, shared growth involves increasing the population's access to health care, social protection, jobs, water and sanitation, housing and culture.

**While reforms are underway, notably in the agriculture sector, to diversify the economy, further reforms are required particularly to support the development and contributions of the private sector to the economy.** Without a dynamic private sector operating in a level playing field, economic diversification remains entirely dependent on public sector initiatives and is therefore greatly constrained. The creation of a platform for public-private dialogue and ensuing strong investment climate reforms is hence of the utmost priority. At the same time, Gabon's overall potential is also greatly constrained by a weak Information, Communication, and Technology (ICT) enabling environment which translates into high cost and low usage of ICT applications, and Gabon would also need to realize structural reforms in critical non-oil sectors, starting from the forestry sector, which is probably its most under-utilized non-oil economic sector, with a potential to at least double harvested wood volumes.

**Finally, fiscal consolidation will also need to factor in the dire human development and poverty context with a view to safeguard public social services for the poor.** Education and health outcomes have improved over time, but are still below other comparable upper-middle-income countries and the crisis is likely to have further negative effects on those outcomes jeopardizing slow progress made thus far. The crisis is also likely to have a disproportional effect on the poor and vulnerable and their education and health outcomes through the slow-down in jobs creation and the worsening public social

services on which they are dependent.

**The Government has also commissioned or adopted strategic plans for its social sectors which are particularly timely at this difficult juncture to help protect and improve social services for the poor.** Following national consultations, the Government has adopted in 2014 a social policy strategy,<sup>2</sup> whose relevance has further increased in the context of the macroeconomic downturn. The strategy aims to: (i) assist the most vulnerable population groups including the elderly, orphans, and the disabled through an integrated mix of social programs; (ii) help low-income households develop income-generating activities; and (iii) reduce inequalities in access to basic services. The Government also commissioned in 2013 a five-year strategic framework for the health system<sup>3</sup> to improve health care rapidly, with a particular focus on reducing perinatal and child mortality. The strategy is organized around stronger health leadership and governance, improved health care services, better health information systems, greater technical and management capacity of health personnel, improved health financing, and enhanced management of the pharmaceutical sector and the supply chain. The World Bank can and should support these strategies through supporting higher effectiveness, efficiency and sustainability of health care delivery and social protection services.

## II. Proposed Objective(s)

**The PDO of the operation is to support Government's efforts in (i) increasing revenue mobilization, stabilizing the wage bill, and improving transparency to restore the fiscal balance; (ii) improving the investment climate, developing ICT services, and revitalizing the forestry sector to lay the ground for economic diversification; and (iii) improving the effectiveness, efficiency and sustainability of health care delivery and social protection services to protect the poor.** The operation is organized around three pillars: a restoring the fiscal balance pillar, laying the ground for economic diversification pillar and a protecting the poor pillar, including respectively three, three and two policy areas.

- **Pillar 1: Restoring fiscal balance:** (a) increase revenues mobilization and improve transparency; (b) stabilize the wage bill; and (c) improve the transparency of procurement practices.

**Stabilizing the economy is the first immediate priority if Gabon wants to recover and get back on the path of growth.** This first pillar supports fiscal consolidation, through a reduction of the budget deficit, focusing on the three policy areas above. The choice of these areas and related reforms are rooted in the key issues and constraints created by Gabon's fiscal and Public Financial Management

- **Pillar 2: Laying the ground for economic diversification:** (a) improve the investment climate; (b) develop ICT services; and (c) revitalize the forestry sector.

**The drop in oil prices and its negative impact on the economy have also brought to the forefront of the development policy agenda the importance of accelerating economic diversification.** This second pillar supports economic diversification by focusing on the three above policy areas. The choice of these areas is dictated by their importance as constraints to economic diversification as well as their strong potential to spur it.

- **Pillar 3: Protecting the poor:** (a) improve the effectiveness and efficiency of health care delivery; and (b) improve the effectiveness, efficiency and sustainability of social protection services.

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<sup>2</sup> Stratégie d'Investissement Humain au Gabon (2013).

<sup>3</sup> MSH, Plan Stratégique Santé : Pour un système de santé performant et de qualité au Gabon (2013).

**The need for fiscal consolidation in the context of declining oil prices combined with the persistent human development challenges make it imperative for Gabon to ensure that funding for social sectors is prioritized to protect the poorer segments of society, and it is accompanied by reforms to improve value for money in these sectors.** The objective of this third pillar is to protect the poor by improving the effectiveness and efficiency of health care delivery and social protection services. This is largely about activating the potential of health care and social protection to play both a protecting and a productive role by addressing the critical financing and management issues that plague these sectors.

**The proposed operation will support the implementation of the PSGE, PRE and related sector plans.** In particular, the pillar related to fiscal consolidation will support policy areas and reforms closely aligned with the PRE, including a strong focus on mobilizing non-oil revenues and controlling the wage bill, while also generating more room for a competitive economy to emerge on the basis of the PSGE. At the same time, the pillar related to economic diversification squarely fits with the second pillar of the PSG with notably a strong focus on the forestry/wood and ICT sectors, which are high priority for Gabon. Finally, the proposed pillar on protecting the poor is well aligned with the shared prosperity pillar of the PSGE to the extent that it focuses on ensuring better access to quality health care and more effective safety nets. It will help operationalize/institutionalize the health system and human investment sector plans, and, most importantly, in combination with the focus on revenue mobilization will help ensure that the fiscal adjustment does not hamper but rather present an opportunity to expand and improve social services for the poor.

### **III. Preliminary Description**

**The proposed operation aims to support Gabon's urgent need for fiscal consolidation reforms while creating the foundations for inclusive growth.** It is currently designed as a programmatic series of two Development Policy Financing (DPF) operations, each for an amount of US\$200.0 million. Upon further confirmation of the overall DPF envelope, a third operation for a similar amount may be envisaged either as a stand-alone operation or as part of the programmatic series. The proposed series is aligned with Gabon's 2009 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. It also complements the Extended Financing Facility (EFF) program supported by the International Monetary Fund (IMF).

**The proposed DPF series supports structural reforms which are on the critical path to ensuring that Gabon gets back to a sustainable macro-economic, fiscal and growth path, while protecting the poor in this process.** First, it will support the fiscal consolidation process, ensuring that it is implemented in a timely and effective way, while not excessively hindering growth and increasing poverty. It will also ensure that this adjustment is sustainable and has lasting results extending beyond the timeframe of the operation. It will complement the IMF EFF program under preparation to ensure that revenue and wage bill expenditure targets are achieved, or even surpassed to mitigate short-term effects on growth and poverty, while supporting structural reforms to improve fiscal, public sector and social sector outcomes in a sustainable way. Second, it will help lay the ground for a fair and competitive business environment by tackling critical systemic constraints such as the lack of public-private dialogue and the weak ICT regulatory framework, while helping revitalize the forestry sector. Third, it will help protect the poor in the fiscal consolidation process and support better human development outcomes in the longer-run, not only by creating fiscal space for social spending through the consolidation process itself, but also by safeguarding and using more efficiently health and social protection spending.

#### **PILLAR 1: Restoring fiscal balance**

The first pillar will include three policy areas:

- Increase revenues mobilization and improve transparency;
- Stabilize the wage bill; and
- Improve transparency in procurement practices.

**Stabilizing the economy while mitigating negative effects on priority spending will require strong focus on increasing and better managing revenues, containing the wage bill, and ensuring more competitive procurement practices.** Non-oil tax revenue mobilization in Gabon is very low and the wage bill has ballooned to a very high level: it reached 8.4 percent of GDP in 2015, compared to 1.5 percent in Equatorial Guinea and 3.6 percent in the Republic of Congo<sup>4</sup>. Hence these two reform areas, together with improved overall transparency in the management of revenues and procurement practices, are critical to achieving sustainable budget deficit reduction. Reforms to improve revenue mobilization and management will focus on a revision of targeted tax expenditures and on the improvement of their management, the broadening of the tax base, and Gabon re-integration process into the Extractive Industry Transparency Initiative (EITI). Initial estimates indicate that these measures could lead to a revenue increase equivalent to 0.7 percent of GDP, or approximately one third of the revenue increase planned by the government in its PRE. At the same time, sustaining the fiscal consolidation process will also require improvements in the management of the payroll, which was a root cause of the growing fiscal imbalance. In order to support the government's efforts in this area, the operation will support a recruitment freeze in all sectors (with the exception of limited controlled hiring in education and health) for 12 months, while new and more robust recruitment procedures are rolled out, which will limit avenues for uncontrolled wage bill growth in the future. It will also support a reform of the promotion system in the civil service, integrating individual performance evaluation, to limit automatic promotions which have been one of the key drivers of wage bill growth. These reforms are the foundations of a fiscally viable and transparent payroll management system, which will allow to contain the wage bill as well as to improve civil servants' performance. Finally, spending sustainability and efficiency will also be spurred through a revision of the Public Procurement Code.

**Prior Action #1:** In order to reduce the amount of tax expenditures, the Minister of Economy has: (i) issued two regulations (*Arrêtés*) related to the '*la vie chère*' program, reducing the list of products benefitting from tax exemptions: (i.a) 150 items in the primary sector no longer to benefit from preferential status, and 35 luxury items to be removed, in order to pay customs tariffs per normal rates; and (i.b) the application of a rate of 5 percent on 115 products so far benefitted from full customs exemptions; and the Prime Minister has: (ii) issued a decree defining the list of discretionary franchises (*franchises discrétionnaires*) to be abolished and capping the size of the remaining exemptions.

**Prior Action #2:** In order to increase the tax base, the Ministry of Economy has completed its planned activities referring to: (i) the identification of new taxpayers in the informal sector (markets and certain commercial areas), (ii) the recruitment of new VAT taxpayers; and (iii) the strengthening of audit control on VAT in the formal and informal sector.

**Prior Action #3:** In order to improve the transparency of the management of extractive industries revenue, the decree creating the EITI interest group and nominating its members has been published, and a firm has been contracted to produce the first reconciliation report of extractives revenues.

**Prior Action #4:** In order to allow for the new recruitment procedures to be rolled-out to all agencies, the Prime Minister has issued a circular to Ministers and Directors of autonomous agencies temporarily prohibiting recruitments and migrations across administrations, including operators, by any means, over the next 12 months, with the only exceptions of the Ministries of Health, National Education, and Vocational Training in compliance with the Budget Law 2017.

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<sup>4</sup> At 42 percent of fiscal revenue in 2015, it was also above the CEMAC mandated ceiling of 35 percent.

**Prior Action #5:** In order to establish a merit based promotion system, a decree is adopted in the Council of Ministers and issued by the Prime Minister, instituting an individual performance evaluation system.

**Prior Action #6:** In order to improve the transparency of procurement practices, the Prime Minister has issued a decree revising the Procurement Code and its related operationalizing tools (standards bidding documents) in line with the new legal PFM framework.

## **PILLAR 2: Laying the ground for economic diversification**

The second pillar will include three policy areas:

- Improve the investment climate;
- Develop ICT services; and
- Revitalize the forestry sector

**To lay the ground for broad-based economic diversification Gabon will need growth-enabling reforms in its investment climate, ICT and forestry sectors.** Gabon ranks very low in terms of doing business reforms and has an inadequate ICT enabling environment. Reforms to improve the investment climate will center on the operationalization of a high-level platform for public-private dialogue to catalyze business climate improvements by strengthening mutual trust and understanding between the public and the private sector, and promoting transparency and good governance in policy reform processes. This needs to be accompanied by and will lead to the adoption and implementation of reforms which are at the core of an improved business climate such as the digitization of land titles and establishment of a commercial division in the judiciary. Reforms to strengthen the ICT sector will focus on the adoption of a revised and upgraded legal and regulatory framework. This new framework has the potential to encourage investments, foster innovation and lead to price decreases for and increase usage of ICT services and applications in the country. At the same time, Gabon's potential for economic diversification is also hampered by the inadequate utilization of its forestry sector and therefore the need for an urgent reform to revitalize the sector -which if used to full potential could represent up to at least 4 percent of GDP (compared with 3 percent of GDP today). In order to revitalize the sector, the operation will support the revision and adoption of a new Forestry Code to restore confidence in the forestry sector by bringing visibility at a medium and long run, and, combined with the implementation of a new action plan for the sector which will act as a catalyst, foster new industrial investments and logging operation supporting further economic diversification.

**Prior Action #7:** In order to operationalize public-private dialogue and spur doing business reforms, the government through the High Council for Investment (HCI), has adopted a detailed action plan for Doing Business (DB) reforms as well as the National Investment promotion strategy.

**Prior Action #8:** In order to develop ICT services, the Council of Ministers has approved a new ICT regulatory and legal framework draft for electronic communications, revising the existing framework.

**Prior Action #9:** In order to stimulate the forestry sector and improve its oversight, the State Council has completed the review of the Forestry Code, and has submitted the *Projet de Loi* of the revised Code to the Parliament.

## **PILLAR 3: Protecting the poor**

The third pillar will include two policy areas:

- Improve the effectiveness and efficiency of health care delivery; and
- Increase the effectiveness, efficiency and sustainability of social protection services.

**Protecting the poor in the current macro-fiscal context of Gabon will require urgent attention to addressing the lack of funding for and the critical service delivery failures in health and social protection.** Health and poverty outcomes are already particularly worrisome and bound to worsen, with particularly low levels of funding and huge inefficiencies. With a very low share of spending on primary health care and the absence of operational health regions and districts, the health care delivery system is

simply not geared towards providing access to vulnerable groups and this is made worse by the poorly functioning primary health care services. Reforms to improve health care delivery will focus on adopting performance-based financing (PBF) in the health sector. This structural governance-related reform is at the core of spurring a transition from secondary --or even tertiary and curative-- levels of health care to primary and preventive care, while providing the incentives that are necessary to improve service performance. At the same time, and in parallel and synergy with improvements in health care supply, Gabon will also urgently need to improve its social protection services to have them play a truly protective role. Reforms will focus on ensuring accurate targeting of the poor and consistency of funding for higher coverage of non-contributory health insurance and safety net programs, better delivery of these programs through higher accountability for results, and a transition towards a more efficient large scale unified cash transfer program.

**Prior Action #10:** In order to prioritize primary healthcare and make its delivery more efficient, the Ministry of Health has issued a regulation (*Arrêté*) specifying the key design characteristics and budget of the PBF reform to be applied in selected health regions covering at least 40 percent of the country's population.

**Prior Action #11:** To ensure that PBF is successful and sustainable, the Ministry of Health has issued a regulation (*Arrêté*) including three key interrelated policy actions as part of the PBF reform: (i) the creation of a dedicated PBF account for central-level budgetary allocations at the beginning of each calendar year, (ii) providing enhanced financial autonomy to health facilities through the creation of health facility bank accounts which are managed by facility staff for the management of client payments, PBF grants and CNAMGS payments, (iii) and changes in the accountability relationships within the decentralization framework (clarifying the hierarchical link between the General Direction of Health and the Health Regions).

**Prior Action #12:** In order to make targeting of social protection services more effective, (i) the Council of Ministers has adopted a draft law to change the operational definition of Poor Gabonese (GEF) taking into consideration, inter alia, household composition and the poverty line, and (ii) the Ministry of Justice has issued birth certificates to 5,000 children not eligible for safety nets benefits because they lack a birth certificate

**Prior Action #13:** In order to increase the accountability for and consistency of safety nets and non-contributory health insurance, (i) the CNAMGS and the Government have signed an annual performance contract specifying objectives in terms of results and resources, and (ii) adequate (\*) financial resources for safety nets in the revised 2017 Budget Law and the introduction of a Special Solidarity Contribution to finance the health insurance for the GEF support the achievement of the GEF objectives. (\*) *Defined as at least the floor on transfers under Mission 22 included in the IMF EFF quantitative targets.*

**Prior Action #14:** In order to rationalize existing safety nets, the Government has issued a decree simplifying the social security and welfare system, including the specification of the priority target groups for monetary transfers and fee exemptions as well as the amounts and terms of transfers and exemptions.

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### *Poverty and Social Impacts*

**The prior actions under the fiscal consolidation pillar are expected to have positive overall social, poverty and distributional effects, as they will enhance the fiscal space for social service delivery for the poor.** Actions under the fiscal consolidation pillar such as reducing tax exemptions and price subsidies 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, including the elimination of luxury items, which are not widely consumed by the poor. The re-



introduction of the luxury goods under the tax code enhances revenue generation for the benefit of social services provision. The actions to enlarge the tax bases by capturing taxpayers in the informal sector ensure a fairer tax burden sharing, enhance the tax morale in Gabon, and also provide much needed revenues for social services. It is also important to highlight that more far reaching reductions in tax exemptions and price subsidies and higher taxation of the informal sector will only be rolled-out in parallel with the roll-out of more effective and broader scale safety nets and the establishment of health insurance for the informal sector. Finally, the prior action to contain recruitments will not affect the labor intensive social ministries, like education and health, maintaining their capacity to deploy teachers and doctors where they are most needed, while the overall decrease in the wage bill should help crowd-in higher quality spending on social sectors.

**The prior actions under the laying the ground for economic diversification 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 forestry sector (in this last sector it is expected that the number of jobs could double to reach 50,000 new jobs by 2019). 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 moving resources toward primary care (and away from tertiary care) will benefit lower income households in general, and rural areas, more specifically, where the poor are concentrated, by making health care geographically more accessible. This will be complemented by the reforms intended to make health insurance and safety nets for the GEF more efficient and effective. In particular, more rigorous targeting will discourage abuses and limit exclusion errors (by at least 20 percent), while more reliable and sustainable funding will result in more predictable –and therefore more effective—assistance. Similarly, a more rational safety nets system will help the Government get the most out of the resources available for the poor and vulnerable.

#### *Environment Aspects*

**The actions and reforms supported by this operation are likely to have no adverse environmental impacts. No specific environmental safeguard instrument will be required.** The prior action relative to the regulation and promotion of private investments in the forestry and wood sector is likely to have some indirect effect on forests because the reform supported is meant to encourage investment, and therefore can also rise the number of investors in the sector and thus increase the pressure on forests. Indeed, for a total surface area of 26.7 million ha available in Gabon, the forest area is about 22 million ha (85 percent of the territory), with about 20 million hectares of productive forests (75 percent) and 1.8 million hectares of forest reserves (7 percent) and 30 000 ha of planted forests (1 percent). The annual rate of deforestation is estimated at less than 1 percent per year, enabling the country to have a total potential of about 2.6 billion m<sup>3</sup> to date, a marketable potential total of nearly 1.5 million 000 m<sup>3</sup>, with 130 million m<sup>3</sup> of okoume commercial potential for a current annual rise of 35 000 000 m<sup>3</sup>. All this makes Gabon a carbon reservoir whose estimates vary between 0.94 and 5.24 Giga tons. However, according to the philosophy of its commitments in its contribution defined nationally (INDC) to fight against climate change, Gabon does not want to limit its political climate to simple forest conservation but rather on greenhouse gas emissions outside storage carbon from biomass with a focus on the change of land use (63 percent). By positioning itself on the promotion of private investment in the forestry

sector, the proposed operation will also contribute to the operationalization of the coordination of the national allocation of Land Planning which promotes the absence of conflicts issues related to multiple assignments of the same land for incompatible uses (industrial, agricultural, forestry, urban development areas, reserves, etc.). The pipes reforms will allow for the access of small operators to public procurement and access to finance.

**Environmental and social risks likely to increase due to the recovery of the timber industry will be mitigated by a robust legal framework.** Gabon has been implementing a policy for sustainable forest exploitation since 2001, with a Forest Code, which states that all forest concessions must develop and comply with a management plan validated by the administration. These plans delineate annual logging areas, equivalent to approximately 1/25 of the productive area of each concession. This rotation system ensures a 25-year fallow period supporting regrowth and regeneration. Furthermore, these plans put a special emphasis on: (i) standards for human resources (compliance with labor law, providing minimum levels of social services, etc.); (ii) communities who live on the logging sites; (iii) reduced impact logging; (iv) biodiversity conservation and restoration; and (v) fauna management (Gabon today shelters almost 50 percent of forest elephants in Africa). Ten out of the fourteen million hectares covered by the productive forests have now entered this sustainable natural resources management process. It is worth adding that the “Forest Management Control (CAF)” project, financed by the French Development Agency (AFD), aims today to ensure that commitments made by concessionaires in their management plans duly validated by the administration are actually and properly implemented in the field.

**Additionally, 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 safety measures in HCWM.** The health information system to be put in place will also include data on healthcare waste. In fact, the quarterly quality evaluation for the Program-Based Budgeting payments uses a standardized checklist that measures waste management, implying that there will be continuous monitoring, supervision and coaching on waste management.

**V. Tentative financing**

Source:		(\$m.)
Borrower		0.00
International Bank for Reconstruction and Development		200.00
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	200.0

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